BUFFALO BILL MEMORIAL ASSOCIATION

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1002
175 N 27th Street
Billings, MT 59101

Independent Auditors' Report

The Board of Trustees
Buffalo Bill Memorial Association:

We have audited the accompanying financial statements of Buffalo Bill Memorial Association (the Association), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 Buffalo Bill Memorial Association as of December 31, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

June 6, 2013

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Financial Position

December 31, 2012 and 2011

Assets	**2012**	**2011**
Current assets:		
Cash and cash equivalents	$ 2,022,900	1,311,591
Accounts and interest receivable	101,111	164,588
Inventories	595,148	669,999
Prepaid expenses	127,202	84,789
Current portion of contributions receivable	2,713,545	1,222,372
Total current assets	5,559,906	3,453,339
Noncurrent assets:		
Contributions receivable, less current portion	1,526,452	717,333
Investments	43,046,256	39,687,529
Property and equipment, net of accumulated depreciation	33,596,379	33,354,744
Collections	85,046,258	79,782,642
	$ 168,775,251	156,995,587
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 464,408	380,312
Note payable, current portion	300,000	—
Revolving line of credit	361,600	—
Total current liabilities	1,126,008	380,312
Note payable, less current portion	675,000	—
Total liabilities	1,801,008	380,312
Commitments		
Net assets:		
Unrestricted	20,086,841	16,623,381
Temporarily restricted	114,742,653	110,210,389
Permanently restricted	32,144,749	29,781,505
Total net assets	166,974,243	156,615,275
	$ 168,775,251	156,995,587

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Activities

Years Ended December 31, 2012 and 2011

		2012	2011
Changes in unrestricted net assets:			
Revenues and investment income (loss):			
Contributions	$	4,398,048	1,353,272
Contributed services and property		293,475	457,593
Admissions charges		2,120,957	2,027,278
Auxiliary activities		2,244,948	2,010,097
Membership fees		536,430	678,227
Investment income (net of investment expense of $169,560 and $171,047 in 2012 and 2011, respectively)		486,525	386,186
Realized and unrealized gains (losses) on investments, net		1,780,174	(549,776)
Other		4,471	3,492
Total unrestricted revenues and investment income		11,865,028	6,366,369
Net assets released from restrictions:			
Satisfaction of program restrictions		3,167,243	3,169,407
Total unrestricted revenues, investment income and other support		15,032,271	9,535,776
Expenses, losses and reclassifications:			
Curatorial and conservation		1,388,081	1,573,153
Collections and exhibits		1,236,282	1,418,810
Research activities		333,714	532,618
Membership activities		27,347	28,096
Educational programs		676,901	656,901
General and administrative		2,457,094	2,277,557
Physical plant and security		2,497,325	2,566,676
Fundraising activities		992,623	1,009,233
Auxiliary activities		1,810,442	1,658,466
Reclassification of unrestricted net assets to temporarily restricted net assets		—	836,100
Reclassification from unrestricted net assets used to acquire property and equipment		108,263	92,657
Interest expense		40,739	—
Total expenses, losses and reclassifications		11,568,811	12,650,267
Change in unrestricted net assets		3,463,460	(3,114,491)
Changes in temporarily restricted net assets:			
Contributions		1,295,386	2,289,013
Contributed services and property		10,780	7,000
Contributed collections		4,931,638	1,271,307
Auxiliary activities		—	10,861
Membership fees		—	6,419
Investment income (net of investment expense of $98,930 and $83,376 in 2012 and 2011, respectively)		286,957	276,787
Realized and unrealized gains (losses) on investments, net		1,068,813	(163,178)
Loss on disposal of property and equipment		(2,330)	—
Reclassification to temporarily restricted net assets used to acquire property and equipment		108,263	67,657
Reclassification of unrestricted net assets to temporarily restricted net assets		—	836,100
Net assets released from restrictions		(3,167,243)	(3,169,407)
Change in temporarily restricted net assets		4,532,264	1,432,559
Changes in permanently restricted net assets:			
Contributions		1,001,949	270,057
Reclassification of temporarily restricted net assets to permanently restricted net assets		—	25,000
Realized and unrealized gains (losses) on investments, net		1,361,295	(100,478)
Change in permanently restricted net assets		2,363,244	194,579
Change in net assets		10,358,968	(1,487,353)
Net assets at beginning of year		156,615,275	158,102,628
Net assets at end of year	$	166,974,243	156,615,275

