



BUFFALO BILL MEMORIAL ASSOCIATION

Financial Statements

December 31, 2016 and 2015

(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, which comprise the statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 13, 2017

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Financial Position

December 31, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents	\$ 2,281,427	843,225
Accounts and interest receivable	319,779	504,590
Inventories	850,691	747,036
Prepaid expenses	220,223	125,005
Current portion of contributions receivable	<u>1,284,601</u>	<u>982,417</u>
Total current assets	4,956,721	3,202,273
Noncurrent assets:		
Contributions receivable, less current portion	1,981,902	2,424,730
Investments	51,866,958	48,140,610
Property and equipment, net	32,691,209	31,350,767
Collections	<u>88,670,071</u>	<u>87,583,086</u>
	<u>\$ 180,166,861</u>	<u>172,701,466</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 450,237	333,911
Note payable	<u>—</u>	<u>137,500</u>
Total current liabilities	450,237	471,411
Net assets:		
Unrestricted	19,260,926	19,054,583
Temporarily restricted	116,472,393	115,008,362
Permanently restricted	<u>43,983,305</u>	<u>38,167,110</u>
Total net assets	<u>179,716,624</u>	<u>172,230,055</u>
	<u>\$ 180,166,861</u>	<u>172,701,466</u>

See accompanying notes to financial statements.

BUFFALO BILL MEMORIAL ASSOCIATION

Statements of Activities

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Revenue and investment income:		
Contributions	\$ 2,867,613	1,792,806
Contributed services and property	362,076	576,471
Admissions charges	2,408,913	2,333,844
Auxiliary activities	3,160,569	2,993,027
Fees	220,448	221,746
Investment income (net of investment expense of \$130,518 and \$133,262 in 2016 and 2015, respectively)	384,618	486,902
Realized and unrealized gains (losses) on investments, net	503,497	(904,225)
Other	2,293	3,155
Total unrestricted revenue and investment income	<u>9,910,027</u>	<u>7,503,726</u>
Net assets released from restrictions:		
Satisfaction of time and program restrictions	4,082,699	4,949,519
Total unrestricted revenues, investment income, and net assets released from restriction	<u>13,992,726</u>	<u>12,453,245</u>
Expenses, losses, and reclassifications:		
Curatorial and conservation	1,416,068	1,660,930
Collections and exhibits	1,821,695	1,903,196
Research activities	483,348	560,609
Membership activities	30,195	24,172
Educational programs	749,202	647,379
General and administrative	2,730,890	2,631,129
Physical plant and security	2,974,708	2,928,200
Fundraising activities	1,405,053	1,131,411
Auxiliary activities	2,032,560	1,872,261
Reclassification from unrestricted net assets used to acquire property and equipment	118,941	33,335
Interest expense	23,723	14,066
Total expenses, losses, and reclassifications	<u>13,786,383</u>	<u>13,406,688</u>
Change in unrestricted net assets	<u>206,343</u>	<u>(953,443)</u>
Changes in temporarily restricted net assets:		
Contributions	3,245,801	3,538,581
Contributed services and property	2,456	18,682
Contributed collections	609,106	1,297,588
Auxiliary activities	85,394	11,463
Investment income (net of investment expense of \$147,517 and \$115,537 in 2016 and 2015, respectively)	388,632	382,209
Realized and unrealized gains (losses) on investments, net	1,124,888	(1,475,270)
Loss on disposal of property and equipment	(28,488)	(232)
Reclassification to temporarily restricted net assets used to acquire property and equipment	118,941	33,335
Reclassification of permanently restricted net assets to temporarily restricted net assets	—	37,719
Net assets released from restrictions	<u>(4,082,699)</u>	<u>(4,949,519)</u>
Change in temporarily restricted net assets	<u>1,464,031</u>	<u>(1,105,444)</u>
Changes in permanently restricted net assets:		
Contributions	5,204,571	3,160,840
Reclassification of permanently restricted net assets to temporarily restricted net assets	—	(37,719)
Realized and unrealized gains (losses) on investments, net	611,624	(969,986)
Change in permanently restricted net assets	<u>5,816,195</u>	<u>2,153,135</u>
Change in net assets	7,486,569	94,248
Net assets at beginning of year	<u>172,230,055</u>	<u>172,135,807</u>
Net assets at end of year	\$ <u>179,716,624</u>	<u>172,230,055</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,486,569	94,248
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,613,332	1,709,725
Realized and unrealized (gains) losses on investments, net	(2,240,009)	3,349,481
Loss on disposal of property and equipment	28,488	232
Deaccession of collections	25,628	—
Contributions of collections, services, and property	(973,638)	(1,297,588)
Contributions restricted for long-term investment	(5,204,571)	(3,160,840)
Changes in:		
Accounts and interest receivable	184,811	(432,124)
Inventories	(103,655)	(59,829)
Prepaid expenses	(95,218)	(35,220)
Contributions receivable	140,644	(435,244)
Accounts payable and accrued expenses	116,326	214,845
Net cash provided by (used in) operating activities	<u>978,707</u>	<u>(52,314)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	10,731,563	1,676,203
Purchases of investments	(12,217,902)	(2,883,697)
Purchases of property and equipment	(2,617,730)	(2,409,824)
Purchases of collections	(503,507)	(166,092)
Loan to related party	—	(223,018)
Proceeds from repayment of related party loan	—	223,018
Net cash used in investing activities	<u>(4,607,576)</u>	<u>(3,783,410)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	5,204,571	3,160,840
Payments on revolving line of credit	(3,735,000)	(1,174,105)
Draws on revolving line of credit	3,735,000	1,174,105
Repayment of note payable	(137,500)	(275,000)
Net cash provided by financing activities	<u>5,067,071</u>	<u>2,885,840</u>
Net change in cash and cash equivalents	1,438,202	(949,884)
Cash and cash equivalents, beginning of year	<u>843,225</u>	<u>1,793,109</u>
Cash and cash equivalents, end of year	\$ <u><u>2,281,427</u></u>	<u><u>843,225</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 23,723	14,066

