BUFFALO BILL MEMORIAL ASSOCIATION

Financial Statements

December 31, 2011 and 2010

(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 statements of financial position of Buffalo Bill Memorial Association (the Association) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 14, 2012

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Financial Position

December 31, 2011 and 2010

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents	$	1,311,591	1,588,171
Accounts and interest receivable		164,588	65,720
Inventories		669,999	684,641
Prepaid expenses		84,789	138,922
Current portion of contributions receivable		1,222,372	1,227,900
Total current assets		3,453,339	3,705,354
Noncurrent assets:			
Contributions receivable, less current portion		717,333	791,691
Investments		39,687,529	42,134,400
Property and equipment, net of accumulated depreciation		33,354,744	33,439,433
Collections		79,782,642	78,255,010
	$	156,995,587	158,325,888
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	380,312	223,260
Net assets:			
Unrestricted		16,623,381	19,737,872
Temporarily restricted		110,210,389	108,777,830
Permanently restricted		29,781,505	29,586,926
Commitments			
Total net assets		156,615,275	158,102,628
	$	156,995,587	158,325,888

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Activities

Years Ended December 31, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Revenues and investment (loss) income:		
Contributions	$ 1,353,272	820,094
Contributed services and property	457,593	157,934
Admissions charges	2,027,278	2,067,759
Auxiliary activities	2,010,097	2,132,289
Membership fees	678,227	771,829
Investment income (net of investment expense of $171,047 and $201,374 in 2011 and 2010, respectively)	386,186	415,614
Realized and unrealized (losses) gains on investments, net	(549,776)	1,653,543
Other	3,492	38,884
Total unrestricted revenues and investment income	6,366,369	8,057,946
Net assets released from restrictions:		
Expiration of time restrictions	—	32,438
Satisfaction of program restrictions	3,169,407	2,742,072
Total net assets released from restrictions	3,169,407	2,774,510
Total unrestricted revenues, investment income and other support	9,535,776	10,832,456
Expenses, losses and reclassifications:		
Curatorial and conservation	1,573,153	1,377,016
Collections and exhibits	1,418,810	1,341,700
Research activities	532,618	523,814
Membership activities	28,096	87,959
Educational programs	656,901	647,281
General and administrative	2,277,557	2,106,472
Physical plant and security	2,566,676	2,377,574
Fundraising activities	1,009,233	987,290
Auxiliary activities	1,658,466	1,674,831
Reclassification of unrestricted net assets to temporarily restricted net assets	836,100	—
Reclassification from unrestricted net assets used to acquire property and equipment	92,657	384,760
Total expenses, losses and reclassifications	12,650,267	11,508,697
Change in unrestricted net assets	(3,114,491)	(676,241)
Changes in temporarily restricted net assets:		
Contributions	2,289,013	2,907,518
Contributed services and property	7,000	22,889
Contributed collections	1,271,307	1,334,310
Auxiliary activities	10,861	18,951
Membership fees	6,419	30,366
Investment income (net of investment expense of $83,376 and $38,747 in 2011 and 2010, respectively)	276,787	211,889
Realized and unrealized (losses) gains on investments, net	(163,178)	812,423
Deacession of collections	—	(27,450)
Gain on disposal of property and equipment	—	500
Reclassification to temporarily restricted net assets used to acquire property and equipment	67,657	384,760
Reclassification of unrestricted net assets to temporarily restricted net assets	836,100	—
Net assets released from restrictions	(3,169,407)	(2,774,510)
Change in temporarily restricted net assets	1,432,559	2,921,646
Changes in permanently restricted net assets:		
Contributions	270,057	1,099,650
Reclassification of temporarily restricted net assets to permanently restricted net assets	25,000	—
Realized and unrealized (losses) gains on investments, net	(100,478)	1,542,992
Change in permanently restricted net assets	194,579	2,642,642
Change in net assets	(1,487,353)	4,888,047
Net assets at beginning of year	158,102,628	153,214,581
Net assets at end of year	$ 156,615,275	158,102,628