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	10,358,968	(1,487,353)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		1,762,684	1,672,148
Net realized and unrealized (gains) losses on investments, net		(4,210,282)	813,432
Loss on disposal of property and equipment		2,330	—
Contributions of collections, property and equipment, and services		(5,235,893)	(1,735,900)
Contributions restricted for long-term investment		(1,001,949)	(270,057)
Change in:			
Accounts and interest receivable		63,477	(98,868)
Inventories		74,851	14,642
Prepaid expenses		(42,413)	54,133
Contributions receivable		(2,300,292)	79,886
Accounts payable and accrued expenses		84,096	157,052
Net cash used in operating activities		(444,423)	(800,885)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		6,665,986	5,598,608
Purchases of investments		(5,814,431)	(3,965,169)
Purchases of property and equipment		(1,702,393)	(1,122,866)
Purchases of collections		(331,979)	(256,325)
Net cash (used in) provided by investing activities		(1,182,817)	254,248
Cash flows from financing activities:			
Contributions restricted for long-term investment		1,001,949	270,057
Payments on revolving line of credit		(2,881,703)	(1,336,718)
Draws on revolving line of credit		3,243,303	1,336,718
Proceeds from note payable		1,200,000	—
Repayment of note payable		(225,000)	—
Net cash provided by financing activities		2,338,549	270,057
Net change in cash and cash equivalents		711,309	(276,580)
Cash and cash equivalents, beginning of year		1,311,591	1,588,171
Cash and cash equivalents, end of year	$	2,022,900	1,311,591
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	35,691	1,995

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Buffalo Bill Memorial Association (the Association), also known as the Buffalo Bill Historical Center, located in Cody, Wyoming, is a not-for-profit entity which serves the public by advancing knowledge about the American West through acquiring, exhibiting and interpreting collections of artifacts and preserving their physical and contextual integrity. The Association depends upon contributions from the public, admission charges and auxiliary activities (museum gift shop and restaurant) to fund current operations.

(b) Basis of Presentation

The Association classifies net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets are those subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use the interest and dividend income earned, if any, on related investments for general or specific purposes. A limited number of donors also allow the Association to use capital gains, if any, on related investments for general or specific purposes.

Temporarily restricted net assets are those subject to donor-imposed stipulations that may or will be met by actions of the Association and/or the passage of time. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications to unrestricted net assets.

Unrestricted net assets are those not subject to donor-imposed stipulations and donor-restricted contributions whose restrictions are met in the same reporting period.

A donor’s gift may impose restrictions on otherwise unrestricted net assets. Such restrictions result in a reclassification of unrestricted net assets to permanently restricted or temporarily restricted net assets depending on the nature of the restriction.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(c) Cash and Cash Equivalents

The Association considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Contributions and Gifts

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the cash is received and any purpose restrictions are met. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted using a risk adjusted interest rate applicable at the time the contribution is received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

It is the policy of the Association to report gifts of buildings and equipment as temporarily restricted support unless explicit donor stipulations specify that the donated assets are permanently restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expiration of restrictions as the donated or acquired long-lived assets are depreciated.

The Association reports gifts of collection items as temporarily restricted support unless explicit donor stipulations specify that the donated collections are permanently restricted. Absent explicit donor stipulations about how long those collections must be maintained, the Association reports expiration of restrictions as the donated or acquired collections are deaccessioned.

(e) Inventories

Inventories consist of museum gift shop merchandise, publications and food inventory for resale to the public. Inventories are valued at the lower of cost, computed on a weighted average, or net realizable value.

(f) Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which generally approximates 15 to 60 years for buildings, 10 to 20 years for improvements and 3 to 20 years for equipment. Applicable interest charges incurred during the construction of facilities are capitalized as one of the elements of cost. The Association did not capitalize any interest during the years ended December 31, 2012 or 2011. Repairs and maintenance costs are expensed as incurred.