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2016 and 2015

(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, revenue, 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 revenue 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 assets when the cash is received and any purpose restrictions are met. Conditional promises to give

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Notes to Financial Statements

December 31, 2016 and 2015

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 year ended December 31, 2016 or 2015. 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 Alliance of Museums.

(h) Investments

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

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December 31, 2016 and 2015

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, 2016 or 2015.

(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 year ended December 31, 2016 or 2015.

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, 2016 or 2015.

(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 revenue 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, 2016 or 2015.

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(2) Contributions Receivable

Unconditional promises to give at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Receivables due in less than one year	\$ 1,284,601	982,417
Receivables due in one to five years	2,075,493	2,857,497
Less discounts to present value	<u>(93,591)</u>	<u>(432,767)</u>
Noncurrent portion	<u>1,981,902</u>	<u>2,424,730</u>
Unconditional promises to give	<u>\$ 3,266,503</u>	<u>3,407,147</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 3.50% and 3.25% for both 2016 and 2015. The unamortized discount is \$93,591 and \$432,767 at December 31, 2016 and 2015, 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>2016</u>	<u>2015</u>
Mutual funds	\$ 26,058,028	19,387,005
Corporate stocks	6,492,398	15,426,337
Investments in offshore investment fund of funds	9,804,863	9,285,447
Fixed-income securities	2,075,422	1,881,969
U.S. government debt securities	6,558,590	1,326,133
Other	<u>877,657</u>	<u>833,719</u>
	<u>\$ 51,866,958</u>	<u>48,140,610</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 of Directors, 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 \$877,657 and \$833,719 at December 31, 2016 and 2015, respectively. This investment is recorded in investments as a beneficial interest in assets held by others.

