BUFFALO BILL MEMORIAL ASSOCIATION

Financial Statements

December 31, 2009 and 2008

(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 as of December 31, 2009 and 2008, 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, 2009 and 2008, 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

May 27, 2010

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Financial Position

December 31, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	858,098	1,141,424
Accounts and interest receivable		62,006	88,084
Inventories		709,655	714,735
Prepaid expenses		116,731	110,393
Current portion of contributions receivable		1,394,340	1,483,399
Total current assets		3,140,830	3,538,035
Noncurrent assets:			
Contributions receivable, less current portion		766,472	908,869
Investments		39,051,516	33,362,101
Property and equipment, net		33,579,340	33,799,354
Collections		76,842,826	76,130,521
Other assets		—	977
	$	153,380,984	147,739,857
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	166,403	213,381
Net assets:			
Unrestricted		20,414,113	18,537,941
Temporarily restricted		105,856,184	104,320,470
Permanently restricted		26,944,284	24,668,065
Commitments			
Total net assets		153,214,581	147,526,476
	$	153,380,984	147,739,857

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Activities

Years Ended December 31, 2009 and 2008

	2009	2008
Changes in unrestricted net assets:		
Revenues and investment income:		
Contributions	$ 1,390,579	808,316
Contributed services and property	184,583	365,137
Admissions charges	1,975,965	2,056,627
Auxiliary activities	2,039,063	2,237,005
Membership fees	799,943	886,496
Investment income (net of investment expense of $188,869 and $231,624 for 2009 and 2008, respectively)	416,787	333,642
Realized and unrealized gains on investments, net	3,799,764	—
Other	31,916	6,203
Total unrestricted revenues and investment income	10,638,600	6,693,426
Net assets released from restrictions:		
Expiration of time restrictions	209,068	722,138
Satisfaction of program restrictions	2,657,929	2,449,214
Total net assets released from restrictions	2,866,997	3,171,352
Total unrestricted revenues, investment income and other support	13,505,597	9,864,778
Expenses and losses:		
Curatorial and conservation	1,326,566	1,554,713
Collections and exhibits	1,268,729	1,285,730
Research activities	395,007	292,192
Membership activities	83,180	88,163
Educational programs	840,247	929,944
General and administrative	2,572,848	3,135,980
Physical plant and security	2,278,697	2,492,622
Fundraising activities	710,802	730,198
Auxiliary activities	1,647,020	1,900,580
Realized and unrealized losses on investments, net	—	13,421,760
Reclassification from unrestricted net assets used to acquire property and equipment	506,328	886,611
Total expenses and losses	11,629,424	26,718,493
Change in unrestricted net assets	1,876,173	(16,853,715)
Changes in temporarily restricted net assets:		
Contributions	1,575,432	2,810,443
Contributed services and property	28,981	168,507
Contributed collections	652,100	1,627,467
Auxiliary activities	13,259	—
Membership fees	9,225	14,163
Investment income (net of investment expense of $33,334 and $39,163 in 2009 and 2008, respectively)	197,881	203,207
Realized and unrealized gains (losses) on investments, net	1,354,995	(1,380,153)
Deacession of collections	(30)	—
Gain on disposal of property and equipment	64,539	880,938
Reclassification to temporarily restricted net assets used to acquire property and equipment	506,328	886,611
Reclassification of temporarily restricted net assets to permanently restricted net assets	—	(1,148,958)
Net assets released from restrictions	(2,866,997)	(3,171,352)
Change in temporarily restricted net assets	1,535,713	890,873
Changes in permanently restricted net assets:		
Contributions	1,451	21,613
Reclassification of temporarily restricted net assets to permanently restricted net assets	—	1,148,958
Realized and unrealized gains (losses) on investments, net	2,274,768	(2,934,960)
Change in permanently restricted net assets	2,276,219	(1,764,389)
Increase (decrease) in net assets	5,688,105	(17,727,231)
Net assets at beginning of year	147,526,476	165,253,707
Net assets at end of year	$ 153,214,581	147,526,476

