

California Academy of Sciences

**Report on Audits of Financial Statements
June 30, 2011 and 2010**

California Academy of Sciences
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June 30, 2011 and 2010
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Report of Independent Auditors

To the Board of Trustees
California Academy of Sciences

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Academy of Sciences (the "Academy") at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 7, 2011

California Academy of Sciences
Statements of Financial Position
June 30, 2011 and 2010

	2011				2010			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Assets								
Cash and cash equivalents	\$ 1,627,636	\$ -	\$ -	\$ 1,627,636	\$ 1,783,555	\$ -	\$ -	\$ 1,783,555
Investments	4,221,659	238,648,642	172,313,558	415,183,859	2,869,779	219,998,046	148,242,486	371,110,311
Receivables, net								
Research grants	348,575	-	-	348,575	219,519	-	-	219,519
Accrued interest and dividends	-	30,516	51,211	81,727	-	1,438,795	16,176	1,454,971
Other receivables, net	680,737	-	-	680,737	960,683	-	-	960,683
Contributions, net	4,321,606	15,331,687	115,989	19,769,282	22,699	23,672,422	1,138,463	24,833,584
Due (to) from other funds	7,366,735	894,354	(8,261,089)	-	5,425,692	79,162	(5,504,854)	-
Inventory	64,901	-	-	64,901	131,988	-	-	131,988
Prepaid expenses	1,119,224	-	-	1,119,224	932,839	-	-	932,839
Notes receivable, net	-	-	912,248	912,248	-	-	2,716,595	2,716,595
Investments held in trusts	-	-	4,371,342	4,371,342	-	-	3,705,186	3,705,186
Deferred bond financing costs, net	-	2,873,525	-	2,873,525	-	2,979,299	-	2,979,299
Property and equipment, less accumulated depreciation	-	415,633,250	-	415,633,250	-	428,640,331	-	428,640,331
Total assets	<u>\$ 19,751,073</u>	<u>\$ 673,411,974</u>	<u>\$ 169,503,259</u>	<u>\$ 862,666,306</u>	<u>\$ 12,346,754</u>	<u>\$ 676,808,055</u>	<u>\$ 150,314,052</u>	<u>\$ 839,468,861</u>
Liabilities and Net Assets								
Liabilities								
Accounts payable	\$ 950,427	\$ -	\$ -	\$ 950,427	\$ 665,137	\$ 28,512	\$ -	\$ 693,649
Accrued expenses and other liabilities	3,032,963	51,831	668,958	3,753,752	3,098,146	58,942	571,927	3,729,015
Deferred income	3,613,534	-	-	3,613,534	3,581,957	-	-	3,581,957
Annuities payable	-	-	1,347,022	1,347,022	-	-	1,153,314	1,153,314
Bonds payable	-	281,450,000	-	281,450,000	-	281,450,000	-	281,450,000
Other long-term liabilities	320,327	35,000	-	355,327	287,745	35,000	-	322,745
Total liabilities	<u>7,917,251</u>	<u>281,536,831</u>	<u>2,015,980</u>	<u>291,470,062</u>	<u>7,632,985</u>	<u>281,572,454</u>	<u>1,725,241</u>	<u>290,930,680</u>
Commitments and contingencies (Note 11)								
Net assets								
Unrestricted								
Available for operations	1,422,732	237,243,699	7,665,382	246,331,813	1,131,797	219,023,645	7,855,707	228,011,149
Designated for property and equipment	-	137,069,642	-	137,069,642	-	150,304,534	-	150,304,534
Designated for endowment	-	-	65,986,712	65,986,712	-	-	58,772,823	58,772,823
Total unrestricted net assets	<u>1,422,732</u>	<u>374,313,341</u>	<u>73,652,094</u>	<u>449,388,167</u>	<u>1,131,797</u>	<u>369,328,179</u>	<u>66,628,530</u>	<u>437,088,506</u>
Temporarily restricted	10,411,090	17,561,802	31,793,201	59,766,093	3,581,972	25,907,422	20,670,579	50,159,973
Permanently restricted	-	-	62,041,984	62,041,984	-	-	61,289,702	61,289,702
Total net assets	<u>11,833,822</u>	<u>391,875,143</u>	<u>167,487,279</u>	<u>571,196,244</u>	<u>4,713,769</u>	<u>395,235,601</u>	<u>148,588,811</u>	<u>548,538,181</u>
Total liabilities and net assets	<u>\$ 19,751,073</u>	<u>\$ 673,411,974</u>	<u>\$ 169,503,259</u>	<u>\$ 862,666,306</u>	<u>\$ 12,346,754</u>	<u>\$ 676,808,055</u>	<u>\$ 150,314,052</u>	<u>\$ 839,468,861</u>

The accompanying notes are an integral part of these financial statements.

