



**BUFFALO BILL MEMORIAL ASSOCIATION**

Financial Statements

December 31, 2015 and 2014

(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, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

June 9, 2016

# BUFFALO BILL MEMORIAL ASSOCIATION

## Statements of Financial Position

December 31, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Cash and cash equivalents	\$ 843,225	1,793,109
Accounts and interest receivable	504,590	72,466
Inventories	747,036	687,207
Prepaid expenses	125,005	89,785
Current portion of contributions receivable	982,417	1,456,097
Total current assets	3,202,273	4,098,664
Noncurrent assets:		
Contributions receivable, less current portion	2,424,730	1,515,806
Investments	48,140,610	50,282,597
Property and equipment, net	31,350,767	30,650,900
Collections	87,583,086	86,119,406
	\$ 172,701,466	172,667,373
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 333,911	119,066
Note payable	137,500	275,000
Total current liabilities	471,411	394,066
Note payable, less current portion	—	137,500
Total liabilities	471,411	531,566
Net assets:		
Unrestricted	19,054,583	20,008,026
Temporarily restricted	115,008,362	116,113,806
Permanently restricted	38,167,110	36,013,975
Total net assets	172,230,055	172,135,807
	\$ 172,701,466	172,667,373

See accompanying notes to financial statements.

**BUFFALO BILL MEMORIAL ASSOCIATION**

Statements of Activities

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Revenues and investment income:		
Contributions	\$ 1,792,806	1,906,932
Contributed services and property	576,471	376,087
Admissions charges	2,333,844	2,118,434
Auxiliary activities	2,993,027	2,590,605
Fees	221,746	235,050
Investment income (net of investment expense of \$133,262 and \$168,402 in 2015 and 2014, respectively)	486,902	435,629
Realized and unrealized losses on investments, net	(904,225)	(105,467)
Loss on disposal of property interest	—	(36,386)
Other	3,155	6,022
Total unrestricted revenues and investment income	<u>7,503,726</u>	<u>7,526,906</u>
Net assets released from restrictions:		
Satisfaction of time and program restrictions	4,949,519	4,326,657
Total unrestricted revenues, investment income	<u>12,453,245</u>	<u>11,853,563</u>
Expenses, losses and reclassifications:		
Curatorial and conservation	1,660,930	1,522,916
Collections and exhibits	1,903,196	1,427,372
Research activities	560,609	424,946
Membership activities	24,172	41,886
Educational programs	647,379	601,708
General and administrative	2,631,129	2,506,166
Physical plant and security	2,928,200	2,924,324
Fundraising activities	1,131,411	1,160,150
Auxiliary activities	1,872,261	1,718,826
Reclassification from unrestricted net assets used to acquire property and equipment	33,335	166,524
Interest expense	14,066	22,372
Total expenses, losses and reclassifications	<u>13,406,688</u>	<u>12,517,190</u>
Change in unrestricted net assets	<u>(953,443)</u>	<u>(663,627)</u>
Changes in temporarily restricted net assets:		
Contributions	3,538,581	3,020,343
Contributed services and property	18,682	59,085
Contributed collections	1,297,588	181,779
Auxiliary activities	11,463	3,246
Investment income (net of investment expense of \$115,537 and \$99,172 in 2015 and 2014, respectively)	382,209	444,694
Realized and unrealized losses on investments, net	(1,475,270)	(270,566)
Loss on disposal of property and equipment	(232)	(24,914)
Reclassification to temporarily restricted net assets used to acquire property and equipment	33,335	166,524
Reclassification of permanently restricted net assets to temporarily restricted net assets	37,719	812,401
Net assets released from restrictions	(4,949,519)	(4,326,657)
Change in temporarily restricted net assets	<u>(1,105,444)</u>	<u>65,935</u>
Changes in permanently restricted net assets:		
Contributions	3,160,840	2,941,844
Reclassification of permanently restricted net assets to temporarily restricted net assets	(37,719)	(812,401)
Realized and unrealized losses on investments, net	(969,986)	(146,001)
Change in permanently restricted net assets	<u>2,153,135</u>	<u>1,983,442</u>
Change in net assets	94,248	1,385,750
Net assets at beginning of year	<u>172,135,807</u>	<u>170,750,057</u>
Net assets at end of year	<u>\$ 172,230,055</u>	<u>172,135,807</u>

See accompanying notes to financial statements.