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Increase (decrease) in net assets	$	5,688,105	(17,727,231)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:			
Depreciation		1,467,477	1,419,214
Net realized and unrealized (gains) losses on investments, net		(7,429,527)	17,736,873
Gain on disposal of property and equipment		(64,539)	(880,938)
Deacession of collections		30	—
Contributions of collections, property and equipment, and services		(865,664)	(2,151,111)
Contributions restricted for long-term investment		(1,451)	(21,613)
Change in:			
Accounts and interest receivable		26,078	(13,023)
Inventories		5,080	(16,114)
Prepaid expenses and other assets		(5,361)	26,865
Contributions receivable		231,456	10,589,556
Accounts payable and accrued expenses		(46,978)	20,109
Net cash (used in) provided by operating activities		(995,294)	8,982,587
Cash flows from investing activities:			
Proceeds from sales of investments		7,245,070	8,938,666
Proceeds from sale of property and equipment		68,060	1,110,508
Purchases of investments		(5,504,958)	(18,465,086)
Purchases of property and equipment		(1,037,420)	(133,380)
Purchases of collections		(60,235)	(145,793)
Net cash provided by (used in) investing activities		710,517	(8,695,085)
Cash flows from financing activities:			
Contributions restricted for long-term investment		1,451	21,613
Payments on line of credit		(1,326,780)	—
Draws on line of credit		1,326,780	—
Net cash provided by financing activities		1,451	21,613
Net change in cash and cash equivalents		(283,326)	309,115
Cash and cash equivalents, beginning of year		1,141,424	832,309
Cash and cash equivalents, end of year	$	858,098	1,141,424
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	2,180	514

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.

(Continued)

(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 at a risk free rate. Amortization of 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, 2009 or 2008.

(g) Collections

The Association has adopted a full capitalization policy and capitalizes purchased collections at cost. Collections acquired by donation are capitalized at 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.

(h) Investments

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

(Continued)

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, 2009 or 2008.

(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, 2009 or 2008.

(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, 2009 or 2008.

(Continued)

(2) Contributions Receivable

Contributions receivable at December 31 consist of the following:

		2009	2008
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		1,923,312	2,154,768
		2,160,812	2,392,268
Less current portion		1,394,340	1,483,399
	$	766,472	908,869

Unconditional promises to give cash at December 31, 2009 become due as follows:

Due in less than one year	$	1,394,340
Due in one to five years		411,349
Due in greater than five years		355,123
	$	2,160,812

Unconditional promises to give cash due after one year are recorded at their present value discounted at 0.96% and 0.76% in 2009 and 2008, respectively. The unamortized discount is $80,613 and $160,354 at December 31, 2009 and 2008, 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:

		2009	2008
Corporate stocks	$	32,066,270	23,557,889
U.S. Government debt securities		217,492	1,505,148
Mutual funds		65,822	49,907
Other, including investments in offshore investment funds of funds		6,701,932	8,249,157
	$	39,051,516	33,362,101

(Continued)

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 $750,122 and $669,214 as of December 31, 2009 and 2008, 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 $5,951,810 and $7,589,266 at December 31, 2009 and 2008, 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, 2009 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.

(4) Property and Equipment

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

		2009	2008
Land, buildings and improvements	$	49,476,654	48,605,744
Furniture, fixtures and equipment		3,084,419	2,579,125
Construction in progress		140,910	286,674
		52,701,983	51,471,543
Less accumulated depreciation		19,122,643	17,672,189
	$	33,579,340	33,799,354

(5) Collections

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

		2009	2008
Artifacts, photos, memorabilia, etc.	$	25,715,610	25,392,310
Art and bronzes		51,127,216	50,738,211
	$	76,842,826	76,130,521

(6) Revolving Line of Credit

The Association has a $1 million unsecured line of credit bearing interest at the Wall Street Journal prime rate (5.0% at December 31, 2009) payable at maturity. The line of credit matures on August 1, 2010. There was no amount outstanding at December 31, 2009 or 2008.

(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:

		2009	2008
Accounting services	$	10,000	10,000
Program related services and property		203,564	523,644
	$	213,564	533,644

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):

		2009	2008
Curatorial services	$	58,624	44,510
Administrative services		32,147	11,900
Event support services		13,607	14,179
Education docents services		10,612	13,055
	$	114,990	83,644

(8) Noncash Investing and Financing Activities

During the years ended December 31, 2009 and 2008, the Association received gifts of collections valued at $652,100 and $1,627,467, respectively, and gifts of securities included in contributions valued at $35,000 and $47,012, respectively, and property and equipment valued at $203,564 and $523,644, respectively.