California Academy of Sciences
Statements of Activities
Years Ended June 30, 2011 and 2010

	2011				2010			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Change in unrestricted net assets								
Revenue and gains								
Admissions	\$ 17,952,690	\$ -	\$ -	\$ 17,952,690	\$ 19,302,304	\$ -	\$ -	\$ 19,302,304
Contributions	6,809,709	7,038,078	487,628	14,335,415	3,517,666	8,593,650	1,080,421	13,191,737
Memberships	8,005,154	-	-	8,005,154	10,268,810	-	-	10,268,810
Tuition and program fees	2,680,867	-	-	2,680,867	2,469,591	-	-	2,469,591
Auxiliary activities	3,591,121	-	1,574	3,592,695	4,224,460	91	7,684	4,232,235
Government grant revenue	1,535,345	-	-	1,535,345	1,173,885	25,000	-	1,198,885
City and County of San Francisco	4,142,382	-	-	4,142,382	4,189,737	-	-	4,189,737
Net investment income	561,354	1,936,257	441,532	2,939,143	21,725	4,002,413	1,300,742	5,324,880
Net realized and unrealized gains on investments	23,004	56,335	11,906,727	11,986,066	223,835	3,075,103	5,597,905	8,896,843
Loss on sale of property and equipment	-	(9,762)	-	(9,762)	-	(17,738)	-	(17,738)
Total unrestricted revenue and gains	45,301,626	9,020,908	12,837,461	67,159,995	45,392,013	15,678,519	7,986,752	69,057,284
Net assets released from restrictions	3,663,820	11,392,209	5,947,752	21,003,781	2,431,909	20,878,918	3,998,584	27,309,411
Total unrestricted revenue, gains, and other support	48,965,446	20,413,117	18,785,213	88,163,776	47,823,922	36,557,437	11,985,336	96,366,695
Expenses								
Research	12,212,698	6,288,690	-	18,501,388	11,620,782	5,442,054	-	17,062,836
Public programs	22,971,992	4,155,553	-	27,127,545	16,914,529	3,471,406	-	20,385,935
Aquarium	13,749,040	5,901,080	-	19,650,120	14,156,520	5,218,847	-	19,375,367
Development and membership	4,986,620	209,616	-	5,196,236	5,115,197	1,005,528	-	6,120,725
Management and general	4,719,922	668,904	-	5,388,826	5,369,047	591,320	-	5,960,367
New Academy and transition	-	-	-	-	-	2,207,502	-	2,207,502
Total operating expenses	58,640,272	17,223,843	-	75,864,115	53,176,075	17,936,657	-	71,112,732
Transfers between funds								
Capital expenditures	(1,795,888)	1,795,888	-	-	(561,313)	561,313	-	-
Other transfers	8,281,882	-	(8,281,882)	-	2,687,167	(450)	(2,686,717)	-
Contributed investment fund transfer	3,479,767	-	(3,479,767)	-	-	-	-	-
Change in unrestricted net assets	\$ 290,935	\$ 4,985,162	\$ 7,023,564	\$ 12,299,661	\$ (3,226,299)	\$ 19,181,643	\$ 9,298,619	\$ 25,253,963
	-	-	-	-	-	-	-	-

The accompanying notes are an integral part of these financial statements.

California Academy of Sciences
Statements of Activities
Years Ended June 30, 2011 and 2010

	2011				2010			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Change in unrestricted net assets	\$ 290,935	\$ 4,985,162	\$ 7,023,564	\$ 12,299,661	\$ (3,226,299)	\$ 19,181,643	\$ 9,298,619	\$ 25,253,963
Change in temporarily restricted net assets								
Contributions and fund transfers	10,492,938	3,046,589	-	13,539,527	2,126,522	4,244,164	6,455	6,377,141
Net investment income	-	-	1,371,359	1,371,359	-	-	1,925,390	1,925,390
Net realized and unrealized gains on investments	-	-	15,279,115	15,279,115	-	-	6,081,679	6,081,679
Change in value of investments held in trust	-	-	419,900	419,900	-	-	34,806	34,806
Net assets released from restrictions	(3,663,820)	(11,392,209)	(5,947,752)	(21,003,781)	(2,431,909)	(20,878,918)	(3,998,584)	(27,309,411)
Change in temporarily restricted net assets	6,829,118	(8,345,620)	11,122,622	9,606,120	(305,387)	(16,634,754)	4,049,746	(12,890,395)
Change in permanently restricted net assets								
Contributions	-	-	641,422	641,422	-	-	3,598,938	3,598,938
Net investment income	-	-	4,136	4,136	-	-	-	-
Change in value of investments held in trust	-	-	106,724	106,724	-	-	91,772	91,772
Change in permanently restricted net assets	-	-	752,282	752,282	-	-	3,690,710	3,690,710
Total change in net assets	7,120,053	(3,360,458)	18,898,468	22,658,063	(3,531,686)	2,546,889	17,039,075	16,054,278
Net assets at beginning of year	4,713,769	395,235,601	148,588,811	548,538,181	8,245,455	392,688,712	131,549,736	532,483,903
Net assets at end of year	\$ 11,833,822	\$ 391,875,143	\$ 167,487,279	\$ 571,196,244	\$ 4,713,769	\$ 395,235,601	\$ 148,588,811	\$ 548,538,181

The accompanying notes are an integral part of these financial statements.