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December 31, 2016 and 2015

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 \$9,804,863 and \$9,285,447 at December 31, 2016 and 2015, 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, 2016 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 \$1,544,943 and \$643,335, which were immediately converted to cash and included in contributions in the statements of activities during the years ended December 31, 2016 and 2015, 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>2016</u>	<u>2015</u>
Realized gain on investments	\$ 4,747,770	1,347,976
Unrealized losses on investments	(2,507,761)	(4,697,457)
Dividends and interest	1,051,285	1,117,910
	<u>\$ 3,291,294</u>	<u>(2,231,571)</u>

(4) Property and Equipment

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

	<u>2016</u>	<u>2015</u>
Land, buildings, and improvements	\$ 57,511,594	54,631,735
Furniture, fixtures, and equipment	2,311,728	2,294,915
Construction in progress	226,862	237,700
	60,050,184	57,164,350
Less accumulated depreciation	<u>27,358,975</u>	<u>25,813,583</u>
	<u>\$ 32,691,209</u>	<u>31,350,767</u>

Depreciation expense was \$1,613,332 and \$1,709,725 for the years ended December 31, 2016 and 2015, respectively.

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Notes to Financial Statements

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(5) Collections

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

	<u>2016</u>	<u>2015</u>
Artifacts, photos, memorabilia, etc.	\$ 55,463,330	55,011,570
Art and bronzes	<u>33,206,741</u>	<u>32,571,516</u>
	<u>\$ 88,670,071</u>	<u>87,583,086</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 3.50% (3.75% at December 31, 2016) 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, 2016 and 2015.

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. Per the terms of the agreement, 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. The construction of the dining pavilion was completed in 2016. Therefore, the line of credit became a promissory note that was fully paid off in 2016. No amounts were outstanding and \$2.0 million was available on the line of credit 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 required quarterly principal payments of \$68,750 and had an interest rate of 3.5%. The term loan matured on June 1, 2016. At December 31, 2015, the term loan had a balance \$137,500.

(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>2016</u>	<u>2015</u>
Accounting services	\$ 12,000	10,000
Program related services and property	<u>352,532</u>	<u>585,153</u>
	<u>\$ 364,532</u>	<u>595,153</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>2016</u>	<u>2015</u>
Curatorial services	\$ 52,947	55,464
Education docents services	48,246	32,339
Event support services	28,421	6,199
Administrative services	3,827	2,294
	<u>\$ 133,441</u>	<u>96,296</u>

(9) Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Collections	\$ 90,814,573	90,032,252
Physical plant and security	19,083,201	19,789,514
Educational programs	3,064,674	2,982,817
Curatorial and conservation	1,866,421	1,240,664
Research activities	1,277,997	663,547
General and administrative	242,579	175,328
Contributions with time restrictions	122,948	123,224
Development projects	—	1,016
	<u>\$ 116,472,393</u>	<u>115,008,362</u>

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(10) Permanently Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Investments in perpetuity, the interest and dividend income from which is expendable to support:		
General and administrative	\$ 14,750,293	14,138,668
Investments in perpetuity, the interest and dividend income and capital gains from which are expendable to support:		
General and administrative	6,552,439	5,377,439
Collections	2,227,103	2,201,082
Curatorial and conservation	18,280,481	14,276,932
Educational programs	<u>2,016,225</u>	<u>2,016,225</u>
	29,076,248	23,871,678
Land required to be used for museum buildings	<u>156,764</u>	<u>156,764</u>
	<u>\$ 43,983,305</u>	<u>38,167,110</u>

(11) Endowment and Quasi-Endowment Funds

The Association follows the provisions of Financial Accounting Standards Board (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

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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, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	4,950,355	36,982,788	41,933,143
Board-designated endowment funds	<u>9,013,259</u>	<u>—</u>	<u>—</u>	<u>9,013,259</u>
Total endowment net assets	<u>\$ 9,013,259</u>	<u>4,950,355</u>	<u>36,982,788</u>	<u>50,946,402</u>

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>

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Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ 9,800,926	3,400,759	34,062,680	47,264,365
Investment return:				
Investment income	514,646	502,125	—	1,016,771
Net realized and unrealized gains	<u>503,008</u>	<u>1,059,022</u>	<u>611,625</u>	<u>2,173,655</u>
Total investment return	1,017,654	1,561,147	611,625	3,190,426
Appropriation of endowment assets for expenditures	(1,586,001)	(564,301)	—	(2,150,302)
Contributions	<u>333,430</u>	<u>—</u>	<u>2,308,483</u>	<u>2,641,913</u>
Endowment net assets, December 31, 2016	\$ <u>9,566,009</u>	<u>4,397,605</u>	<u>36,982,788</u>	<u>50,946,402</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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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 31, 2016 and 2015, 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 \$34,205 and \$204,010, 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.