(9) Temporarily Restricted Net Assets

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

		2009	2008
Collections	$	78,535,522	77,052,815
Physical plant and security		23,670,891	24,271,330
Curatorial and conservation		1,457,940	1,262,231
Educational programs		1,110,137	575,012
Research activities		672,028	579,085
Contributions with time restrictions		358,145	529,355
General and Administrative		51,521	50,642
	$	105,856,184	104,320,470

(10) Permanently Restricted Net Assets

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

		2009	2008
Investments in perpetuity, the interest and dividend income from which is expendable to support:			
General and administrative	$	17,774,249	16,070,104
Curatorial and conservation		4,920,623	4,348,549
		22,694,872	20,418,653
Investments in perpetuity, the interest and dividend income and capital gains from which are expendable to support:			
Collections		2,092,411	2,092,411
Curatorial and conservation		1,026,843	1,026,843
Educational programs		964,658	964,658
		4,083,912	4,083,912
Land required to be used for museum building		165,500	165,500
	$	26,944,284	24,668,065

(Continued)

(11) Endowment and Quasi-Endowment Funds

Effective January 1, 2008, the Association adopted 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). 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 State of Wyoming enacted a version of UPMIFA effective July 1, 2009.

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, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	–	1,772,810	20,664,221	22,437,031
Board-designated endowment funds		15,749,958	–	–	15,749,958
Total endowment net assets	$	15,749,958	1,772,810	20,664,221	38,186,989

Endowment net asset composition by type of fund consists of the following as of December 31, 2008:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	–	426,741	18,389,453	18,816,194
Board-designated endowment funds		13,765,277	–	–	13,765,277
Total endowment net assets	$	13,765,277	426,741	18,389,453	32,581,471

Changes in endowment net assets for the year ended December 31, 2009 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2008	$	13,765,277	426,741	18,389,453	32,581,471
Investment return:					
Investment income		604,367	212,714	–	817,081
Net realized and unrealized gains		3,799,764	1,249,118	2,274,768	7,323,650
Total investment return		4,404,131	1,461,832	2,274,768	8,140,731

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Appropriation of endowment assets for expenditures	$	(2,419,450)	(115,763)	–	(2,535,213)
Endowment net assets, December 31, 2009	$	15,749,958	1,772,810	20,664,221	38,186,989

Changes in endowment net assets for the year ended December 31, 2008 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2007	$	18,465,658	1,502,838	19,897,126	39,865,622
Investment return:					
Investment income		563,656	225,500	–	789,156
Net realized and unrealized losses		(13,418,619)	(1,082,164)	(2,934,960)	(17,435,743)
Total investment return		(12,854,963)	(856,664)	(2,934,960)	(16,646,587)
Additions		10,000,000	–	278,329	10,278,329
Appropriation of endowment assets for expenditures		(1,845,418)	(219,433)	–	(2,064,851)
Other changes:					
Reclass from temporarily restricted to permanently restricted		–	–	1,148,958	1,148,958
Endowment net assets, December 31, 2008	$	13,765,277	426,741	18,389,453	32,581,471

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 and amounted to $2,203,620 as of December 31, 2008. There were no such deficiencies in 2009. 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.

(Continued)

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. The expectation is that the endowment will maintain an average return from investments from 9.5% to 10.5%, after the annual spending allocation. Since inception in January of 1980, the compound annual rate of return has been 11.6% 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 2009 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 5% of each eligible employee's salary. The Association made contributions of $126,618 and $112,427 to the plan in 2009 and 2008, 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 $600,639 and $857,106 to the plan in 2009 and 2008, respectively. In 2009, the plan maintained individual and aggregate stop loss insurance policies of $75,000 and $826,296, respectively (based on actual plan participants, adjusted monthly), to mitigate losses. The Association has recorded a liability of $20,076 and $2,373 for incurred but not reported medical expenses which is included in accounts payable and accrued expenses at December 31, 2009 and 2008, 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 2009 or 2008.

(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 and accrued expenses 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 significant 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 adopted the measurement provisions of Accounting Standards Update No. 2009-12, *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, 2009 of investments valued using these measurements are $6,701,932.

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, 2009 consisted of the following:

		Fair Value Measurements		
	Total	**Level 1**	**Level 2**	**Level 3**
Corporate stocks	$ 32,066,270	32,066,270	–	–
U.S. Government debt securities	217,492	217,492	–	–
Mutual funds	65,822	65,822	–	–
Other, including investments in offshore investment funds of funds	6,701,932	–	6,701,932	–

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2008 consisted of the following:

		Fair Value Measurements		
	Total	**Level 1**	**Level 2**	**Level 3**
Corporate stocks	$ 23,557,889	23,557,889	–	–
U.S. Government debt securities	1,505,148	1,505,148	–	–
Mutual funds	49,907	49,907	–	–
Other, including investments in offshore investment funds of funds	8,249,157	–	8,249,157	–

(14) Subsequent Event

In connection with the preparation of the financial statements, the Association evaluated subsequent events after the balance sheet date of December 31, 2009 through May 27, 2010, which was the date the financial statements were issued. No subsequent events requiring adjustment to or disclosure to the financial statements were identified.