California Academy of Sciences
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 22,658,064	\$ 16,054,278
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	15,560,812	14,877,368
Amortization of deferred bond financing costs	105,774	105,774
Loss on sale of property and equipment	9,762	17,738
Net realized and unrealized gains on investments	(27,265,181)	(14,978,522)
Contributions restricted for endowment	(641,422)	(3,598,938)
Changes in assets and liabilities		
Receivables, net	5,183,184	18,465,406
Inventory	67,087	(24,901)
Prepaid expenses	(186,385)	269,799
Accounts payable, accrued expenses and other liabilities	290,112	(896,667)
Deferred income	31,577	(2,494,383)
Other long-term liabilities	32,582	58,053
Net cash provided by operating activities	<u>15,845,966</u>	<u>27,855,005</u>
Cash flows from investing activities		
Purchase of investments	(437,250,855)	(514,558,215)
Proceeds from sale of investments	419,776,332	486,232,072
Purchase of property and equipment	(2,574,090)	(4,475,527)
Proceeds from sale of property and equipment	2,000	-
Proceeds from repayment of notes receivable	2,250,000	196,974
Loans made	(150,000)	-
Net cash used in investing activities	<u>(17,946,613)</u>	<u>(32,604,696)</u>
Cash flows from financing activities		
Contributions restricted for endowment	1,751,020	4,949,942
Change in annuities payable	193,708	(138,235)
Net cash provided by financing activities	<u>1,944,728</u>	<u>4,811,707</u>
Net (decrease) increase in cash and cash equivalents	(155,919)	62,016
Cash and cash equivalents at beginning of year	<u>1,783,555</u>	<u>1,721,539</u>
Cash and cash equivalents at end of year	<u>\$ 1,627,636</u>	<u>\$ 1,783,555</u>
Supplemental information		
Interest paid	\$ 1,010,668	\$ 624,573
Noncash transactions		
Accrued purchases of property and equipment	51,831	58,429
Revenue and equivalent expenses related to contributed services and in-kind gifts	1,087,399	196,991

The accompanying notes are an integral part of these financial statements.

California Academy of Sciences

Notes to Financial Statements

June 30, 2011 and 2010

1. Organization

The California Academy of Sciences (the "Academy") is a not-for-profit Academy founded in 1853, with the mission to explore, explain and protect the natural world using the resources of the natural history museum, aquarium and planetarium. Through original research in systematic biology – the study of the diversity of living things, their relationships to each other and their classification – and a broad array of science education activities, the Academy has informed the understanding of both the scientific community and the general public.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Academy are described below:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Academy and the changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or otherwise limited by contractual arrangements with outside parties. Board designated net assets consist of gifts and bequests which have been set aside as endowment funds for special programs, plant and general operating support.

Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets that are subject to donor-imposed restrictions which can be fulfilled either by actions of the Academy pursuant to those restrictions and/or expire with the passage of time. Temporarily restricted net assets consist primarily of grants, pledges, and contributions restricted for research, education and the Planned Facilities Project.

Permanently Restricted Net Assets

Permanently restricted net assets are net assets that are subject to donor-imposed restrictions that they be maintained permanently by the Academy. Permanently restricted net assets consist primarily of endowment funds.

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. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless restricted by the donor or by law. Expirations of temporary restrictions on net assets (i.e., the donor-restricted purposes have been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

California Academy of Sciences

Notes to Financial Statements

June 30, 2011 and 2010

Use of Estimates

In preparing these financial statements in conformity with accounting principles generally accepted in the United States of America, management of the Academy has made certain estimates and assumptions relating to the reporting 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 reporting period. Actual results could differ from those estimates.

Description of Funds

The Academy's endowment fund includes permanently restricted contributions, unrestricted and purpose-restricted contributions which have been internally designated as endowment funds by the Board of Trustees and the realized and unrealized gains and losses associated with these funds. The plant fund includes the Academy's fixed assets, net of related debt and depreciation expenses, as well as unspent debt proceeds and restricted and board designated resources contributed specifically for construction projects, exhibit fabrication, plant additions, and the general capital renovation of the Academy's facilities. The operating fund captures all other activity.

Revenue Recognition

Memberships and program fees which are paid in advance are deferred and subsequently recognized as revenue during the duration of the membership and in the period in which they are earned, respectively.

Contributions

Contributed materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. Contributions received which relate to the Academy's core activities are classified as unrestricted.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions. Contributions for capital improvements are released when the capital asset is placed in service.

Contributions are reviewed for collectibility and reserves for uncollectible amounts are established when needed.

At June 30, 2011 and 2010, 27% and 28% of contributions receivable were due from three donors, respectively. During fiscal years 2011 and 2010, 22% and 25% of contribution revenue was received from three donors, respectively.

Grants

Grants that are considered exchange transactions are recorded as revenue when earned, which is generally when the related expenditures are incurred. Grants that are considered non-exchange transactions and are unconditional are recorded when the Academy receives notification of the grant award. Grants receivable are reviewed by management for collectibility and reserves for uncollectible amounts are established when needed. There was no allowance against grants receivable at June 30, 2011 and 2010.

California Academy of Sciences

Notes to Financial Statements

June 30, 2011 and 2010

Contributed Assets and Services

The Academy receives contributed services, principally in respect of advertising, in addition to gifts in-kind such as equipment and supplies. The Academy records revenue and a corresponding expense for these contributed assets and services based on market rates for equivalent assets or services. In fiscal years 2011 and 2010, contributed assets and services totaled \$1,087,399 and \$196,991, respectively.

Fundraising Expenses

Fundraising expenses incurred by the Academy were approximately \$838,500 and \$476,000 for the years ended June 30, 2011 and 2010, respectively. These are included as development and membership expenses in the statements of activities.