(g) Collections

The Association has adopted a full capitalization policy and capitalizes purchased collections at cost. Collections acquired by donation are capitalized at estimated fair value at the date of donation. Proceeds from collection items sold are used to purchase other items for collections, or for the maintenance of collections following the guidelines of the American Association of Museums.

(Continued)

(h) Investments

The Association reports its investment securities at estimated fair value with unrealized gains and losses included in the statement of activities.

The Association's investment in offshore investment funds of funds are presented in the accompanying financial statements at estimated fair value based on the net asset value of the funds', which represents the Association's interest in the underlying assets of the funds.

The Association has the intent and ability to hold its investments for greater than one year. Accordingly, all investments are classified as long-term.

(i) Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based upon management's assessment of the collectibility of accounts and contributions receivable. No allowance for doubtful accounts was, in the opinion of management, necessary at December 31, 2012 or 2011.

(j) Income Taxes

The Association is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for income from sale of certain items by the Association's gift shop. Income taxes related to these sales were not material during the years ended December 31, 2012 or 2011.

(k) Use of Estimates

The preparation of the financial statements requires management of the Association to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation of investments, valuation allowances for accounts and contribution receivables, inventories and donations of collections. Actual results could differ from those estimates.

(l) Impairment of Long-Lived Assets

Long-lived assets such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no long-lived assets that were considered impaired at December 31, 2012 or 2011.

(2) Contributions Receivable

Contributions receivable at December 31 consist of the following:

		2012	2011
Palm Springs, California house - contribution of 25% undivided interest in the property, net of retained life estate	$	237,500	237,500
Unconditional promises to give cash		4,002,497	1,702,205
		4,239,997	1,939,705
Less current portion		2,713,545	1,222,372
	$	1,526,452	717,333

Unconditional promises to give cash at December 31, 2012 become due as follows:

Due in less than one year	$	2,713,545
Due in one to five years		1,275,415
Due in greater than five years		13,537
	$	4,002,497

Unconditional promises to give cash due after one year are recorded at their present value discounted at 4.25% and 5.0% in 2012 and 2011, respectively. The unamortized discount is $170,475 and $132,925 at December 31, 2012 and 2011, respectively. The accretion of the discount in subsequent years is reported as additional contributions in the net asset class in which the original promise was made.

The 25% undivided interest in the Palm Springs, California house was contributed to the Association during 1995 by means of an irrevocable gift agreement which requires the property be liquidated upon termination of the life estate. The Association is entitled to 25% of the proceeds from the sale of the house.

(3) Investments

Investments by investment type at December 31 consist of the following:

		2012	2011
Corporate stocks	$	32,570,034	30,294,057
Fixed income securities		2,420,791	2,261,420
U.S. Government debt securities		455,172	138,868
Mutual funds		438,803	208,433
Other, including investments in offshore investment funds of funds		7,161,456	6,784,751
	$	43,046,256	39,687,529

In 1995 the Association established an agency endowment with the Wyoming Community Foundation. Under this arrangement, the Association granted the Wyoming Community Foundation variance power whereby the Board of Directors of the Wyoming Community Foundation has the power and the duty to modify any restriction or condition on the distribution of funds for any specified charitable purpose if, in the sole judgment of the Wyoming Community Foundation's Board, such restriction or condition becomes in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the state of Wyoming. However, as a further condition on this gift, in the event the Wyoming Community Foundation ceases to exist, the principle of the fund shall remain intact and be transferred to another cultural organization within the state of Wyoming.

The carrying amount of the investment in the Wyoming Community Foundation is $810,495 and $747,100 as of December 31, 2012 and 2011, respectively. This investment is recorded in investments as a beneficial interest in assets held by others.

The Association has invested in offshore investment funds of funds which invest in a diversified group of pooled funds domiciled both within and outside the United States. These investments are valued at $6,350,961 and $6,037,651 at December 31, 2012 and 2011, respectively. The funds' estimated fair value is based on the net asset value of the funds, which represents the Association's interest in the underlying assets of the funds. There is a possibility that actual sales of the Funds would not occur at the net asset value. There are no restrictions at December 31, 2012 that would preclude redemption by the Association. Furthermore, there are no terms or conditions that would temporarily preclude redemption by the Association in the future.

