

California Academy of Sciences

**Consolidated Financial Statements
June 30, 2017 and 2016**

California Academy of Sciences
Table of Contents
June 30, 2017 and 2016

	Page
Report on Consolidated Financial Statements	
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities.....	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements.....	7



Report of Independent Auditors

To the Board of Trustees
California Academy of Sciences

We have audited the accompanying consolidated financial statements of the California Academy of Sciences (the "Academy"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Academy's preparation and fair presentation of the consolidated 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 Academy'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the California Academy of Sciences as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

November 30, 2017

California Academy of Sciences
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017				2016			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Assets								
Cash and cash equivalents	\$ 3,461,786	\$ -	\$ -	\$ 3,461,786	\$ 4,414,802	\$ -	\$ -	\$ 4,414,802
Investments	4,445,585	255,831,090	165,603,155	425,879,830	4,445,585	260,645,265	142,116,331	407,207,181
Receivables, net								
Research grants	220,281	-	-	220,281	197,669	-	-	197,669
Accrued interest and dividends	-	570,207	66,604	636,811	-	660,228	27,970	688,198
Other receivables, net	1,139,842	-	-	1,139,842	2,835,132	-	-	2,835,132
Contributions, net	8,731,053	2,829,599	4,877,494	16,438,146	11,640,989	3,045,065	6,871,121	21,557,175
Due (to) from other funds	16,203,031	(15,923,256)	(279,775)	-	7,477,330	(10,041,178)	2,563,848	-
Receivable for investments sold	-	14,729,774	1,114,464	15,844,238	-	36,372,291	1,412,449	37,784,740
Inventory	39,030	-	-	39,030	40,961	-	-	40,961
Prepaid expenses and other	1,147,508	194,739	-	1,342,247	903,347	256,926	3,000,000	4,160,273
Notes receivable	-	-	1,490,348	1,490,348	-	-	1,560,069	1,560,069
Investments held in trusts	-	-	5,631,292	5,631,292	-	-	5,401,747	5,401,747
Property and equipment, net	-	345,367,544	-	345,367,544	-	355,973,443	-	355,973,443
Total assets	\$ 35,388,116	\$ 603,599,697	\$ 178,503,582	\$ 817,491,395	\$ 31,955,815	\$ 646,912,040	\$ 162,953,535	\$ 841,821,390

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

California Academy of Sciences
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017				2016			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Liabilities and Net Assets								
Liabilities								
Accounts payable	\$ 1,016,680	\$ -	\$ -	\$ 1,016,680	\$ 869,210	\$ -	\$ 1,104,287	\$ 1,973,497
Accrued expenses and other liabilities	4,173,868	-	939,707	5,113,575	5,247,461	3,259	868,937	6,119,657
Deferred income	4,806,006	-	-	4,806,006	4,768,402	-	-	4,768,402
Payable for investments purchased	-	8,181,043	364,249	8,545,292	-	37,552,367	2,071,016	39,623,383
Other long-term liabilities	126,188	-	-	126,188	143,372	-	-	143,372
Annuities payable	-	-	2,042,157	2,042,157	-	-	2,087,706	2,087,706
Bonds payable, net	-	279,211,119	-	279,211,119	-	279,105,345	-	279,105,345
Total liabilities	<u>10,122,742</u>	<u>287,392,162</u>	<u>3,346,113</u>	<u>300,861,017</u>	<u>11,028,445</u>	<u>316,660,971</u>	<u>6,131,946</u>	<u>333,821,362</u>
Net Assets								
Unrestricted								
Available for operations	7,855,548	243,958,546	7,251,389	259,065,483	2,268,912	249,410,774	7,598,209	259,277,895
Designated for property and equipment	-	66,535,838	-	66,535,838	-	77,112,166	-	77,112,166
Designated for endowment	-	-	59,500,269	59,500,269	-	-	52,334,575	52,334,575
Total unrestricted net assets	<u>7,855,548</u>	<u>310,494,384</u>	<u>66,751,658</u>	<u>385,101,590</u>	<u>2,268,912</u>	<u>326,522,940</u>	<u>59,932,784</u>	<u>388,724,636</u>
Temporarily Restricted	17,409,826	5,713,151	27,730,722	50,853,699	18,658,458	3,728,129	19,183,537	41,570,124
Permanently Restricted	-	-	80,675,089	80,675,089	-	-	77,705,268	77,705,268
Total net assets	<u>25,265,374</u>	<u>316,207,535</u>	<u>175,157,469</u>	<u>516,630,378</u>	<u>20,927,370</u>	<u>330,251,069</u>	<u>156,821,589</u>	<u>508,000,028</u>
Total liabilities and net assets	<u>\$ 35,388,116</u>	<u>\$ 603,599,697</u>	<u>\$ 178,503,582</u>	<u>\$ 817,491,395</u>	<u>\$ 31,955,815</u>	<u>\$ 646,912,040</u>	<u>\$ 162,953,535</u>	<u>\$ 841,821,390</u>

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

**California Academy of Sciences
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016**

	2017				2016			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Change in unrestricted net assets								
Revenue and gains (losses)								
Admissions	\$ 19,886,422	\$ -	\$ -	\$ 19,886,422	\$ 18,631,334	\$ -	\$ -	\$ 18,631,334
Contributions	9,002,766	-	26,158	9,028,924	8,368,469	-	345,059	8,713,528
Memberships	8,821,940	-	-	8,821,940	8,743,533	-	-	8,743,533
Tuition and program fees	2,151,879	-	-	2,151,879	2,187,583	-	-	2,187,583
Auxiliary activities	4,946,854	-	9,631	4,956,485	4,683,339	-	9,779	4,693,118
Government grant revenue	1,084,729	-	-	1,084,729	864,872	-	-	864,872
City and County of San Francisco	6,102,855	-	-	6,102,855	5,308,528	-	-	5,308,528
Net investment income	-	6,278,869	401,790	6,680,659	103	5,379,391	558,346	5,937,840
Net realized and unrealized gains (losses) on investments	(1,034)	(79,967)	9,271,067	9,190,066	14,209	(1,803,513)	(6,119,040)	(7,908,344)
Gain (loss) on sale of property and equipment	-	(85,806)	-	(85,806)	140,000	211,900	-	351,900
Total unrestricted revenue and gains	51,996,411	6,113,096	9,708,646	67,818,153	48,941,970	3,787,778	(5,205,856)	47,523,892
Net assets released from restrictions	10,436,919	200,000	4,581,172	15,218,091	9,848,368	1,225,500	3,001,087	14,074,955
Total unrestricted revenue, gains, and other support	62,433,330	6,313,096	14,289,818	83,036,244	58,790,338	5,013,278	(2,204,769)	61,598,847
Expenses								
Biodiversity Science	11,874,785	5,439,999	-	17,314,784	12,486,151	4,426,395	-	16,912,546
Exhibits & Public Engagement	18,851,601	8,109,796	-	26,961,397	20,082,810	6,598,745	-	26,681,555
Education & Outreach	4,863,320	277,479	-	5,140,799	4,604,177	225,778	-	4,829,955
Aquarium	7,897,089	4,664,917	-	12,562,006	7,641,221	3,832,078	-	11,473,299
Development	4,466,534	62,804	-	4,529,338	4,260,599	51,102	-	4,311,701
Membership	3,183,554	62,804	-	3,246,358	3,082,124	51,102	-	3,133,226
Management & General	13,995,146	3,412,432	-	17,407,578	13,315,292	2,776,614	-	16,091,906
Total operating expenses	65,132,029	22,030,231	-	87,162,260	65,472,374	17,961,814	-	83,434,188
Transfers between funds								
Capital expenditures	-	-	-	-	(337,121)	337,121	-	-
Other transfers	8,285,335	(311,421)	(7,973,914)	-	6,554,151	(1,530,500)	(5,023,651)	-
Reclassification of net assets	-	-	502,970	502,970	-	-	(538,929)	(538,929)
Change in unrestricted net assets	\$ 5,586,636	\$ (16,028,556)	\$ 6,818,874	\$ (3,623,046)	\$ (465,006)	\$ (14,141,915)	\$ (7,767,349)	\$ (22,374,270)