Functional Allocation of Expenses

Significant expenses which relate to two or more programs or support activities are allocated to the respective programs and activities. These costs principally relate to occupancy and support costs and are allocated based on the square footage used by the departments, on the number of full time equivalents, or by estimated usage. Support costs include: Web Services department, which drives attendance and donations via the Website; Admissions related costs include labor, equipment and supplies used for guest admittance; Information Technology, while supporting all areas, focuses more than half its time on research and public programs efforts; Marketing and Communications efforts primarily benefit Public Programs and the Aquarium but also Development and Research; the Security staff is primarily located in the public areas and allocated accordingly; Purchasing provides support primarily to Public Programs and the Aquarium as these are areas of unique needs, such as food for the animals.

Description of Major Programs

The Academy's primary programs as reflected in the statements of activities are described as follows:

Research: Each year, Academy scientists research specific questions on the evolution and sustainability of life—"How did it get here?" and "How will it persist?" They launch expeditions to biodiversity hotspots around the globe, uncovering new species of plants and animals and advancing our understanding of life's diversity. Their mission: to discover, document, and protect as many species as possible before they vanish. Meanwhile, back in Golden Gate Park, the Academy studies a collection of more than 26 million specimens that provides historical and genetic data for guiding conservation priorities and understanding evolutionary relationships.

Education: Key education programs include a professional development program for teachers focusing on science and sustainability, the Careers in Science internship program for high school and college students, and free visits for San Francisco school groups. The Academy also offers standards-based lesson plans for science teachers, portable classroom kits, hands-on laboratory sessions on site, and student shows in the planetarium.

Public Museum: The Academy maintains 100,000 square feet of public exhibition space that aims to engage over 1.5 million annual visitors of all ages from the Bay Area and around the world. The Academy is home to an aquarium with 38,000 live animals, a planetarium featuring award-winning shows produced by an in-house science visualization team, and compelling natural history exhibits on the evolution and sustainability of life on Earth. Highlights include a colony of African penguins, an eight-foot-long albino alligator, a 212,000-gallon Philippine Coral Reef, a 2.5-acre living roof, and a four-story living rainforest showcasing the ecosystems of Borneo, Madagascar, Costa Rica, and the Amazon. In addition, informal education at the Academy includes dozens of engaging

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programs, lectures, and workshops, which offer visitors opportunities to dive deeper into critical issues such as biodiversity, conservation, and human health on a person-to-person level.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term, highly liquid investments with a remaining maturity of three months or less from the date acquired, that are not held for long-term investment. Cash is held on deposit at various institutions. At times, cash deposits may exceed federally insured limits.

Investments

Investments are stated at fair value and purchases and sales are recorded on a trade date basis. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The fair value of investments in real estate is based on an appraisal from a qualified real estate appraiser using values for comparable properties in the area. The alternative investments, which are not readily marketable, are carried at estimated fair values based on the net asset value of the fund as provided by the general partner of each investment fund. The Academy reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Unrealized gains or losses are the difference between the cost and the fair market value of investments at June 30, 2011 and 2010. Realized gains and losses are recorded at time of disposition during the year and are determined on a first-in, first-out basis. The net effect of unrealized and realized gains and losses are included in the statement of activities. The Academy's endowment fund investments are primarily held by one financial institution and are managed by eleven professional investment managers.

Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investments securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the Academy's investments and total net asset balances.

Investments Held in Trusts

Pooled income funds and charitable remainder trusts represent gifts for which the Academy is the remainderman and the trustee; donors retain a lifetime interest in a portion of fund and trust income. Pooled income fund and charitable remainder trust investments are carried at fair value based upon quoted market prices and are held with two commercial institutions. Annuities payable are calculated at fair market value based upon the estimated life of each participant using discount rates ranging from 5.40% to 5.89%. The classification of the change in value of the pooled income funds and the investments held in trusts is recorded on the statement of activities based on donor restrictions.

Endowment Management

The Academy follows a total return approach to managing its endowment funds. Each year the Board of Trustees approves an amount to be allocated to support operations. For fiscal years 2011 and 2010, the allocation from the endowment funds for operating support amounted to \$8,281,882 and \$2,687,167, respectively.

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Property and Equipment

Building and related building improvements under construction by the Academy in Golden Gate Park are valued at cost and are reflected in the accompanying statements of financial position because a substantial portion of the costs are being funded through support from the Academy's donors, the assets are integral to operations and the Academy has free use of the facilities for its charitable purposes. Under the terms of the Charter of the City and County of San Francisco ("the City"), no one other than the City may hold title to buildings on City property. As the Academy facilities in Golden Gate Park are acquired, title is transferred to the City. These assets cannot be converted or sold for the benefit of the Academy.

Property and equipment acquired through the use of operating funds are accounted for as transfers to the plant fund. Maintenance, repairs and improvements which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

Depreciation of buildings, exhibits, software and equipment is provided over the estimated useful lives of the respective assets ranging from 3 to 40 years on a straight-line basis.

The library collection is valued at historical cost. Management of the Academy believes that the collection consists of rare books with a perpetual value and therefore the library collection is not depreciated.

Contributions of living and other collections held as part of a collection – for education, research or public exhibition rather than for sale – are not recognized or capitalized. Such items which have been acquired through purchase have similarly not been capitalized.