Investment income and gains and losses on investments included in the statement of activities for the years ended December 31 consist of the following:

	2012	2011
Realized gain on investments	$ 2,302,151	1,193,232
Unrealized gain (loss) on investments	1,908,131	(2,006,664)
Dividends	1,040,274	913,371
Interest	1,698	4,025
	$ 5,252,254	103,964

(4) Property and Equipment

Property and equipment, net at December 31 are summarized as follows:

	2012	2011
Land, buildings and improvements	$ 51,936,709	50,448,234
Furniture, fixtures and equipment	2,600,599	3,776,892
Construction in progress	54,824	1,067,308
	54,592,132	55,292,434
Less accumulated depreciation	20,995,753	21,937,690
	$ 33,596,379	33,354,744

(5) Collections

Collections at cost as of December 31 are summarized as follows:

		2012	2011
Artifacts, photos, memorabilia, etc.	$	53,774,268	53,444,982
Art and bronzes		31,271,990	26,337,660
	$	85,046,258	79,782,642

(6) Revolving Line of Credit

The Association has a $1.0 million unsecured line of credit bearing interest at the greater of the Prime Rate plus 1.0% or 4.0% (4.25% at December 31, 2012) payable at maturity. The line of credit matures on September 1, 2013. There was $361,600 outstanding on the revolving line of credit at December 31, 2012. No amounts were outstanding at December 31, 2011.

(7) Note Payable

On May 15, 2012, the Association entered into a $1.2 million unsecured term loan with a financial institution. The term loan requires quarterly principal payments of $75,000. The term loan matures on June 1, 2016, and bears an interest rate of 4.2%. At December 31, 2012, the term loan had a balance of $975,000.

Repayment of the note payable is scheduled as follows:

Year-ended December 31,		**Amount**
2013	$	300,000
2014		300,000
2015		300,000
2016		75,000
	$	975,000

(8) Contributed Services and Property

The Association records contributed services at fair value if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. The Association records contributed property at estimated fair value at the date of contribution. Following is a summary of the nature of contributed services and property and their fair value during the years ended December 31:

		2012	2011
Accounting services	$	10,000	10,000
Program related services and property		294,255	454,593
	$	304,255	464,593

The Association also receives contributions of services that do not meet the criteria for recognition in the financial statements. Following is a summary of the nature and fair values of contributed services not recognized during the years ended December 31 (unaudited):

		2012	2011
Curatorial services	$	64,416	72,139
Education docents services		28,296	21,328
Event support services		22,537	13,000
Administrative services		14,583	7,836
	$	129,832	114,303

(9) Noncash Investing and Financing Activities

During the years ended December 31, 2012 and 2011, the Association received gifts of collections valued at $4,931,638 and $1,271,307, respectively, and property and equipment valued at $300,196 and $391,918, respectively. The Association also received gifts of securities valued at $37,754, which are included in contributions, during the year ended December 31, 2012. There were no gifts of securities during the year ended December 31, 2011.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

		2012	2011
Collections	$	86,743,227	81,344,745
Physical plant and security		22,397,365	24,044,760
Educational programs		2,577,399	2,081,727
Curatorial and conservation		2,405,990	2,251,797
Contributions with time restrictions		354,498	345,509
Research activities		208,030	128,126
General and administrative		55,128	–
Development projects		1,016	13,725
	$	114,742,653	110,210,389

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(11) Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following purposes at December 31:

		2012	2011
Investments in perpetuity, the interest and dividend income from which is expendable to support:			
General and administrative	$	20,533,109	18,547,244
Curatorial and conservation		7,296,911	6,933,099
		27,830,020	25,480,343
Investments in perpetuity, the interest and dividend income and capital gains from which are expendable to support:			
Collections		2,106,161	2,093,661
Curatorial and conservation		1,026,843	1,026,843
Educational programs		1,016,225	1,015,158
		4,149,229	4,135,662
Land required to be used for museum building		165,500	165,500
	$	32,144,749	29,781,505

(12) Endowment and Quasi-Endowment Funds

The Association follows the provisions of FASB ASC 958-250-45, *Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. The provision provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). The State of Wyoming has enacted a version of UPMIFA. A key component of the provision is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the provision is a requirement for expanded disclosures about all endowment funds.