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

**California Academy of Sciences
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016**

	2017				2016			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Change in unrestricted net assets	\$ 5,586,636	\$ (16,028,556)	\$ 6,818,874	\$ (3,623,046)	\$ (465,006)	\$ (14,141,915)	\$ (7,767,349)	\$ (22,374,270)
Change in temporarily restricted net assets								
Contributions	10,737,387	2,035,022	-	12,772,409	11,975,633	1,522,108	-	13,497,741
Other transfers	(1,135,000)	150,000	-	(985,000)	-	-	210,823	210,823
Reclassification of net assets	-	-	(502,970)	(502,970)	-	-	-	-
Pledge write-off	(414,100)	-	-	(414,100)	-	-	-	-
Net investment income	-	-	468,300	468,300	-	-	519,335	519,335
Net realized and unrealized gains (losses) on investments	-	-	12,894,776	12,894,776	-	-	(3,754,061)	(3,754,061)
Change in value of investments held in trust	-	-	268,251	268,251	-	-	(213,294)	(213,294)
Net assets released from restrictions	(10,436,919)	(200,000)	(4,581,172)	(15,218,091)	(9,848,368)	(1,225,500)	(3,001,087)	(14,074,955)
Change in temporarily restricted net assets	(1,248,632)	1,985,022	8,547,185	9,283,575	2,127,265	296,608	(6,238,284)	(3,814,411)
Change in permanently restricted net assets								
Contributions	-	-	1,984,821	1,984,821	-	-	8,982,721	8,982,721
Other transfers	-	-	985,000	985,000	-	-	-	-
Reclassification of net assets	-	-	-	-	-	-	538,930	538,930
Net investment income	-	-	-	-	-	-	815	815
Change in value of investments held in trust	-	-	-	-	-	-	7,387	7,387
Change in permanently restricted net assets	-	-	2,969,821	2,969,821	-	-	9,529,853	9,529,853
Total change in net assets	4,338,004	(14,043,534)	18,335,880	8,630,350	1,662,259	(13,845,307)	(4,475,780)	(16,658,828)
Net assets								
Beginning of year	20,927,370	330,251,069	156,821,589	508,000,028	19,265,111	344,096,376	161,297,369	524,658,856
End of year	\$ 25,265,374	\$ 316,207,535	\$ 175,157,469	\$ 516,630,378	\$ 20,927,370	\$ 330,251,069	\$ 156,821,589	\$ 508,000,028

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

**California Academy of Sciences
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 8,630,350	\$ (16,658,828)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	15,945,676	15,070,934
Amortization of deferred bond financing costs	105,774	105,774
Loss on sale of property and equipment	85,806	104,837
Net realized and unrealized (gains)/losses from investments	(22,084,842)	11,662,405
Changes in investments held in trusts	88,628	(184,513)
Contributions permanently restricted for endowment	(1,984,921)	(8,948,078)
Contributions restricted for capital additions & improvements	(37,658)	(1,156,950)
Donated securities	(1,696,078)	(4,052,417)
Donated property and equipment	(1,999,091)	-
Proceeds from sale of donated securities	1,192,881	3,469,670
Changes in assets and liabilities		
Receivables, net	5,856,877	1,265,369
Inventory	1,931	3,426
Prepaid expenses and other	(181,974)	(52,227)
Accounts payable, accrued expenses and other liabilities	(1,962,899)	2,199,252
Deferred income	37,604	(505,905)
Other long-term liabilities	(17,184)	(151,527)
Net cash provided by operating activities	<u>1,980,880</u>	<u>2,171,222</u>
Cash flows from investing activities		
Purchase of investments	(890,315,110)	(855,855,346)
Proceeds from sale of investments	887,575,595	850,328,002
Purchases of property and equipment	(3,426,492)	(1,700,532)
Net cash used in investing activities	<u>(6,166,007)</u>	<u>(7,227,876)</u>
Cash flows from financing activities		
Contributions restricted for endowment	3,039,825	4,790,764
Proceeds from sale of donated securities restricted for endowment	503,197	582,747
Contributions restricted for capital additions & improvements	37,658	1,156,950
Contributions to investments in trusts	-	940,515
Investment change on annuity trusts	(150,619)	(120,140)
Annuity trust payments to beneficiaries	(197,950)	(168,127)
Net cash provided by financing activities	<u>3,232,111</u>	<u>7,182,709</u>
Net change in cash and cash equivalents	(953,016)	2,126,055
Cash and cash equivalents at beginning of year	4,414,802	2,288,747
Cash and cash equivalents at end of year	<u>\$ 3,461,786</u>	<u>\$ 4,414,802</u>
Supplemental information		
Cash paid for interest	\$ 3,431,497	\$ 2,617,327
Noncash transactions		
Accrued purchases of property and equipment	80,507	-
Donated securities	1,696,078	4,052,417

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

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

1. Organization

The California Academy of Sciences (the “Academy”) is a not-for-profit organization founded in 1853. The website address is www.calacademy.org. The Academy’s annual consolidated financial statements are available on its website.

Overview

The Academy is a renowned scientific and educational institution dedicated to exploring, explaining and sustaining life on Earth. Based in San Francisco’s Golden Gate Park, it is home to a world class aquarium, planetarium, and natural history museum, as well as innovative programs in scientific research and education, all under one living roof.