Impairment of Long-Lived Assets

The Academy reviews long-lived assets 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 the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. For fiscal years 2011 and 2010, there has been no impairment of long-lived assets.

Deferred Bond Financing Costs

Deferred bond financing costs, which include bond issuance fees, are amortized using a method approximating the effective interest method over the life of the bonds.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and receivables approximate fair value due to the short-term maturities of these instruments. Contributions receivable recognized in fiscal years 2009 and later are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Contributions receivable recognized in fiscal years prior to 2009 were recorded at a discount based on a risk-free rate.

New Academy Project

Certain expenditures which are incurred as a result of the New Academy project are reflected on the statement of activities as New Academy and transition expenses under the plant fund. These include the lease of the temporary facility, relocation expenses, and furniture and equipment that were not capitalized.

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Income Taxes

The Academy is qualified as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and is not a private foundation. The Academy is also a public-benefit, tax-exempt corporation under the laws of the State of California. Accordingly, the operations of the Academy are currently considered exempt from federal income and state franchise taxes.

Subsequent Events

The Academy has evaluated the financial statements for subsequent events through November 7, 2011, the date of the issuance of this report.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update *Improving Disclosures about Fair Value Measurements (ASU 2010-06)*. The ASU 2010-06 amends ASC 820 to add new disclosures about transfers into and out of Levels 1 and 2, and to separate disclosures about purchases, sales, issuances and settlements on a gross basis relating to Level 3 measurements. The ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The Academy adopted this guidance on July 1, 2010. There was no material impact to the financial statement amounts and there were no transfers into and out of Levels 1 and 2 for the year ended June 30, 2011.

Reclassifications

Certain 2010 amounts were reclassified to conform to the 2011 financial statement presentation. Such reclassifications had no impact to on total revenues, total expenses, and change in net assets, or total net assets as previously reported.

3. Investments

At June 30, 2011 and 2010, the fair value of investments is as follows:

	2011			2010		
	Plant	Endowment & Operating	Total	Plant	Endowment & Operating	Total
Cash and cash equivalents	\$ 5,358,092	\$ 2,916,753	\$ 8,274,845	\$ 9,292,833	\$ 5,870,860	\$ 15,163,693
U.S. treasury bonds and notes	48,537,232	-	48,537,232	34,471,570	-	34,471,570
Government agency and foreign government obligations	48,852,461	7,365,453	56,217,914	51,057,600	6,789,115	57,846,715
Corporate bonds	135,900,857	9,022,352	144,923,209	122,941,043	10,182,425	133,123,468
Domestic & foreign equity securities and mutual funds	-	105,476,612	105,476,612	-	82,097,969	82,097,969
Global allocation absolute return funds	-	38,455,856	38,455,856	-	34,940,511	34,940,511
Venture capital funds	-	4,324,305	4,324,305	-	3,968,509	3,968,509
Equity hedge funds	-	8,963,750	8,963,750	-	7,252,740	7,252,740
Real estate & other	-	10,136	10,136	2,235,000	10,136	2,245,136
Total investments	<u>\$ 238,648,642</u>	<u>\$ 176,535,217</u>	<u>\$ 415,183,859</u>	<u>\$ 219,998,046</u>	<u>\$ 151,112,265</u>	<u>\$ 371,110,311</u>

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The following schedule summarizes the Academy's investment return for the years ended June 30, 2011 and 2010:

	Operating	Plant	Endowment	2011 Total
Net investment income	\$ 561,354	\$ 1,936,257	\$ 1,817,027	\$ 4,314,638
Net realized and unrealized gains on investments	23,004	56,335	27,185,842	27,265,181
	<u>\$ 584,358</u>	<u>\$ 1,992,592</u>	<u>\$ 29,002,869</u>	<u>\$ 31,579,819</u>
	Operating	Plant	Endowment	2010 Total
Net investment income	\$ 21,725	\$ 4,002,413	\$ 3,226,132	\$ 7,250,270
Net realized and unrealized gains on investments	223,835	3,075,103	11,679,584	14,978,522
	<u>\$ 245,560</u>	<u>\$ 7,077,516</u>	<u>\$ 14,905,716</u>	<u>\$ 22,228,792</u>

Fair Value of Financial Instruments

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 established a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Academy for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Fair value for Level 1 is based upon quoted prices in active markets that the Academy has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Academy does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

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Fair value for Level 3, is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Investments included in Level 3 primarily consist of the Academy's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Academy has performed due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Academy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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 following table presents the investments carried at fair value on the statement of financial position as of June 30, 2011 by the ASC 820 valuation hierarchy defined above:

	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 8,274,845	\$ -	\$ -	\$ 8,274,845
U.S. treasury bonds and notes	48,537,232		-	48,537,232
Government agency and foreign government obligations	-	56,217,914	-	56,217,914
Corporate bonds	-	144,923,209	-	144,923,209
Domestic & foreign equity securities and mutual funds	105,476,612		-	105,476,612
Global allocation absolute return funds	28,699,860	-	9,755,996	38,455,856
Venture capital funds	-	-	4,324,305	4,324,305
Equity hedge funds	-	-	8,963,750	8,963,750
Other	-	-	10,136	10,136
	<u>\$ 190,988,549</u>	<u>\$ 201,141,123</u>	<u>\$ 23,054,187</u>	<u>\$ 415,183,859</u>