The Association's endowment consists of approximately 30 individual funds established for a variety of purposes. Its endowment includes both donor-restricted and governing board designated endowment funds and funds to be held for more than one year which are subject to the investment policy. As required by U.S. Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Association's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Wyoming as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund (primarily realized and unrealized gains and losses and investment income) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

The duration and preservation of the fund

- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

Endowment net asset composition by type of fund consists of the following as of December 31, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ –	3,638,204	23,813,696	27,451,900
Board-designated endowment funds	14,328,436	–	–	14,328,436
Total endowment net assets	$ 14,328,436	3,638,204	23,813,696	41,780,336

Endowment net asset composition by type of fund consists of the following as of December 31, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ –	2,679,022	23,009,553	25,688,575
Board-designated endowment funds	13,060,043	–	–	13,060,043
Total endowment net assets	$ 13,060,043	2,679,022	23,009,553	38,748,618

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2011	$	13,060,043	2,679,022	23,009,553	38,748,618
Investment return:					
Investment income		654,387	368,869	–	1,023,256
Net realized and unrealized gains		1,780,880	980,959	1,361,295	4,123,134
Total investment return		2,435,267	1,349,828	1,361,295	5,146,390
Appropriation of endowment assets for expenditures	$	(1,166,874)	(390,646)	(607,152)	(2,164,672)
Contributions		–	–	50,000	50,000
Endowment net assets, December 31, 2012	$	14,328,436	3,638,204	23,813,696	41,780,336

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2010	$	15,738,120	2,604,567	22,808,937	41,151,624
Investment return:					
Investment income		461,204	301,819	–	763,023
Net realized and unrealized losses		(564,158)	(133,167)	(100,478)	(797,803)
Total investment return		(102,954)	168,652	(100,478)	(34,780)
Appropriation of endowment assets for expenditures	$	(2,575,123)	(94,197)	–	(2,669,320)
Contributions		–	–	301,094	301,094
Endowment net assets, December 31, 2011	$	13,060,043	2,679,022	23,009,553	38,748,618

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. Deficiencies of this nature are reported as reductions in unrestricted net assets. There were no such deficiencies in 2012 or 2011. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters – The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The Association seeks to earn a long-term total rate of return sufficient to produce growth of endowment assets net of spending requirements of 5%, inflation and investment expenses. The S&P 500 and the Lehman Aggregate Bond Index, weighted to reflect the equity/fixed income composition of the Endowment portfolio, are used as the undiversified benchmark. The diversified benchmark consists of the common industry benchmarks for the individual asset classes weighted according to the asset allocation policy. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Association has a policy of appropriating for distribution each year 4.5% to 5.5% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Association considers the long-term expected return on its endowment. Since inception in January of 1980, the compound annual rate of return has been 11.7% after spending. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The effective spending rate for 2012 and 2011 was 5.3%.

Substantially all investments of the Association held for endowment are pooled for investment purposes. Income earned on endowment fund investments is allocated on the basis of each fund's proportionate interest in the pooled investment portfolio.

(13) Employee Benefit Plans

The Association has a 403(b) savings plan for full-time employees who have completed one year of service. The Association is required to match employee contributions up to a maximum of 4% of each eligible employee's salary. The Association made contributions of $107,059 and $112,071 to the plan in 2012 and 2011, respectively.

The Association has a medical benefit plan covering full-time employees of the Association and their dependents. The plan is a partially self-funded plan under which participant claims are obligations of the plan. The plan is funded through employer and employee contributions at a level sufficient to pay for the benefits provided by the plan. The Association made contributions of $643,207 and $638,864 to the plan in 2012 and 2011, respectively. In 2012, the plan maintained individual and aggregate stop loss insurance policies of $75,000 and $829,139, respectively (based on actual plan participants, adjusted monthly), to mitigate losses. The Association has recorded a liability of $127,834 and $81,749 for incurred but not reported medical expenses which is included in accounts payable and accrued expenses at December 31, 2012 and 2011, respectively.

The Association has a non-funded deferred compensation plan for certain highly compensated employees. Participation, which provides for the deferral of cash payments in accordance with 403(b) savings limitations, is voluntary. There were no amounts deferred under the plan during 2012 or 2011.