Major Programs

Biodiversity Science and Sustainability

The Academy’s Institute for Biodiversity Science and Sustainability (the “Institute”) is at the forefront of efforts to understand two of the most important topics of our time: the nature and sustainability of life on Earth. The Institute is home to more than 100 scientists, state-of-the-art facilities, and nearly 46 million scientific specimens from around the world. The Institute also leverages the expertise and efforts of more than 100 international Associates and 400 distinguished Fellows. Through expeditions around the globe, investigations in the lab, and analysis of vast biological datasets, the Institute’s scientists work to understand the evolution and interconnectedness of organisms and ecosystems, the threats they face around the world, and the most effective strategies for sustaining them into the future. Through innovative partnerships and public engagement initiatives, they also guide critical sustainability and conservation decisions worldwide, inspire and mentor the next generation of scientists, and foster responsible stewardship of our planet.

Education and Outreach

The Academy is an innovative leader in efforts to increase scientific and environmental literacy worldwide. The museum is home to 170 science educators and communicators as well as more than 300 highly trained docents who engage people of all ages—both here in California and around the world—in the scientific concepts and issues that will shape our future. Through intensive partnerships with schools and teachers, innovative programs and exhibits for all ages, engaging online learning and digital media offerings, and immersive science visualization productions, Academy educators increase the public’s understanding and appreciation of the natural world and inspire participants to help sustain the rich diversity of life on Earth.

As one of the Bay Area’s leading cultural institutions dedicated to opening its doors to the entire community, the Academy offers a variety of free and reduced admission opportunities and access programs to serve all visitors.

Exhibits and Public Engagement

More than 750 volunteers support the Academy annually, and provide a connection between the diverse Bay Area community and the Academy’s museum, research, and administration. The all-digital Morrison Planetarium uses scientific data to share current discoveries and present immersive shows. The *Earthquake* exhibit delves into the science of our dynamic planet and how to prepare for seismic events. The *Color of Life* exhibit explores the role of color in the natural world with vibrant live animals, specimens, and immersive interactives. *Gems and Minerals Unearthed* showcases specimens from the Academy’s renowned geology collection.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Aquarium

The Steinhart Aquarium is home to 38,000 live animals from around the world and hosts the largest and deepest indoor coral reef in the world. The four-story rainforest has free-flying birds and butterflies and exotic reptiles and amphibians. African Hall is home to a colony of African penguins.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include The Academy and The California Academy of Sciences Endolith Endowment Fund, LP, a limited partnership which serves as a single investor fund for the administrative convenience of the Academy. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The Academy's consolidated financial statements are prepared in accordance with generally accepted accounting principles, or GAAP, in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. The Academy bases its estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. Actual results could differ from the estimates made by management.

Net Asset Classifications

Net assets, 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. These assets may be designated for specific purposes by action of the Board of Trustees for special programs, expenditures for plant and equipment, and/or 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 of grants, pledges, and contributions restricted for science and education.

Permanently Restricted Net Assets

Permanently restricted net assets are net assets that are subject to donor-imposed restrictions which stipulate that only income earned by the assets can be used while the original gift is kept intact permanently by the Academy. Permanently restricted net assets consist of endowment funds.

Consolidated Statements of Activities

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

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

Description of Funds

Endowment Fund

The Academy's endowment fund includes permanently restricted contributions, purpose-restricted contributions and unrestricted contributions which have been internally designated as endowment funds by the Board of Trustees, as well as the realized and unrealized gains and losses associated with these funds.

Plant Fund

The plant fund includes the Academy's fixed assets, net of related debt and accumulated depreciation, restricted and board designated resources contributed specifically for construction projects, exhibit fabrication, plant additions, and the general capital improvement of the Academy's facilities. This fund also includes investment balances, the liability for the Academy's bonds and the related investment income and debt related expenses, respectively.

Operating Fund

The operating fund captures all other activity.

Revenue Recognition

Admissions

Revenue from advance ticket sales is recognized when tickets are used. Revenue for tickets purchased for use on the day of purchase is recognized at the point of sale.

Retail Sales

The Academy sells branded apparel and other merchandise and accessories, and the revenue for these items is recognized at the point of sale.

Memberships and Program Fees

Membership fees are charged to members at the commencement of their membership and are recognized ratably over the life of the membership. Program fees are recognized in the period in which they are earned.

Contributions

Contributed materials and equipment are reflected as contributions in the accompanying consolidated statements of activities 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 in temporarily restricted net assets and net assets released from restriction to reflect the expiration of such restrictions. Contributions received for specific events are recognized upon the occurrence of the event. Contributions for capital improvements are released from restriction when the capital asset is placed in service.

Contributions are reviewed for collectability and reserves for uncollectible amounts are established when needed. There was no allowance against contributions receivable at June 30, 2017 and \$431,582 allowance at June 30, 2016.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

At June 30, 2017 and 2016, 36% and 38% of contributions receivable were due from two and three donors, respectively. During fiscal years 2017 and 2016, 33% and 31% of contribution revenue was received from two and three donors, respectively.

Grants

Revenue related to grants that are considered exchange transactions or a purchase of a service where the results are turned over to the grantor is recognized as the work under the contract is performed. Grants that are considered non-exchange transactions or gifts which further the programs of the Academy are recorded when the Academy receives notification of the grant award or gift. Grants receivable are reviewed by management for collectability and reserves for uncollectible amounts are established when needed. There was no allowance against grants receivable at June 30, 2017 and 2016.

Contributed Assets and Services

The Academy receives contributed services, principally in the form 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 2017 and 2016, contributed assets and services totaled \$2,505,836 and \$187,846, respectively.

Allocation of Expenses

The costs of providing the major programs and other activities have been summarized on a functional basis on the consolidated statements of activities. Expenses that relate to more than one program or support activity include depreciation, marketing, building operations and information technology costs. Depreciation and building operations are allocated based on square footage, marketing costs are allocated based on estimates of time and effort, and the information technology costs are allocated based on a combination of time and costs of specific technology utilized.

In 2017, the Academy assessed its methodology for assigning and allocating expenses on a functional basis. As a result, changes were made to the categorization of certain costs within the functional expense presentation in the consolidated statement of activities. In addition, a new expense classification was added (Membership). The revised methodology reflects management's views of the Academy's operations by function. Functional expenses for fiscal 2016 were revised to conform to the updated presentation. Management believes these changes are not material to the overall financial statements.

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.

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.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Academy's financial assets and liabilities are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis and purchases and sales are recorded on a trade date basis. The carrying amount of cash equivalents, trade accounts receivable, other receivables, trade accounts payable, and other accrued liabilities approximates fair value because of the short maturity of these financial instruments. Contributions receivable are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan.

Methods Used to Value Investments

The Academy uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and gives precedence to observable inputs in determining fair value. An instrument's level within the hierarchy is based on the lowest level of any significant input to the fair value measurement. The following levels were established for each input:

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.