**BUFFALO BILL MEMORIAL ASSOCIATION**

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 94,248	1,385,750
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,709,725	1,809,253
Realized and unrealized losses on investments, net	3,349,481	522,034
Loss on disposal of property and equipment	232	24,914
Loss on disposal of property interest	—	36,386
Contributions of collections, services, and property	(1,297,588)	(181,779)
Contributions restricted for long-term investment	(3,160,840)	(2,941,844)
Changes in:		
Accounts and interest receivable	(432,124)	186,579
Inventories	(59,829)	4,436
Prepaid expenses	(35,220)	46,994
Contributions receivable	(435,244)	(615,993)
Accounts payable and accrued expenses	214,845	(332,444)
Net cash used in operating activities	<u>(52,314)</u>	<u>(55,714)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,676,203	9,219,072
Purchases of investments	(2,883,697)	(10,247,119)
Purchases of property and equipment	(2,409,824)	(641,479)
Purchases of collections	(166,092)	(450,035)
Loan to related party	(223,018)	—
Proceeds from repayment of related party loan	223,018	—
Net cash used in investing activities	<u>(3,783,410)</u>	<u>(2,119,561)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	3,160,840	2,941,844
Payments on revolving line of credit	(1,174,105)	(1,435,987)
Draws on revolving line of credit	1,174,105	1,435,987
Repayment of note payable	(275,000)	(275,000)
Net cash provided by financing activities	<u>2,885,840</u>	<u>2,666,844</u>
Net change in cash and cash equivalents	(949,884)	491,569
Cash and cash equivalents, beginning of year	<u>1,793,109</u>	<u>1,301,540</u>
Cash and cash equivalents, end of year	\$ <u><u>843,225</u></u>	\$ <u><u>1,793,109</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 14,066	22,372

See accompanying notes to financial statements.

## BUFFALO BILL MEMORIAL ASSOCIATION

Notes to Financial Statements

December 31, 2015 and 2014

### (1) Summary of Significant Accounting Policies

#### (a) *Organization*

Buffalo Bill Memorial Association (the Association), also known as Buffalo Bill Center of the West, 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, admissions 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 total return earned, including realized and unrealized gains, on related investments for general or specific purposes. A limited number of donors only allow the Association to use interest and dividend income 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 net assets released from restriction.

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

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 investments with original maturities of three months or less to be cash equivalents.

#### (d) *Contributions*

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 statement of financial position date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net

## BUFFALO BILL MEMORIAL ASSOCIATION

### Notes to Financial Statements

December 31, 2015 and 2014

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 contributions 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 contributions 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.

The Association receives contributions in the form of donated securities. It is the policy of the Association to immediately sell the donated securities once received.

**(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 75 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, 2015 or 2014. 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.

**(h) Investments**

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

## BUFFALO BILL MEMORIAL ASSOCIATION

### Notes to Financial Statements

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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 recorded at December 31, 2015 or 2014.

**(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 catering activities and the 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, 2015 or 2014.

The Association accounts for uncertainty in income taxes using a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Tax positions are evaluated for recognition, derecognition, and measurement using consistent criteria. Based on an analysis prepared by the Association, there were no uncertain tax positions at December 31, 2015 or 2014.

**(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, net realizable value of inventory, and valuation of donated collections. Actual results could differ from those estimates.

**(l) Impairment of Long-Lived Assets**

Long-lived assets such as property 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, 2015 or 2014.



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Notes to Financial Statements

December 31, 2015 and 2014

**(2) Contributions Receivable**

Unconditional promises to give at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Receivables due in less than one year	\$ 982,417	1,456,097
Receivables due in one to five years	2,857,497	1,698,714
Less discounts to present value	<u>(432,767)</u>	<u>(182,908)</u>
Noncurrent portion	<u>2,424,730</u>	<u>1,515,806</u>
Unconditional promises to give	<u>\$ 3,407,147</u>	<u>2,971,903</u>

Unconditional promises to give due in more than one year at the dates presented are recorded at their present value discounted at rates between 3.25% and 5.0% for both 2015 and 2014. The unamortized discount is \$432,767 and \$182,908 at December 31, 2015 and 2014, respectively. The accretion of the discount in subsequent years is reported as additional contributions in the net asset class in which the original promise to give was made.