(14) Fair Value Measurements

The Association is required to disclose the fair value for financial instruments, whether or not recognized in the statements of financial position. A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both imposes a contractual obligation on one entity to deliver cash or another financial instrument to a second entity. The following methods and assumptions were used by the Association in estimating the fair value of its financial instruments:

Financial Assets. Due to the liquid nature of the instruments, the carrying value of cash and cash equivalents approximates fair value. For all investments, the fair value is based upon quoted market prices or in the case of offshore investment funds of funds at the net asset value of the fund. The fair value of accounts and interest receivable approximates book value as the Association expects contractual receipt in the near-term. The fair value of contributions receivable approximates book value as the Association records contributions receivable at their present value.

Financial Liabilities. The fair value of accounts payable, accrued expenses and accrued interest approximates book value due to contractual payment in the near-term.

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Association's entire holdings of a particular instrument. Because no market exists for a portion of the Association's financial instruments, fair value estimates are based on judgments regarding comparable market interest rates, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Fair value is defined as 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 and establishes a framework for measuring fair value. A three-level hierarchy for fair value measurements is based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Association follows the measurement provisions of FASB ASC 820-10-35-59, *Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* for certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. The carrying value at December 31, 2012 and 2011 of investments valued using these measurements are $7,161,456 and $6,784,751, respectively.

Although the fund manager uses its best judgment in estimating the fair value of investments in investment funds, there are inherent limitations in any estimation technique. Therefore, the net asset values presented are not necessarily indicative of the amount that the fund could realize in a current transaction. These estimated values may differ significantly from the values that would have been used had a ready market for the investments in investment funds existed and the difference could be material. Some of the factors considered by the manager in valuing the investment funds are types of investments owned by the investment funds, information contained in audited financial statements and other relevant matters.

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2012 consisted of the following:

		Fair Value Measurements		
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Corporate stocks:				
Consumer discretionary	$ 1,190,862	1,190,862	–	–
Consumer staples	4,348,472	4,348,472	–	–
Energy	3,084,282	3,084,282	–	–
Financials	788,433	788,433	–	–
Health care	1,705,357	1,705,357	–	–
Industrials	802,692	802,692	–	–
Information technology	2,184,412	2,184,412	–	–
Materials	691,503	691,503	–	–
Equity investment funds	17,774,021	17,774,021	–	–
Total corporate stocks	32,570,034	32,570,034	–	–
Fixed income securities:				
Bonds	1,646,427	1,646,427	–	–
Debt fund	774,364	774,364	–	–
	2,420,791	2,420,791	–	–

		Total	Fair Value Measurements Level 1	Level 2	Level 3
U.S. Government debt securities	$	455,172	455,172	–	–
Mutual funds		438,803	438,803	–	–
Other:					
Offshore investment funds of funds		6,350,961	–	6,350,961	–
Agency endowment		810,495	–	810,495	–
		7,161,456	–	7,161,456	–
	$	43,046,256	35,884,800	7,161,456	–

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2011 consisted of the following:

		Total	Fair Value Measurements Level 1	Level 2	Level 3
Investments:					
Corporate stocks:					
Consumer discretionary	$	1,455,320	1,455,320	–	–
Consumer staples		5,178,575	5,178,575	–	–
Energy		3,904,759	3,904,759	–	–
Financials		698,812	698,812	–	–
Health care		2,006,598	2,006,598	–	–
Industrials		1,008,763	1,008,763	–	–
Information technology		2,489,993	2,489,993	–	–
Materials		900,509	900,509	–	–
Equity investment funds		12,650,728	12,650,728	–	–
Total corporate stocks		30,294,057	30,294,057	–	–
Fixed income securities:					
Bonds		1,419,110	1,419,110	–	–
Debt fund		842,310	842,310	–	–
		2,261,420	2,261,420	–	–
U.S. Government debt securities		138,868	138,868	–	–
Mutual funds		208,433	208,433	–	–
Other:					
Offshore investment funds of funds		6,037,651	–	6,037,651	–
Agency endowment		747,100	–	747,100	–
		6,784,751	–	6,784,751	–
	$	39,687,529	32,902,778	6,784,751	–

(15) Subsequent Event

Management has updated their evaluation of conditions and events existing that would require subsequent event disclosure through the financial statement issuance date of June 6, 2013.