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	(1,487,353)	4,888,047
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:			
Depreciation		1,672,148	1,584,945
Net realized and unrealized losses (gains) on investments, net		813,432	(4,008,958)
Gain on disposal of property and equipment		—	(500)
Deacession of collections		—	27,450
Contributions of collections, property and equipment, and services		(1,735,900)	(1,515,133)
Contributions restricted for long-term investment		(270,057)	(1,099,650)
Change in:			
Accounts and interest receivable		(98,868)	(3,714)
Inventories		14,642	25,014
Prepaid expenses		54,133	(22,191)
Contributions receivable		79,886	141,221
Accounts payable and accrued expenses		157,052	56,857
Net cash (used in) provided by operating activities		(800,885)	73,388
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		5,598,608	4,562,440
Proceeds from sale of property and equipment		—	500
Purchases of investments		(3,965,169)	(3,636,366)
Purchases of property and equipment		(1,122,866)	(1,264,215)
Purchases of collections		(256,325)	(105,324)
Net cash used in investing activities		254,248	(442,965)
Cash flows from financing activities:			
Contributions restricted for long-term investment		270,057	1,099,650
Payments on line of credit		(1,336,718)	(1,714,134)
Draws on line of credit		1,336,718	1,714,134
Net cash provided by financing activities		270,057	1,099,650
Net change in cash and cash equivalents		(276,580)	730,073
Cash and cash equivalents, beginning of year		1,588,171	858,098
Cash and cash equivalents, end of year	$	1,311,591	1,588,171
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	1,995	2,362

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.

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(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, 2011 or 2010. 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.

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(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, 2011 or 2010.

(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, 2011 or 2010.

(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 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, 2011 or 2010.

(2) Contributions Receivable

Contributions receivable at December 31 consist of the following:

		2011	2010
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		1,702,205	1,782,091
		1,939,705	2,019,591
Less current portion		1,222,372	1,227,900
	$	717,333	791,691

Unconditional promises to give cash at December 31, 2011 become due as follows:

Due in less than one year	$	1,222,372
Due in one to five years		318,187
Due in greater than five years		161,646
	$	1,702,205

Unconditional promises to give cash due after one year are recorded at their present value discounted at 5.0% and 5.0% in 2011 and 2010, respectively. The unamortized discount is $132,925 and $77,165 at December 31, 2011 and 2010, 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:

		2011	2010
Corporate stocks	$	30,294,057	32,605,912
Fixed income securities		2,261,420	2,315,399
U.S. Government debt securities		138,868	154,431
Mutual funds		208,433	129,292
Other, including investments in offshore investment funds of funds		6,784,751	6,929,366
	$	39,687,529	42,134,400

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 $747,100 and $806,132 as of December 31, 2011 and 2010, 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 $6,037,651 and $6,123,234 at December 31, 2011 and 2010, 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, 2011 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:

	2011	2010
Realized gain on investments	$ 1,193,232	148,283
Unrealized (loss) gain on investments	(2,006,664)	3,860,675
Dividends	913,371	863,547
Interest	4,025	4,077
	$ 103,964	4,876,582

(4) Property and Equipment

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

	2011	2010
Land, buildings and improvements	$ 50,448,234	50,346,358
Furniture, fixtures and equipment	3,776,892	3,423,020
Construction in progress	1,067,308	372,043
	55,292,434	54,141,421
Less accumulated depreciation	21,937,690	20,701,988

(Continued)

	$	33,354,744	33,439,433

(5) Collections

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

		2011	2010
Artifacts, photos, memorabilia, etc.	$	53,444,982	52,393,925
Art and bronzes		26,337,660	25,861,085
	$	79,782,642	78,255,010

(6) Revolving Line of Credit

The Association has a $1 million unsecured line of credit bearing interest at the greater of the Wall Street Journal prime rate or 4.5% (4.5% at December 31, 2011) payable at maturity. The line of credit matures on August 1, 2012. There was no amount outstanding at December 31, 2011 or 2010.