**(3) Investments**

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

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 19,387,005	21,238,908
Corporate stocks	15,426,337	15,914,516
Investments in offshore investment fund of funds	9,285,447	9,187,066
Fixed income securities	1,881,969	1,926,635
U.S. government debt securities	1,326,133	1,105,321
Other	<u>833,719</u>	<u>910,151</u>
	<u>\$ 48,140,610</u>	<u>50,282,597</u>

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 \$833,719 and \$910,151 at December 31, 2015 and 2014, respectively. This investment is recorded in investments as a beneficial interest in assets held by others.

## BUFFALO BILL MEMORIAL ASSOCIATION

### Notes to Financial Statements

December 31, 2015 and 2014

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 \$9,285,447 and \$9,187,066 at December 31, 2015 and 2014, 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, 2015, 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.

The Association received gifts of securities valued at \$643,335 and \$1,854,771, which were immediately converted to cash and included in contributions in the Statement of Activities during the year ended December 31, 2015 and 2014, respectively.

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

	<u>2015</u>	<u>2014</u>
Realized gain on investments	\$ 1,347,976	1,984,827
Unrealized losses on investments	(4,697,457)	(2,506,861)
Dividends and interest	1,117,910	1,147,897
	<u>\$ (2,231,571)</u>	<u>625,863</u>

#### (4) Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land, buildings and improvements	\$ 54,631,735	52,625,933
Furniture, fixtures and equipment	2,294,915	2,285,998
Construction in progress	237,700	—
	57,164,350	54,911,931
Less accumulated depreciation	<u>25,813,583</u>	<u>24,261,031</u>
	<u>\$ 31,350,767</u>	<u>30,650,900</u>

Depreciation expense was \$1,709,725 and \$1,809,253 for the years ended December 31, 2015 and 2014, respectively.

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Notes to Financial Statements

December 31, 2015 and 2014

**(5) Collections**

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

	<u>2015</u>	<u>2014</u>
Artifacts, photos, memorabilia, etc.	\$ 55,011,570	54,200,893
Art and bronzes	32,571,516	31,918,513
	<u>\$ 87,583,086</u>	<u>86,119,406</u>

**(6) Revolving Lines of Credit**

The Association has a \$1.3 million unsecured line of credit bearing interest at the greater of the Prime Rate or 3.35% (3.5% at December 31, 2015) payable at maturity. The line of credit matures on September 1, 2017. No amounts were outstanding and \$1.3 million was available at December 31, 2015. No amounts were outstanding and \$1.0 million was available at December 31, 2014.

On December 11, 2015, the Association entered into a separate \$2.0 million line of credit with a financial institution to help fund the construction of a new dining pavilion. The line of credit has an interest rate of 4.25% and is fully guaranteed by a Trustee of the Association. Once the construction of the dining pavilion is complete or the entire \$2.0 million has been advanced, the line of credit becomes a promissory note due on December 31, 2021. No amounts were outstanding and \$2.0 million was available at December 31, 2015.

**(7) Notes 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 \$68,750. The term loan matures on June 1, 2016, and bears an interest rate of 3.5%. At December 31, 2015 and 2014, the term loan had a balance of \$137,500 and \$412,500, respectively.

**(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:

	<u>2015</u>	<u>2014</u>
Accounting services	\$ 10,000	10,000
Program related services and property	585,154	425,172
	<u>\$ 595,154</u>	<u>435,172</u>

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Notes to Financial Statements

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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):

	<u>2015</u>	<u>2014</u>
Curatorial services	\$ 55,464	57,079
Education docents services	32,339	26,525
Event support services	6,199	15,066
Administrative services	2,294	1,719
	<u>\$ 96,296</u>	<u>100,389</u>

**(9) Temporarily Restricted Net Assets**

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

	<u>2015</u>	<u>2014</u>
Collections	\$ 90,032,252	87,505,643
Physical plant and security	19,789,514	21,215,695
Educational programs	2,982,817	3,572,526
Curatorial and conservation	1,240,664	2,881,230
Research activities	663,547	650,665
General and administrative	175,328	166,369
Contributions with time restrictions	123,224	120,662
Development projects	1,016	1,016
	<u>\$ 115,008,362</u>	<u>116,113,806</u>

**(10) Permanently Restricted Net Assets**

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

	<u>2015</u>	<u>2014</u>
Investments in perpetuity, the interest and dividend income from which is expendable to support:		
General and administrative	\$ 14,138,668	15,108,654
Investments in perpetuity, the interest and dividend income and capital gains from which are expendable to support:		
General and administrative	5,377,439	6,347,823
Collections	2,201,082	1,307,137
Curatorial and conservation	14,276,932	12,068,636
Educational programs	2,016,225	1,016,225
	<u>23,871,678</u>	<u>20,739,821</u>
Land required to be used for museum buildings	156,764	165,500
	<u>\$ 38,167,110</u>	<u>36,013,975</u>