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The following table presents the investments carried at fair value on the statement of financial position as of June 30, 2010 by the ASC 820 valuation hierarchy defined above:

	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 15,163,693	\$ -	\$ -	\$ 15,163,693
U.S. treasury bonds and notes	34,471,570	-	-	34,471,570
Government agency and foreign government obligations	-	57,846,715	-	57,846,715
Corporate bonds	-	133,123,468	-	133,123,468
Domestic & foreign equity securities and mutual funds	72,419,567	9,678,402	-	82,097,969
Global allocation absolute return funds	26,240,527	-	8,699,984	34,940,511
Venture capital funds	-	-	3,968,509	3,968,509
Equity hedge funds	-	-	7,252,740	7,252,740
Real estate & other	-	-	2,245,136	2,245,136
	<u>\$ 148,295,357</u>	<u>\$ 200,648,585</u>	<u>\$ 22,166,369</u>	<u>\$ 371,110,311</u>

The following table is a rollforward of the statement of financial position amounts for the year ended June 30, 2011 for financial instruments classified by the Academy within Level 3 of the fair value hierarchy defined above:

	Global Allocation Absolute Return Fund	Venture Capital Funds	Equity Hedge Funds	Real Estate and Other	Total Investment
Fair value, July 1, 2010	\$ 8,699,984	\$ 3,968,509	\$ 7,252,740	\$ 2,245,136	\$ 22,166,369
Realized gains (losses)	-	335,251	97,620	(674,508)	(241,637)
Unrealized gains (losses)	1,056,012	672,442	613,390	-	2,341,844
Net purchases, sales, settlements	-	(651,897)	1,000,000	(1,560,492)	(1,212,389)
Transfers in/out	-	-	-	-	-
Fair value, June 30, 2011	<u>\$ 9,755,996</u>	<u>\$ 4,324,305</u>	<u>\$ 8,963,750</u>	<u>\$ 10,136</u>	<u>\$ 23,054,187</u>

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The following table is a rollforward of the statement of financial position amounts for the year ended June 30, 2010 for financial instruments classified by the Academy within Level 3 of the fair value hierarchy defined above:

	Global Allocation Absolute Return Fund	Venture Capital Funds	Equity Hedge Funds	Real Estate and Other	Total Investment
Fair value, July 1, 2009	\$ 7,108,695	\$ 3,338,173	\$ 15,353,220	\$ 2,245,136	\$ 28,045,224
Realized gains (losses)	-	26,141	1,838,791	-	1,864,932
Unrealized gains (losses)	1,591,289	631,638	(350,480)	-	1,872,447
Net purchases, sales, settlements	-	(53,368)	(9,588,791)	-	(9,642,159)
Transfers in/out	-	25,925	-	-	25,925
Fair value, June 30, 2010	\$ 8,699,984	\$ 3,968,509	\$ 7,252,740	\$ 2,245,136	\$ 22,166,369

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying statements of activities. Net unrealized gains (losses) relate to those financial instruments held by the Academy at June 30, 2011 and 2010.

The following table lists these investments by major category for which the Academy uses NAV to determine fair value.

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions in Place at Year End
(a) Equity hedge funds - diversified - Domestic equities	1	\$ 8,963,750	\$ 8,500,000	Quarterly with 60 days notice after three-year lockup effective 12/2008	Not redeemable until 12/2012
(b) Global allocation absolute return funds	1	9,755,996	-	New money must be held for minimum of 2 years. One year's notice is required in order to withdraw funds.	None
(c) Venture capital funds - US	1	4,324,305	399,381	Not redeemable	N/A
	<u>3</u>	<u>\$ 23,044,051</u>	<u>\$ 8,899,381</u>		

- (a). This category includes an investment in a hedge fund that pursues multiple strategies to diversify risks and reduce volatility including U.S. equity value and growth opportunities.
- (b). This category includes a pooled private fund that pursues an investment strategy which is balanced and diversified.
- (c). This category includes a venture capital fund that invests primarily in U.S. private companies. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

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4. Endowments and Net Assets

The Academy's endowment consists of approximately 60 individual donor restricted endowment funds and 21 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Academy has interpreted the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring the preservation 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 Academy classifies as permanently restricted net assets: (a) the original value of 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Academy and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Academy
- (7) The investment policies of the Academy

The Academy had the following endowment activities during the year ended June 30, 2011 delineated by net asset class and donor-restricted versus Board-designated funds.

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net asset composition by type of fund as of June 30, 2011				
Donor-restricted endowment funds	\$ (59,076)	\$ 31,793,201	\$ 62,041,984	\$ 93,776,109
Board-designated endowment funds	73,711,170	-	-	73,711,170
Total endowment funds	<u>\$ 73,652,094</u>	<u>\$ 31,793,201</u>	<u>\$ 62,041,984</u>	<u>\$ 167,487,279</u>

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Changes in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 66,628,530	\$ 20,670,579	\$ 61,289,702	\$ 148,588,811
Investment return				
Investment income	441,532	1,371,359	4,136	1,817,027
Realized and unrealized gains	11,906,727	15,699,015	106,724	27,712,466
Contributions	489,202	-	641,422	1,130,624
Withdrawals/transfers	<u>(5,813,897)</u>	<u>(5,947,752)</u>	<u>-</u>	<u>(11,761,649)</u>
Endowment net assets, end of year	<u>\$ 73,652,094</u>	<u>\$ 31,793,201</u>	<u>\$ 62,041,984</u>	<u>\$ 167,487,279</u>

The Academy had the following endowment activities during the year ended June 30, 2010 delineated by net asset class and donor-restricted versus Board-designated funds.