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.

The fair value of all debt and equity securities with a readily determinable fair value is 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 Academy follows the concept of the "practical expedient" under GAAP. The practical expedient is an acceptable method under GAAP to determine the fair value of certain net asset value ("NAV") investments that (a) do not have a readily determinable fair value predicated upon a public market and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company under GAAP. Accordingly, the Academy's alternative investments (principally limited partnership interests in hedge, commingled, and private equity funds), which are not readily marketable, are carried at estimated fair values based on the NAV of the fund as provided by the general partner of each investment fund. 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 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.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Unrealized gains or losses are the difference between the cost and the fair market value of investments at June 30, 2017 and 2016. 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 is included in the consolidated statements of activities. The Academy's investments are primarily held by three financial institutions and the Academy utilizes third party investment managers to manage its investment portfolio.

Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment 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. 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.

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 value based upon the estimated life of each participant using discount rates ranging from 3.25% to 6.10%. The classification of the change in value of the pooled income funds and the investments held in trusts is recorded on the consolidated statements 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. The allocation and approval is made in the year prior to endowment funds transfer. As of June 30, 2017 and 2016, the allocation from the endowment funds for operating support for fiscal years 2018 and 2017 amounted to \$7,251,389 and \$7,598,209, respectively.

Property and Equipment

Building and related building improvements under construction by the Academy in Golden Gate Park are valued at cost less accumulated depreciation. Depreciation on buildings, exhibits, and equipment is calculated on a straight-line basis over the estimated useful lives of those assets, ranging from 3 to 40 years. Upon retirement or sale, the cost and related accumulated depreciation of the assets are removed and any related gain or loss is reflected in the consolidated statements of activities. Maintenance and repairs are charged to expense as incurred (see Note 7 - Property and Equipment, net).

Buildings and related building improvements are reflected in the accompanying consolidated 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. These assets cannot be converted or sold for the benefit of the Academy.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Property and equipment acquired through the use of operating funds are accounted for as transfers to the plant fund. Maintenance and repairs are charged to expense as incurred. Expenditures that substantially increase an asset's useful life are capitalized.

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 specimens held as part of a collection – for education, science 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.

Accounting for Impairment of Long-Lived Assets

In accordance with ASC Subtopic 360-10, "Property, Plant and Equipment," the Academy evaluates the recoverability of property and equipment and other assets, including identifiable intangible assets with definite lives, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds these estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group, based on discounted cash flows. Assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. For fiscal years 2017 and 2016, the Academy did not record impairment charges related to long-lived assets.

Deferred Bond Financing Costs

Deferred bond financing costs, which include bond issuance fees, are amortized over the life of the bonds and are reflected on the consolidated statements of financial position under Bonds Payable, net.

Income Taxes

The Academy is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code ("IRC" or "the Code") as an organization described in IRC Section 501(c)(3) and is not classified as a private foundation under Section 509(a) of the Code. The Academy is also a public-benefit, tax-exempt corporation under the laws of the State of California and is therefore exempt from California income and franchise taxes on operations related to its exempt purpose and any excludable investment income.

Reclassifications

Certain prior year amounts in the consolidated statement of activities have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on total assets, liabilities, or net assets.

Revision

Endowment Fund beginning net assets for the year ended June 30, 2016 were revised to reflect corrections between the unrestricted, temporarily restricted and permanently restricted net asset classifications. These revisions were made to properly reflect the existence or satisfaction of donor restrictions on certain historical contributions. The impact of these corrections on the 2016 financial statements is as follows:

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

	2016- As Reported		2016- Adjustments		2016- Revised	
	Endowment	Total	Endowment	Total	Endowment	Total
Net Assets						
Unrestricted						
Available for operations	\$ 7,598,209	\$ 259,277,895	\$ -	\$ -	\$ 7,598,209	\$ 259,277,895
Designated for property and equipment	-	77,112,166	-	-	-	77,112,166
Designated for endowment	41,080,381	41,080,381	11,254,194	11,254,194	52,334,575	52,334,575
Total unrestricted net assets	48,678,590	377,470,442	11,254,194	11,254,194	59,932,784	388,724,636
Temporarily Restricted	32,107,706	54,494,293	(12,924,169)	(12,924,169)	19,183,537	41,570,124
Permanently Restricted	76,035,293	76,035,293	1,669,975	1,669,975	77,705,268	77,705,268
Total net assets	\$ 156,821,589	\$ 508,000,028	\$ -	\$ -	\$ 156,821,589	\$ 508,000,028

There was no impact of these revisions on total assets, liabilities, net assets, revenues, or expenses, as previously reported. Management believes these revisions are not material to the 2016 financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09") "Revenue from Contracts with Customers." ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. In August 2015, the FASB issued Accounting Standards Update No. 2015-14 ("ASU 2015-14") "Revenue from Contracts with Customers: Deferral of the Effective Date," which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. Subsequent to the issuance of ASU 2014-09, the FASB has issued several ASUs such as ASU No. 2016-08 "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10 "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," and Accounting Standards Update No. 2016-12 "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," among others. These ASUs do not change the core principle of the guidance stated in ASU 2014-09.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2018. The Academy is currently evaluating the effect of adoption to its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01 ("ASU 2016-01") "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. The most significant impact relates to the recognition and measurement of equity investments at fair value in the consolidated statements of activities. The Academy is currently evaluating the effect of adoption to the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02") "Leases (Topic 842)" which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the statements of financial position. This guidance will be effective for fiscal years beginning after December 15, 2019 on a modified retrospective basis and early adoption is permitted. The Academy is currently evaluating the effect of adoption to its consolidated financial statements.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

In March 2016, the FASB issued ASU No. 2016-05 (“ASU 2016-05”) “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force).” ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as an accounting hedge does not require the hedging relationship to be dedesignated as long as all other hedge accounting criteria continue to be met. ASU 2016-05 is effective for annual reporting periods and interim periods within those years beginning after December 15, 2017. The Academy is currently evaluating the effect of adoption to its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14 (“ASU 2016-14”) “Presentation of Financial Statements for Not-for-Profit Entities,” which revises the not-for-profit financial reporting model. ASU 2016-14 streamlines and clarifies net asset reporting, provides flexibility regarding the definition of reported operating subtotals, and imposes new reporting requirements related to expenses. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Academy is currently evaluating the effect of adoption to the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 (“ASU 2016-15”) “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.” The new guidance addresses eight specific cash flow presentation and classification issues in the statement of cash flows to reduce existing diversity in practice. ASU 2016-15 is effective for annual periods beginning after December 15, 2018, although early adoption is permitted. The Academy is currently evaluating the effect of adoption to the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-02 (“ASU 2017-02”) “Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-For Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity.” This ASU issued final guidance that retains the presumption that a not-for-profit entity that is a general partner of a for-profit limited partnership or similar entity controls the limited partnership. The presumption was eliminated by ASU 2015-02 but is now reinstated within the not-for-profit consolidation guidance. Under ASU 2017-02, a limited partner that owns, either directly or indirectly, more than 50 percent of the limited partnership kick-out rights is deemed to have a controlling financial interest and must consolidate the limited partnership. ASU 2017-02 is effective for annual periods beginning after December 15, 2016. The Academy currently consolidates The California Academy of Sciences Endolith Endowment Fund, LP, and the adoption of this ASU will not have an impact on the Academy’s financial statements.