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 2016 and 2015 was 4.5% and 4.9%, 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.

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(12) Related Parties

Board members made contributions totaling \$5,446,061 and \$4,619,271 for the years ended December 31, 2016 and 2015, respectively. Some of these contributions are in the form of a contribution receivable. Contributions receivable from Board members were \$2,161,067 and \$1,666,838 at December 31, 2016 and 2015, 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 2015. There were no related-party promissory notes provided during 2016.

(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 \$119,052 and \$110,629 in 2016 and 2015, 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 \$1,121,210 in 2016 and \$1,042,423 in 2015 to the plan. The plan maintained individual stop-loss insurance policies of \$50,000 in 2016 and 2015. The plan maintained aggregate stop-loss insurance policies of \$1,339,095 in 2016 and \$971,493 in 2015 (based on actual plan participants, adjusted monthly), to mitigate losses. There was no liability recorded at December 31, 2016 for incurred but not reported medical expenses as the Association reached the plan's aggregate stop-loss limit on the plan during the year.

(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.

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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.

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, 2016 and 2015 of investments valued using these measurements is \$9,804,863 and \$9,285,447, respectively.

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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.

The Association's offshore funds contain certain redemption and lock-up provisions. The initial lock-up period for the offshore funds is one year. The lock-up period has passed in both 2015 and 2016 for the Association's offshore funds as the funds have been held for over one year. There is a quarterly liquidity provision that is allowed with a 60-day notice based on calendar-year quarters. There are no limitations to liquidating the funds. However, in the case of a full liquidation, 90% of the funds are disbursed at the requested quarter-end. The remaining 10% of the funds can be redeemed after the completion of the funds' audited financial statements.

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Notes to Financial Statements

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Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2016 consisted of the following:

	Fair value measurements			
	Total	Level 1	Level 2	Level 3
Investments:				
Mutual funds:				
Equity investment funds:				
Commodities	\$ 2,430,272	2,430,272	—	—
Emerging markets	5,733,976	5,733,976	—	—
International	12,303,071	12,303,071	—	—
Real estate	632,479	632,479	—	—
Growth equity	2,947,383	2,947,383	—	—
Value equity	1,967,949	1,967,949	—	—
Total equity investment funds	26,015,130	26,015,130	—	—
Other	42,898	42,898	—	—
Total mutual funds	26,058,028	26,058,028	—	—
Corporate stocks:				
Consumer discretionary	638,463	638,463	—	—
Consumer staples	1,612,564	1,612,564	—	—
Energy	777,578	777,578	—	—
Financials	802,324	802,324	—	—
Healthcare	706,306	706,306	—	—
Industrials	290,515	290,515	—	—
Information technology	1,492,190	1,492,190	—	—
Materials	172,458	172,458	—	—
Total corporate stocks	6,492,398	6,492,398	—	—
Fixed-income securities:				
Bonds	2,075,422	—	2,075,422	—
U.S. government debt securities	6,558,590	—	6,558,590	—
Total fixed income securities	8,634,012	—	8,634,012	—
Other:				
Agency endowment	877,657	—	877,657	—
	42,062,095	32,550,426	9,511,669	—
Offshore investments fund of funds (at net asset value)	9,804,863			
	\$ 51,866,958			

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December 31, 2016 and 2015

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	—	—
Healthcare	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:				
Agency endowment	833,719	—	833,719	—
	38,855,163	34,813,342	4,041,821	—
Offshore investments fund of funds (at net asset value)	9,285,447			
	<u>\$ 48,140,610</u>			

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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 13, 2017 the date the financial statements were available to be issued.