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net asset composition by type of fund as of June 30, 2010				
Donor-restricted endowment funds	\$ (1,424,075)	\$ 20,670,579	\$ 61,289,702	\$ 80,536,206
Board-designated endowment funds	<u>68,052,605</u>	<u>-</u>	<u>-</u>	<u>68,052,605</u>
Total endowment funds	<u>\$ 66,628,530</u>	<u>\$ 20,670,579</u>	<u>\$ 61,289,702</u>	<u>\$ 148,588,811</u>

Changes in endowment net assets for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 57,329,911	\$ 16,620,833	\$ 57,598,992	\$ 131,549,736
Investment return				
Investment income	1,300,742	1,925,390	-	3,226,132
Realized and unrealized gains	5,597,905	6,116,485	91,772	11,806,162
Contributions	1,088,105	6,455	3,598,938	4,693,498
Withdrawals/transfers	<u>1,311,867</u>	<u>(3,998,584)</u>	<u>-</u>	<u>(2,686,717)</u>
Endowment net assets, end of year	<u>\$ 66,628,530</u>	<u>\$ 20,670,579</u>	<u>\$ 61,289,702</u>	<u>\$ 148,588,811</u>

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Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by California UPMIFA as of June 30, 2011:

Restricted for research support	\$ 23,060,191
Restricted for public program support	19,626,627
Restricted for general operations	<u>19,355,166</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 62,041,984</u>

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by California UPMIFA as of June 30, 2010:

Restricted for research support	\$ 18,009,940
Restricted for public program support	24,571,278
Restricted for general operations	<u>18,708,484</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 61,289,702</u>

Temporarily Restricted Net Assets

The portion of permanent endowment funds not yet appropriated by the Board of Trustees under California UPMIFA as of June 30, 2011:

Restricted for research support	\$ 23,310,831
Restricted for public program support	<u>8,482,370</u>
Total endowment assets classified as temporarily restricted net assets	<u>\$ 31,793,201</u>

The portion of permanent endowment funds not yet appropriated by the Board of Trustees under California UPMIFA as of June 30, 2010:

Restricted for research support	\$ 17,373,651
Restricted for public program support	<u>3,296,928</u>
Total endowment assets classified as temporarily restricted net assets	<u>\$ 20,670,579</u>

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$59,076 and \$1,424,075 as of June 30, 2011 and 2010, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments. The Academy does not authorize any spending from such funds.

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Return Objectives and Risk Parameters

The Academy has adopted endowment investment and spending policies that attempt to provide a balance of the immediate need to sustain current operations and the long-term responsibility to preserve the endowment in order to assure the availability of the funds for future operations of the Academy. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to earn an average annual real total return equal to at least 5%. Actual returns in any given year may vary from this amount.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of the Academy determines the method to be used to appropriate endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 5% of the rolling 12 quarter average market value on a unitized basis one year subsequent to the calculation. The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board of Trustee considered the expected long term rate of return on its endowment.

In fiscal year 2011, the Board of Trustees established a reserve fund of previously received unrestricted large contributions to help smooth out the use of those funds. \$3 million annually from the unrestricted endowment was set aside for the Academy's operating budget. The Board of Trustees subsequently approved the fiscal year 2011 budget, which designated \$3.5 million use of the fund. This fund is listed as the Contributed Investment Fund transfer in the financial statements. It is replenished as additional large unrestricted contributions (mainly bequests) are received.

Temporarily restricted net assets at June 30, 2011 and 2010 are restricted for the following purposes:

	2011	2010
Research	\$ 23,837,935	\$ 17,683,638
Public programs	16,767,946	5,232,623
Aquarium	7,528	14,101
Plant and New Academy project	17,561,802	25,907,422
General operations	51,350	51,350
Investments held in trust	1,539,532	1,270,839
	<u>\$ 59,766,093</u>	<u>\$ 50,159,973</u>

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5. Contributions Receivable

As of June 30, 2011 and 2010, contributions receivable were as follows:

	2011	2010
Contributions receivable before discount	\$ 20,817,869	\$ 27,003,478
Less: Unamortized discount	(645,251)	(1,663,105)
Less: Allowance for doubtful contributions receivable	<u>(403,336)</u>	<u>(506,789)</u>
Net contributions receivable	<u>\$ 19,769,282</u>	<u>\$ 24,833,584</u>
Amounts due		
Within one year	\$ 13,984,553	\$ 15,295,183
Two to five years	<u>6,833,316</u>	<u>11,708,295</u>
	<u>\$ 20,817,869</u>	<u>\$ 27,003,478</u>

Discount rates used for the fiscal years ended June 30, 2011 and 2010 ranged from .375% to 1.5%.