Newly adopted accounting pronouncements

In August 2014, the FASB issued ASU No. 2014-15 (“ASU 2014-15”), “Presentation of Financial Statements – Going Concern (subtopic 205-40).” The new standard provides guidance relative to management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The adoption of this update did not have an impact on the Academy’s consolidated financial statements or related disclosures.

In April 2015, the FASB issued ASU No. 2015-03 (“ASU 2015-03”) “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The ASU was issued in connection with the FASB’s efforts to simplify accounting standards for the presentation of debt issuance costs. The ASU requires companies to present debt issuance costs in the same manner that debt discounts are currently reported, as a direct deduction from the carrying value of that debt liability. The applicability of this requirement does not impact the recognition and measurement

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

guidance for debt issuance costs. ASU 2015-03 became effective for annual reporting periods beginning after December 15, 2015. The Academy has adopted ASU 2015-03 and applied the new guidance on a retrospective basis to each individual reporting period presented on the consolidated financial statements.

3. Investments

At June 30, 2017 and 2016, the fair value of investments is as follows:

	2017			2016		
	Plant	Endowment and Operating	Total	Plant	Endowment and Operating	Total
Cash and cash equivalents	\$ (3,675,087)	\$ 8,210,188	\$ 4,535,101	\$ 3,361,939	\$ 10,722,432	\$ 14,084,371
Government agency and foreign government obligations	14,501,732	4,947,687	19,449,419	19,639,155	1,584,085	21,223,240
Corporate bonds	241,136,585	3,553,297	244,689,882	237,127,099	2,413,305	239,540,404
Domestic and foreign equity securities and mutual funds	3,625,860	58,982,342	62,608,202	112,592	51,960,565	52,073,157
Exchange traded funds	-	5,120,148	5,120,148	-	1,776,180	1,776,180
Equity hedge funds	-	30,678,676	30,678,676	-	29,655,063	29,655,063
Commingled funds	-	46,237,889	46,237,889	-	36,417,098	36,417,098
Private equity funds	-	11,683,377	11,683,377	-	11,398,052	11,398,052
Real estate & other	242,000	635,136	877,136	404,480	635,136	1,039,616
Total investments	<u>\$ 255,831,090</u>	<u>\$ 170,048,740</u>	<u>\$ 425,879,830</u>	<u>\$ 260,645,265</u>	<u>\$ 146,561,916</u>	<u>\$ 407,207,181</u>

The following schedule summarizes the Academy's investment return for the years ended June 30, 2017 and 2016:

	2017			
	Operating	Plant	Endowment	Total
Net investment income	\$ -	\$ 6,278,869	\$ 870,090	\$ 7,148,959
Net realized and unrealized gains (losses) on investment	(1,034)	(79,967)	22,165,843	22,084,842
	<u>\$ (1,034)</u>	<u>\$ 6,198,902</u>	<u>\$ 23,035,933</u>	<u>\$ 29,233,801</u>

	2016			
	Operating	Plant	Endowment	Total
Net investment income	\$ 103	\$ 5,379,391	\$ 1,078,496	\$ 6,457,990
Net realized and unrealized gains (losses) on investment	14,209	(1,803,513)	(9,873,101)	(11,662,405)
	<u>\$ 14,312</u>	<u>\$ 3,575,878</u>	<u>\$ (8,794,605)</u>	<u>\$ (5,204,415)</u>

Commingled Funds

Commingled funds consist of assets from multiple accounts that are pooled together to create economies of scale. The Academy invests in commingled funds with investment strategies including equity investments in emerging markets, equity investments in global developed public markets excluding the United States and global balanced portfolios. The capacity for redemptions are dictated by each fund's respective governing documents; 30 to 365 day redemption notices are required for the Academy's commingled fund investments. The commingled funds held by the Academy allow for daily or monthly redemptions excluding one which only allows annual redemptions.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Equity Hedge Funds

Hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). Liquidity of individual hedge funds varies based on various factors and may include “gates,” “holdbacks” and “side pockets” imposed by the manager of the hedge fund, as well as redemption fees which may also apply. The Academy invests in hedge funds with investment strategies including multi-strategy portfolios and portfolios consisting of a core group of growth stock positions in equity markets. The capacity for redemptions is dictated by each fund’s respective governing documents; 30-90 day redemption notices are required for the Academy’s hedge fund investments. The hedge funds held by the Academy allow for quarterly redemptions excluding two which only allow bi-annual, annual or biennial redemptions.

Endolith Endowment Fund

The California Academy of Sciences Endolith Endowment Fund, LP (the “Partnership”) is a limited partnership which commenced operations on December 22, 2014. The Partnership serves as a single investor fund for the administrative convenience of the Academy (“Limited Partner”). Cambridge Associates Resources, LLC serves as the General Partner. Since December 22, 2014 there has only been one Limited Partner, the Academy. As of June 30, 2017, investments held in the Partnership were \$165,192,910 and total assets were \$166,373,978. The Partnership’s investments are included in the Academy’s consolidated financial statements and accompanying disclosures as the Academy owns 99.9% of the Partnership.

Private Equity Funds

Private equity funds are structured as closed-end, commitment-based investment funds where the Academy, through the Partnership, commits a specified amount of capital upon inception of the fund (i.e. committed capital) which is then drawn down over a specified period of the fund’s life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit commitments by new or existing investors.

The Partnership may invest in secondary funds of funds (collectively, the “Underlying Funds”) that purchase interests in other funds on the secondary market.

As of June 30, 2017 and 2016, the Partnership had unfunded commitments of \$9,620,156 and \$10,669,876, respectively, to underlying private equity funds. These Underlying Funds are expected to be liquidated in 1-11 years unless terminated earlier or extended longer as permitted in the Underlying Funds’ partnership agreements.