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Notes to Financial Statements

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### (11) Endowment and Quasi-Endowment Funds

The Association follows the provisions of FASB Accounting Standards Codification (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 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 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

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Notes to Financial Statements

December 31, 2015 and 2014

Endowment net asset composition by type of fund consists of the following as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	3,400,759	34,062,680	37,463,439
Board-designated endowment funds	<u>9,800,926</u>	<u>—</u>	<u>—</u>	<u>9,800,926</u>
Total endowment net assets	<u>\$ 9,800,926</u>	<u>3,400,759</u>	<u>34,062,680</u>	<u>47,264,365</u>

Endowment net asset composition by type of fund consists of the following as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	5,073,948	33,443,069	38,517,017
Board-designated endowment funds	<u>10,806,909</u>	<u>—</u>	<u>—</u>	<u>10,806,909</u>
Total endowment net assets	<u>\$ 10,806,909</u>	<u>5,073,948</u>	<u>33,443,069</u>	<u>49,323,926</u>

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ 10,806,909	5,073,948	33,443,069	49,323,926
Investment return:				
Investment income	613,235	462,803	—	1,076,038
Net realized and unrealized losses	<u>(863,412)</u>	<u>(1,428,795)</u>	<u>(969,986)</u>	<u>(3,262,193)</u>
Total investment return	(250,177)	(965,992)	(969,986)	(2,186,155)
Appropriation of endowment assets for expenditures	(1,336,736)	(709,150)	—	(2,045,886)
Contributions	<u>580,930</u>	<u>1,953</u>	<u>1,589,597</u>	<u>2,172,480</u>
Endowment net assets, December 31, 2015	<u>\$ 9,800,926</u>	<u>3,400,759</u>	<u>34,062,680</u>	<u>47,264,365</u>

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Changes in endowment net assets for the year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	\$ 11,386,980	4,977,514	32,371,012	48,735,506
Investment return:				
Investment income	602,689	524,180	—	1,126,869
Net realized and unrealized losses	<u>(108,576)</u>	<u>(290,985)</u>	<u>(146,001)</u>	<u>(545,562)</u>
Total investment return	494,113	233,195	(146,001)	581,307
Appropriation of endowment assets for expenditures	(1,285,623)	(949,162)	—	(2,234,785)
Contributions	211,439	—	2,030,459	2,241,898
Donor directed reclassification	<u>—</u>	<u>812,401</u>	<u>(812,401)</u>	<u>—</u>
Endowment net assets, December 31, 2014	\$ <u>10,806,909</u>	<u>5,073,948</u>	<u>33,443,069</u>	<u>49,323,926</u>

**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. At December 2015 and 2014, as a result of net realized and unrealized losses on investments, the aggregate amount by which the fair value of the permanently restricted assets was less than the level required by donor stipulations was \$204,010 and \$44,567, respectively. 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 realistic growth of endowment assets net of spending requirements, inflation and investment expenses. The 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 an emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

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***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 11.9% 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 2015 and 2014 was 4.9% and 5.0%, respectively.

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) Related Parties**

Board members made contributions totaling \$4,619,271 and \$3,966,496, for the years ended December 31, 2015 and 2014, respectively. Some of these contributions are in the form of a contribution receivable. Contributions receivable from Board members were \$1,666,838 and \$792,118 at December 31, 2015 and 2014, respectively, and are included in contributions receivable on the statements of financial position.

On May 8, 2015, the Association provided a \$233,018 promissory note to a Trustee. The promissory note was used to pay off a mortgage on a property that the Trustee donated to the Association during 2015. The promissory note had an interest rate of 4.4% and required minimum monthly payments to the Association of \$1,150. The loan was repaid in full by the Trustee during the year.

### **(13) Employee Benefit Plans**

The Association sponsors a 403(b) retirement plan for the participation of eligible employees. All employees are eligible to defer salary dollars within the limits determined by the IRS. Employees who complete one year of service and work at least 1,000 hours are eligible for an Association-funded matching contribution. The Association matches the employee's deferral of up to 4% of salary. The Association made matching contributions of \$110,629 and \$101,697 in 2015 and 2014, respectively.