(7) 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:

		2011	2010
Accounting services	$	10,000	10,000
Program related services and property		454,593	170,823
	$	464,593	180,823

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):

		2011	2010
Curatorial services	$	72,139	101,803
Education docents services		21,328	8,773
Event support services		13,000	36,423
Administrative services		7,836	7,003
	$	114,303	154,002

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(8) Noncash Investing and Financing Activities

During the years ended December 31, 2011 and 2010, the Association received gifts of collections valued at $1,271,307 and $1,334,310, respectively, and property and equipment valued at $391,918 and $170,823, respectively. The Association received gifts of securities valued at $35,000 which are included in contributions during the year ended December 31, 2010.

(9) Temporarily Restricted Net Assets

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

		2011	2010
Collections	$	81,344,745	80,046,441
Physical plant and security		24,044,760	24,704,183
Curatorial and conservation		2,251,797	2,022,500
Educational programs		2,081,727	1,280,656
Contributions with time restrictions		345,509	340,067
Research activities		128,126	347,824
Development projects		13,725	–
General and Administrative		–	36,159
	$	110,210,389	108,777,830

(10) Permanently Restricted Net Assets

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

		2011	2010
Investments in perpetuity, the interest and dividend income from which is expendable to support:			
General and administrative	$	18,547,244	18,899,161
Curatorial and conservation		6,933,099	6,438,103
		25,480,343	25,337,264
Investments in perpetuity, the interest and dividend income and capital gains from which are expendable to support:			
Collections		2,093,661	2,092,661
Curatorial and conservation		1,026,843	1,026,843
Educational programs		1,015,158	964,658
		4,135,662	4,084,162
Land required to be used for museum building		165,500	165,500
	$	29,781,505	29,586,926

(Continued)

(11) 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 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, 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

Endowment net asset composition by type of fund consists of the following as of December 31, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	–	2,604,567	22,808,937	25,413,504
Board-designated endowment funds		15,738,120	–	–	15,738,120
Total endowment net assets	$	15,738,120	2,604,567	22,808,937	41,151,624

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

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2009	$	15,749,958	1,772,810	20,664,221	38,186,989
Investment return:					
Investment income		611,977	235,825	–	847,802
Net realized and unrealized gains		1,637,410	729,335	1,542,993	3,909,738
Total investment return		2,249,387	965,160	1,542,993	4,757,540
Appropriation of endowment assets for expenditures	$	(2,261,225)	(133,403)	–	(2,394,628)
Contributions		–	–	601,723	601,723
Endowment net assets, December 31, 2010	$	15,738,120	2,604,567	22,808,937	41,151,624

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 2011 or 2010. 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 2011 and 2010 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.

(12) 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 $112,071 and $113,782 to the plan in 2011 and 2010, 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 $638,864 and $641,034 to the plan in 2011 and 2010, respectively. In 2011, the plan maintained individual and aggregate stop loss insurance policies of $75,000 and $924,932, respectively (based on actual plan participants, adjusted monthly), to mitigate losses. The Association has recorded a liability of $81,749 and $60,401 for incurred but not reported medical expenses which is included in accounts payable and accrued expenses at December 31, 2011 and 2010, 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 2011 or 2010.

(Continued)

(13) 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, 2011 and 2010 of investments valued using these measurements are $6,784,751 and $6,929,366, 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, 2011 consisted of the following:

		Fair Value Measurements		
	Total	**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	–	–

(Continued)

			Fair Value Measurements		
		Total	Level 1	Level 2	Level 3
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	–

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2010 consisted of the following:

			Fair Value Measurements		
		Total	Level 1	Level 2	Level 3
Corporate stocks	$	32,605,912	32,605,912	–	–
Fixed income securities		2,315,399	2,315,399		
U.S. Government debt securities		154,431	154,431	–	–
Mutual funds		129,292	129,292	–	–
Other, including investments in offshore investment funds of funds		6,929,366	–	6,929,366	–
	$	42,134,400	35,205,034	6,929,366	–

(14) 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 14, 2012.