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Classification of Investments- Valuation Hierarchy

The following table presents the investments and investments held in trusts carried at fair value on the consolidated statements of financial position as of June 30, 2017 by the ASC 820 valuation hierarchy defined in Note 2.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,535,101	\$ -	\$ -	\$ 4,535,101
Government agency and foreign government obligations	74,856	19,374,563	-	19,449,419
Corporate bonds	-	244,689,882	-	244,689,882
Domestic and foreign equity securities and mutual funds	62,608,202	-	-	62,608,202
Exchange traded funds	5,120,148	-	-	5,120,148
Real estate & other	-	242,000	635,136	877,136
Investments - excluding nonmarketable equity investments at NAV	72,338,307	264,306,445	635,136	337,279,888
Investments held in trusts	5,631,292	-	-	5,631,292
Total assets included in the fair value hierarchy	<u>\$ 77,969,599</u>	<u>\$ 264,306,445</u>	<u>\$ 635,136</u>	342,911,180
Nonmarketable equity investments at NAV				88,599,942
Total investments				<u><u>\$ 431,511,122</u></u>

The following table presents the investments and investments held in trusts carried at fair value on the consolidated statements of financial position as of June 30, 2016 by the ASC 820 valuation hierarchy defined above.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 14,084,371	\$ -	\$ -	\$ 14,084,371
Government agency and foreign government obligations	7,659,811	13,563,429	-	21,223,240
Corporate bonds	-	239,540,404	-	239,540,404
Domestic and foreign equity securities and mutual funds	52,073,157	-	-	52,073,157
Exchange traded funds	1,776,180	-	-	1,776,180
Real estate & other	-	404,480	635,136	1,039,616
Investments - excluding nonmarketable equity investments at NAV	75,593,519	253,508,313	635,136	329,736,968
Investments held in trusts	5,401,747	-	-	5,401,747
Total assets included in the fair value hierarchy	<u>\$ 80,995,266</u>	<u>\$ 253,508,313</u>	<u>\$ 635,136</u>	335,138,715
Nonmarketable equity investments at NAV				77,470,213
Total investments				<u><u>\$ 412,608,928</u></u>

Derivative Instruments

The Academy invests in derivative instruments as a means to manage exposure to certain market risks and primarily through one investment manager. The Academy records all derivative instruments at fair value. Fair value adjustments are recorded and recognized as realized or unrealized gains/(losses) in the accompanying consolidated statements of activities.

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Academy utilizes a variety of derivative instruments and contracts including foreign currency contracts, futures, swaps, swaptions, and options for trading and hedging purposes, with each instrument's primary risk exposure being interest rate, credit, and foreign exchange, as well as a combination of secondary risk factors. Such contracts involve, to varying degrees, risk of loss from the possible inability of counterparties to meet the terms of their contracts.

The Academy enters into forward foreign currency contracts whereby it agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to target and manage exposure to fluctuations in currency markets.

The Academy enters into futures contracts whereby it is obligated to deliver or receive various U.S. government debt instruments at a specified future date. The Academy engages in futures to target and manage exposure to interest rate movements and spreads.

The Academy enters into interest rate swaps whereby it is obligated to either pay or receive a fixed interest rate on a specified notional amount and receive or pay a floating interest rate on the same notional amount. The Academy also utilizes call or put swaptions that bestow the Academy the right but not the obligation to enter into underlying swap positions. The floating rate is generally calculated as a spread amount added to or subtracted from a specified London InterBank Offering Rate ("LIBOR") indexed interest rate. The Academy enters into such contracts to target and manage interest rate exposure. The market value and unrealized gains or losses on interest rate swaps and swaptions are affected by actual movements of, and market expectations of, changes in current market interest rates.

The Academy enters into cross currency swaps whereby it is obligated to pay interest and/or principal on a specified notional loan amount in one currency and receive interest and/or principal on the same notional loan amount in another currency. The Academy enters into such contracts to manage its interest rate and currency exposures. The market value and unrealized gains or losses on cross currency swaps are affected by actual movements of, and market expectations of, changes in current market interest rates and exchange rates.

The Academy enters into credit default swaps to simulate credit positions that are either unavailable or considered to be less attractively priced in the bond market. The Academy uses these swaps to take an active long or short position with respect to the likelihood of an event of default. The reference obligation of the swap can be a single issuer, a "basket" of issuers, or an index. The underlying referenced assets can include corporate debt, sovereign debt and asset backed securities.

The buyer of a credit default swap is generally considered to be "receiving protection" in the event of an adverse credit event affecting the underlying reference obligation, and the seller of a credit default swap is generally considered to be "providing protection" in the event of such credit event. The buyer is generally obligated to pay the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event for corporate or sovereign reference obligations means bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring. For credit default swaps on asset-backed securities, a credit event may be triggered by events such as failure to pay principal, maturity extension, rating downgrade or write-down. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the par value (full notional value) of the reference obligation, though the actual payment may be mitigated by terms of the international Swaps and Derivative Agreement (ISDA), allowing for netting arrangements and collateral. The contingent

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. If the Academy is a buyer and no credit event occurs, the Academy may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the Academy receives a fixed rate of income throughout the term of the contract, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligation.

Credit default swaps are carried at their estimated fair value, as determined in good faith by the Academy. As payment and performance risk increases, the value of a credit default swap increases. Conversely, as payment and performance risk decreases, unrealized gains are recognized for short positions and unrealized losses are recognized for long positions. Any current or future declines in the fair value of the swap may be partially offset by upfront payments received by the Academy as a seller of protection if applicable.

Credit default swaps may involve greater risks than if the Academy had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and counterparty credit risk. The Academy enters into credit default swaps with counterparties meeting defined criteria for financial strength. The list of approved counterparties is reviewed periodically and a potential counterparty is removed if it no longer meets specified criteria.

The Academy enters into options to take long or short positions on U.S. interest rates or currency exchange rates. The Academy enters into such contracts to target and manage its interest rate and currency exposure. The market value and unrealized gains or losses on these options are affected by actual movements of, and market expectations of, changes in current market interest rates and exchange rates.

Foreign Currency Contracts

As of June 30, 2017 and 2016, the Academy had foreign currency forward contracts with notional amounts totaling \$8,793,593 and \$7,313,405, respectively. Such over-the-counter ("OTC") contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in value are recognized as realized or unrealized gains/(losses) until the positions are closed.

Futures Contracts

As of June 30, 2017 and 2016, the Academy had futures contracts with notional amounts totaling \$111,472,031 and \$222,609,297, respectively. Such contracts involve centralized, third-party counterparties. Changes in value are recognized as realized or unrealized gains/(losses) until the positions are closed.

Interest Rate Swaps

As of June 30, 2017 and 2016, the Academy had interest rate swaps in which the Academy was paying a fixed interest rate with notional amounts totaling \$81,455,000 and \$24,355,000, respectively. Such contracts involve centralized, third-party counterparties. As of June 30, 2017, and June 30, 2016, the cost-to-exit via countervailing positions was \$186,992 and \$383,368, respectively. Changes in value are recognized as realized or unrealized gains/(losses) until the positions are closed.