The Association has a medical benefit plan covering full-time employees of the Association and their dependents. The plan is a primarily 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 \$1,042,423 and \$720,112 to the plan in 2015 and 2014, respectively. In 2015, the plan maintained individual and aggregate stop loss insurance policies of \$50,000 and \$971,493, respectively (based on actual plan participants, adjusted monthly), to mitigate losses. There was no liability recorded at December 31, 2015 or December 31, 2014, for incurred but not reported medical expenses as the Association reached the plan’s aggregate stop loss limit on the plan during the year.



## BUFFALO BILL MEMORIAL ASSOCIATION

Notes to Financial Statements

December 31, 2015 and 2014

### (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 the Association's equity investments, the fair value is based upon quoted market prices. The offshore investment funds of funds are valued at the net asset value of the fund. The remaining investments are valued using observable inputs other than quoted prices. 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. The note payable approximates fair value as the interest rate is materially consistent with the current interest rate environment.

*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.

## **BUFFALO BILL MEMORIAL ASSOCIATION**

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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, 2015 and 2014, of investments valued using these measurements are \$9,285,447 and \$9,187,066, 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 fund 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.

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Notes to Financial Statements

December 31, 2015 and 2014

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2015 consisted of the following:

	<u>Total</u>	<u>Fair value measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds:				
Equity investment funds:				
Commodities	1,935,660	1,935,660	—	—
Emerging markets	5,021,864	5,021,864	—	—
International	11,777,738	11,777,738	—	—
Real estate	608,843	608,843	—	—
Total equity investment funds	19,344,105	19,344,105	—	—
Other	42,900	42,900	—	—
Total mutual funds	19,387,005	19,387,005	—	—
Corporate stocks:				
Consumer discretionary	\$ 1,575,936	1,575,936	—	—
Consumer staples	4,148,633	4,148,633	—	—
Energy	1,645,416	1,645,416	—	—
Financials	1,979,077	1,979,077	—	—
Health care	2,129,422	2,129,422	—	—
Industrials	601,636	601,636	—	—
Information technology	2,938,912	2,938,912	—	—
Materials	407,305	407,305	—	—
Total corporate stocks	15,426,337	15,426,337	—	—
Fixed income securities:				
Bonds	1,881,969	—	1,881,969	—
U.S. government debt securities	1,326,133	—	1,326,133	—
Total fixed income securities	3,208,102	—	3,208,102	—
Other:				
Offshore investment funds of funds	9,285,447	—	9,285,447	—
Agency endowment	833,719	—	833,719	—
	10,119,166	—	10,119,166	—
	\$ 48,140,610	34,813,342	13,327,268	—

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December 31, 2015 and 2014

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2014 consisted of the following:

	<u>Total</u>	<u>Fair value measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds:				
Equity investment funds:				
Commodities	2,416,443	2,416,443	—	—
Emerging markets	6,040,753	6,040,753	—	—
International	12,155,367	12,155,367	—	—
Real estate	577,827	577,827	—	—
Total equity investment funds	21,190,390	21,190,390	—	—
Other	48,518	48,518	—	—
Total mutual funds	21,238,908	21,238,908	—	—
Corporate stocks:				
Consumer discretionary	\$ 1,375,768	1,375,768	—	—
Consumer staples	4,116,176	4,116,176	—	—
Energy	2,488,098	2,488,098	—	—
Financials	1,869,341	1,869,341	—	—
Health care	2,230,396	2,230,396	—	—
Industrials	972,715	972,715	—	—
Information technology	2,380,233	2,380,233	—	—
Materials	481,789	481,789	—	—
Total corporate stocks	15,914,516	15,914,516	—	—
Fixed income securities:				
Bonds	1,926,635	—	1,926,635	—
U.S. government debt securities	1,105,321	—	1,105,321	—
Total fixed income securities	3,031,956	—	3,031,956	—
Other:				
Offshore investment funds of funds	9,187,066	—	9,187,066	—
Agency endowment	910,151	—	910,151	—
	10,097,217	—	10,097,217	—
	<u>\$ 50,282,597</u>	<u>37,153,424</u>	<u>13,129,173</u>	<u>—</u>

**BUFFALO BILL MEMORIAL ASSOCIATION**

Notes to Financial Statements

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**(15) Subsequent Events**

Management has updated their evaluation of conditions and events existing that would require adjustment to or disclosure in the financial statements through June 9, 2016, the date the financial statements were available to be issued.