6. Notes Receivable

On August 3, 2005, the Academy entered into a transaction with the Pepperwood Foundation (the "Foundation") for the transfer of the Pepperwood Preserve to the Foundation. The Academy received \$1,000,000 in cash and a note receivable for \$9,000,000 as proceeds from this sale. The note receivable is payable in equal installments over the four year period and bears no interest. The note receivable balances at June 30, 2011 and 2010 were \$0 and \$2,352,021, respectively. The terms of the note were amended in August 2009 to extend the due date of the final payment to August 2010 and bear interest. The note was paid in full in August 2010.

In fiscal year 2011, the Academy revised the Promissory Note for \$675,000 from the Music Concourse Capital Partners (the "MCCP"). The new note has a fixed interest rate of 6%. Interest payments are to be made on December 27 of each year. The note matures on December 1, 2042. The note receivable including accrued interest at June 30, 2011 and 2010 was \$759,448 and \$733,290, respectively.

In fiscal year 2011, the Academy received a Promissory Note for \$150,000 from an employee. The note had a fixed interest rate of 3.53%, payable on October 1 of each year. The note matures on October 1, 2020.

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7. Property and Equipment

At June 30, 2011 and 2010, the major classes of property and equipment are as follows:

	2011	2010
Land	\$ 760,000	\$ 760,000
Building and improvements	364,908,247	364,725,908
Aquarium	28,822,863	28,807,045
Planetarium	4,816,297	4,816,297
Library and rare books	12,044,973	11,881,966
Furniture, equipment and software	19,152,552	18,173,629
Phone and information technology/infrastructure	7,656,585	6,900,327
Exhibit halls	26,032,155	26,032,155
Construction in progress	542,224	154,818
	<u>464,735,896</u>	<u>462,252,145</u>
Less: Accumulated depreciation	<u>(49,102,646)</u>	<u>(33,611,814)</u>
	<u>\$ 415,633,250</u>	<u>\$ 428,640,331</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$15,560,812 and \$14,877,368, respectively.

8. Employees' Retirement Plan

The Academy has a retirement plan offering individual annuity contracts and a variety of other investment vehicles for all regular staff members who are at least age 21 with one year of service and work 20 or more hours per week. Retirement plan expenses for the years ended June 30, 2011 and 2010 were \$778,958 and \$680,748, respectively.

9. Bonds Payable

In July 2008, the Academy issued Series 2008 A-F revenue bonds ("2008 Bonds") through the California Infrastructure and Economic Development Bank in the amount of \$281,450,000. The bond proceeds were used to refund previously issued bonds in full, and to fund construction and improvements of the facilities in Golden Gate Park. The 2008 Bonds will mature on September 1, 2038, however, they are subject to mandatory redemption beginning in 2034. Interest rates on the 2008 Bonds are set daily, and ranged from 0.03% to 2.5% and 0.7% to 2.25% during the years ended June 30, 2011 and 2010, respectively. During the years ended June 30, 2011 and 2010, the Academy incurred bond interest costs and auction related fees of \$1,010,668 and \$879,960, respectively.

The Academy maintains standby credit facilities with commercial banks to provide alternative liquidity to support the repurchase of tendered variable rate bonds in the event they are unable to be remarketed. Financing obtained through standby credit facilities to fund the repurchase of such bonds would bear interest rates and maturities different from those associated with the original bond issues.

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The Academy capitalized \$3,116,756 in associated issuance costs, to be amortized over the 30 year life of the 2008 bonds. The Academy recognized amortization expense of \$105,774 for each of the years ended June 30, 2011 and 2010.

Tax-exempt bond issues which were issued on or after September 1, 1986 are subject to the arbitrage rebate requirements imposed by Section 148(f) (2) of the Internal Revenue Code (the "IRC"). The arbitrage rebate requirements require that any profit or arbitrage be rebated to the U.S. Government. The rebate amount due to the U.S. Government is equal to the excess of the amount earned on all non-purpose investments as defined in the IRC purchased with gross proceeds of the bonds over the amount which would have been earned if such non-purpose investments were invested at a rate equal to the yield on the bonds. The rebate is calculated over a five-year period.

The 2008 Bonds agreements contain certain restrictive covenants, including a covenant requiring the Academy's adjusted Unrestricted Net Asset ("UNA") Ratio to equal at least .70. At June 30, 2011 and 2010, the Academy was in compliance with all such covenants.

On July 7, 2011, the Academy converted the interest rate on the Series 2008 A Bonds, the Series 2008 B Bonds, the Series 2008 C Bonds, the Series 2008 D Bonds and the Series 2008 F Bonds outstanding in the aggregate principal amounts of \$93,360,000, \$60,010,000, \$44,265,000, \$34,425,000 and \$24,595,000, respectively, from the Daily Interest Rate to the Index Interest Rate. The Series 2008 E Bonds continue to bear interest at the Daily Interest Rate.

10. City and County of San Francisco Support of Operations

Section 16.106 of the City Charter states that the City shall provide funds necessary for the maintenance of the Steinhart Aquarium and funds for the maintenance of the Golden Gate Park buildings. During the years ended June 30, 2011 and 2010, the Academy received \$4,051,382 and \$4,099,737, respectively, from the City for this support.

11. Commitments and Contingencies

The Academy is involved in various claims and legal actions arising in the ordinary course of its operations. In the opinion of management, the ultimate disposition of all legal matters will not have a material adverse effect on the Academy's financial position or change in net assets.