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Credit Default Swaps

As of June 30, 2017 and 2016, the Academy had credit default swaps with notional amounts totaling \$0 and \$800,000, respectively. Such OTC contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in value are recognized as realized or unrealized gains/(losses) until the positions are closed.

Options

As of June 30, 2017 and 2016, the Academy had options with notional amounts totaling \$0 and \$1,000,000, respectively. Such contracts involve centralized, third-party counterparties. Changes in value are recognized as realized or unrealized gains/(losses) until the positions are closed.

Collateral for Financial Instruments

As of June 30, 2017, and June 30, 2016, the Academy had posted collateral for centrally-cleared swaps in the amounts of \$137,295 and \$119,000, respectively.

As of June 30, 2017, and June 30, 2016, the Academy had posted collateral for futures and options in the amounts of \$181,350 and \$366,000, respectively.

Notional Amounts and Fair Values

The following table lists the notional amount and the fair value of the derivatives by contract type. The fair value is included within investments in the consolidated statements of financial position as of June 30, 2017:

	Notional Amount	Fair Value Asset / (Liability)
Derivative type		
Foreign currency contracts	\$ 8,793,593	\$ (8,541)
Futures contracts	111,472,031	-
Interest rate swaps	81,455,000	(186,992)
	<u>\$ 201,720,624</u>	<u>\$ (195,533)</u>

The following table lists the notional amount and the fair value of the derivatives by contract type. The fair value is included within investments in the consolidated statements of financial position as of June 30, 2016:

	Notional Amount	Fair Value Asset / (Liability)
Derivative type		
Foreign currency contracts	\$ 7,313,405	\$ (108,961)
Futures contracts	222,609,297	-
Interest rate swaps	24,355,000	(383,368)
Credit default swaps	800,000	(10,904)
Options contracts	1,000,000	(4,745)
	<u>\$ 256,077,702</u>	<u>\$ (507,978)</u>

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Gains and Losses on Derivatives

The realized or unrealized gains/(losses) on investments in derivatives by contract type included in the consolidated statements of activities for years ended June 30, 2017 and 2016 is as follows:

	2017		2016
Foreign currency contracts	\$ (8,541)	\$	(108,961)
Futures contracts	(3,668,550)		(2,582,836)
Interest rate swaps	(90,240)		(365,641)
Credit default swaps	-		778
Options contracts	-		157
	<u>\$ (3,767,331)</u>	<u>\$</u>	<u>(3,056,503)</u>

Counterparty Risk

The use of derivative instruments introduces the risk that a counterparty won't fulfill a contractual obligation. In order to manage the risk of OTC derivative contracts, including foreign currency contracts, credit default swaps, swaptions, and cross currency swaps, the Academy's investment advisor vets counterparties on a firm-wide basis, utilizes master (such as ISDA) agreements and other collateral controls, and monitors counterparty exposure on a daily basis. The Academy's net counterparty exposure, quantified below, is equal to the excess market value of swaps, swaptions and credit default swaps, and net realized or unrealized gains/(losses) for forward currency, over and above exchanged collateral. Derivatives cleared and traded via exchanges and centralized third-party counterparties include futures contracts, interest rate swaps, and options contracts.

For the years ended June 30, 2017 and 2016, the Academy's net counterparty exposure amounted to \$8,542 and \$119,592, respectively.

4. Endowments and Net Assets

The Academy's endowment consists of approximately 40 donor restricted endowment funds and 20 board-designated endowment funds restricted for a variety of purposes. In addition, the following assets are also 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.

With regards to making decisions about expenditures from donor restricted endowment funds, the Board of Trustees of the Academy has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") such that subject to the intent of our donors, the board of trustees of the Academy may appropriate for expenditure or accumulate so much of an endowment fund as the board determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established. The Board of Trustees of the Academy has also interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of the original gift as of the gift date 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

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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.

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 27,730,722	\$ 80,675,089	\$ 108,405,811
Board-designated endowment funds	66,751,658	-	-	66,751,658
Total endowment funds	<u>\$ 66,751,658</u>	<u>\$ 27,730,722</u>	<u>\$ 80,675,089</u>	<u>\$ 175,157,469</u>

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year, as revised	\$ 59,932,784	\$ 19,183,537	\$ 77,705,268	\$ 156,821,589
Investment return				
Investment income	401,790	468,300	-	870,090
Realized and unrealized gains (losses)	9,271,067	13,163,027	-	22,434,094
Contributions	26,158	-	1,984,821	2,010,979
Withdrawals/transfers	(2,880,141)	(5,084,142)	985,000	(6,979,283)
Endowment net assets at end of year	<u>\$ 66,751,658</u>	<u>\$ 27,730,722</u>	<u>\$ 80,675,089</u>	<u>\$ 175,157,469</u>

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 19,183,537	\$ 77,705,268	\$ 96,888,805
Board-designated endowment funds	59,932,784	-	-	59,932,784
Total endowment funds	<u>\$ 59,932,784</u>	<u>\$ 19,183,537</u>	<u>\$ 77,705,268</u>	<u>\$ 156,821,589</u>

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Changes in endowment net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year, as revised	\$ 67,700,133	\$ 25,421,821	\$ 68,175,415	\$ 161,297,369
Investment return				
Investment income	558,346	519,335	815	1,078,496
Realized and unrealized gains (losses)	(6,119,040)	(3,967,355)	7,387	(10,079,008)
Contributions	354,838	210,823	8,982,721	9,548,382
Withdrawals/transfers	(2,561,493)	(3,001,087)	538,930	(5,023,650)
Endowment net assets at end of year	<u>\$ 59,932,784</u>	<u>\$ 19,183,537</u>	<u>\$ 77,705,268</u>	<u>\$ 156,821,589</u>

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 UPMIFA as of June 30, 2017:

Restricted for research support	\$ 21,198,380
Restricted for public program support	23,192,361
Restricted for general operations	<u>36,284,348</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 80,675,089</u>

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of June 30, 2016:

Restricted for research support	\$ 20,095,528
Restricted for public program support	23,450,366
Restricted for general operations	<u>34,159,374</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 77,705,268</u>

Temporarily Restricted Net Assets

The portion of perpetual endowment funds not yet appropriated by the Board of Trustees under UPMIFA as of June 30, 2017:

Restricted for research support	\$ 17,382,468
Restricted for public program support	6,506,634
Restricted for general operations	<u>3,841,620</u>
Total endowment assets classified as temporarily restricted net assets	<u>\$ 27,730,722</u>

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

The portion of permanent endowment funds not yet appropriated by the Board of Trustees under UPMIFA as of June 30, 2016:

Restricted for research support	\$ 13,957,220
Restricted for public program support	5,219,054
Restricted for division chair support	<u>7,263</u>
Total endowment assets classified as temporarily restricted net assets	<u>\$ 19,183,537</u>

Temporarily restricted net assets at June 30, 2017 and 2016 are restricted for the following purposes:

	2017	2016
Research	\$ 21,107,361	\$ 17,020,471
Public programs	17,203,769	18,143,318
Plant and new academy project	70,493	3,750,012
General operations	9,554,764	7,262
Investments held in trust	<u>2,917,312</u>	<u>2,649,061</u>
	<u>\$ 50,853,699</u>	<u>\$ 41,570,124</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 \$0 and \$677,462 as of June 30, 2017 and 2016, respectively. These deficits resulted from unfavorable market fluctuations.

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 Investment Objectives

The Board of Trustees of the Academy determines the method to be used to appropriate endowment funds for expenditure. The spending allocation is applied at the individual unitized endowment fund level and is calculated at the rate of 5% of the average market value of each fund on a unitized basis. The average market value is calculated based on a rolling 3-year average of the market value of each fund on a unitized basis. 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 Trustees considered the expected long term rate of return on its endowment.

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

5. Contributions Receivable

As of June 30, 2017 and 2016, contributions receivable were as follows:

	2017	2016
Contributions receivable before discount	\$ 16,643,381	\$ 22,223,556
Less: Unamortized discount	(205,235)	(234,799)
Less: Allowance for doubtful contributions receivable	-	(431,582)
Contributions, net	<u>\$ 16,438,146</u>	<u>\$ 21,557,175</u>
Amounts due		
Within one year	\$ 8,046,983	\$ 11,663,343
Two to five years	8,596,398	10,560,213
More than five years	-	-
Contributions receivable before discount and allowance	<u>\$ 16,643,381</u>	<u>\$ 22,223,556</u>

Discount rates used to calculate the present value of contributions receivable for the fiscal years ended June 30, 2017 and 2016 range from 0.11% to 5.12%.

6. Notes Receivable

The Academy holds a Promissory Note, dated December 30, 2010, for \$675,000 from the Music Concourse Community Partnership ("MCCP") related to the construction of a parking facility in Golden Gate Park. The 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, 2040. The note receivable including accrued interest at June 30, 2017 and 2016 was \$1,077,292 and \$1,016,313, respectively.

The Academy holds Promissory Notes from five employees for housing support. The Academy extends notes to attract and retain talent for scientific research. The notes have fixed interest rates ranging from 2.22% to 3.22%, payable monthly or on their respective anniversary dates of each year, and are approved by the Board of Trustees. The notes receivable including accrued interest at June 30, 2017 and 2016 were \$413,056 and \$543,756, respectively.

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

7. Property and Equipment, net

At June 30, 2017 and 2016, the major classes of property and equipment are as follows:

	2017	2016
Land	\$ 710,000	\$ 710,000
Building and improvements	370,903,944	368,442,730
Aquarium	33,349,214	32,999,161
Planetarium	6,426,902	4,862,119
Library and rare books	12,526,087	12,516,087
Furniture, equipment and software	26,590,172	27,000,696
Phone and information technology/infrastructure	6,880,001	6,868,166
Exhibit halls	26,249,771	26,137,151
Construction in progress	1,441,158	612,030
	<u>485,077,249</u>	<u>480,148,140</u>
Less: Accumulated depreciation	<u>(139,709,705)</u>	<u>(124,174,697)</u>
	<u><u>\$ 345,367,544</u></u>	<u><u>\$ 355,973,443</u></u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$15,945,676 and \$15,070,934, respectively.

8. Employees' Retirement Plan

The Academy maintains defined-contribution plans in the U.S., subject to Section 403(b) of the Internal Revenue Code. For the year ended June 30, 2017, eligible employees could elect to contribute, on a tax-deferred basis, any percentage of their compensation to a maximum of \$18,000. Eligible employees over 50 years of age could also contribute an additional \$6,000 on a tax-deferred basis. As of June 30, 2017, the Academy matches 3%, 4% or 5% of employee contributions up to a maximum company contribution of 5% of base salary. For the years ended June 30, 2017 and 2016, the Academy made matching payments of \$1,207,002, and \$1,140,884, respectively.

9. Bonds Payable, net

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.

On February 1, 2017 the bond direct purchase agreement between the Academy and J.P. Morgan Chase bank was extended for a five year term for the Series A bonds. Concurrently, the existing letter of credit with Northern Trust Bank for \$24,595,000 supporting the Series E bonds was terminated and a direct purchase agreement between the Academy and J.P. Morgan Chase bank was enacted governing the Series E bonds for a period of five years. Both transactions represent a nominal change in terms.

In conjunction with the bond direct purchase agreement executed on February 1, 2017, the interest rates on the 2008 Series E Bonds converted from the Daily Interest Rate to the Index Interest Rate

California Academy of Sciences

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

subject to monthly reset. Daily interest rates ranged from .93% to 1.27% during the year ended June 30, 2016. The remaining series were converted to the Index Interest Rate on December 2, 2013. Interest rates on the remaining Series are set monthly and ranged from .93% to 1.11% during the year ended June 30, 2016. For all Series, monthly interest rates ranged from 1.12% to 1.52% during the year ended June 30, 2017.

During the years ended June 30, 2017 and 2016, the Academy incurred bond interest costs and remarketing fees of \$3,429,169 and \$2,617,326, respectively. The aggregate fair value of bonds payable approximates carrying value as the interest rates on the Academy's bonds reset periodically. The fair value of bonds payable is classified as a Level 2 measurement within the Academy's fair value hierarchy.

The Academy amortizes debt issuance costs related to the 2008 bonds over a 30 year life. Debt issuance costs were \$2,238,881 and \$2,344,655 as of June 30, 2017 and 2016, respectively. The Academy recognized amortization expense of \$105,774 for each of the years ended June 30, 2017 and 2016.

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. As of June 30, 2017 the Academy is in compliance with this requirement.

The 2008 Bond agreements contain certain restrictive covenants, including a covenant requiring the Academy's adjusted Unrestricted Net Asset ("UNA") Ratio to equal at least 70% of outstanding debt. At June 30, 2017 and 2016, the Academy was in compliance with all such covenants.

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 Academy and funds for the maintenance of its Golden Gate Park building. During the fiscal years ended June 30, 2017 and 2016, the Academy received \$6,102,855 and \$5,308,528, respectively, from the City for this support.

California Academy of Sciences
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

11. Commitments and Contingencies

Legal Matters

The Academy is subject to certain legal proceedings, claims, investigations and administrative proceedings in the ordinary course of its business. The Academy records a provision for a liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. In the opinion of management, the outcome of pending litigation is not expected to have a material effect on the Academy's financial position.

12. Subsequent Events

The Academy has evaluated the consolidated financial statements for subsequent events through November 30, 2017, which is the date of issuance of this report. Based on the evaluation no adjustments were required in the accompanying consolidated financial statements.