California Academy of Sciences

Consolidated Financial Statements
June 30, 2018 and 2017

California Academy of Sciences
Table of Contents
June 30, 2018 and 2017

Page

Report on Consolidated Financial Statements

Consolidated Financial Statements

Independent Auditor's Report

Audit Committee
California Academy of Sciences

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of California Academy of Sciences (the Academy) and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of California Academy of Sciences Endolith Endowment Fund, LP (the Partnership), whose statements reflect total assets constituting 22 percent of consolidated total assets at June 30, 2018, and total revenues, gains and support constituting 16 percent of consolidated total revenues, gains and support for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Partnership, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy and its subsidiary as of June 30, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements of the Academy, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated November 30, 2017, expressed an unmodified opinion on those statements.

RSM US LLP

San Francisco, California
November 9, 2018

California Academy of Sciences
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018				2017			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Assets								
Cash and cash equivalents	$ 3,148,202	$ -	$ -	$ 3,148,202	$ 3,461,786	$ -	$ -	$ 3,461,786
Restricted cash	-	-	1,063,000	1,063,000	-	-	-	-
Investments	4,520,904	265,812,305	175,161,599	445,494,808	4,445,585	255,831,090	165,603,155	425,879,830
Receivables, net								
Research grants	128,152	-	-	128,152	220,281	-	-	220,281
Receivable for investments sold	-	1,805,137	5,510,539	7,315,676	-	14,729,774	1,114,464	15,844,238
Accrued interest and dividends	-	766,260	93,809	860,069	-	570,207	66,604	636,811
Other receivables, net	3,421,664	-	-	3,421,664	1,139,842	-	-	1,139,842
Due (to) from other funds	22,602,923	(24,458,577)	1,855,654	-	16,203,031	(15,923,256)	(279,775)	-
Contributions, net	8,798,210	1,178,861	5,200,308	15,177,379	8,731,053	2,829,599	4,877,494	16,438,146
Inventory	37,185	-	-	37,185	39,030	-	-	39,030
Prepaid expenses and other	1,105,690	82,187	-	1,187,877	1,147,508	194,739	-	1,342,247
Notes receivable, net	-	-	1,634,640	1,634,640	-	-	1,490,348	1,490,348
Investments held in trusts	-	-	5,864,359	5,864,359	-	-	5,631,292	5,631,292
Property and equipment, net	-	335,207,186	-	335,207,186	-	345,367,544	-	345,367,544
Total assets	$ 43,762,930	$ 580,393,359	$ 196,383,908	$ 820,540,197	$ 35,388,116	$ 603,599,697	$ 178,503,582	$ 817,491,395

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

California Academy of Sciences
Consolidated Statements of Financial Position (continued)
June 30, 2018 and 2017

	2018				2017			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Liabilities and net assets								
Liabilities								
Accounts payable	$ 655,867	$ -	$ -	$ 655,867	$ 1,016,680	$ -	$ -	$ 1,016,680
Accrued expenses and other liabilities	6,186,754	-	933,222	7,119,976	4,173,868	-	939,707	5,113,575
Deferred revenue	6,760,179	-	-	6,760,179	4,806,006	-	-	4,806,006
Payable for investments purchased	-	2,115,768	282,219	2,397,987	-	8,181,043	364,249	8,545,292
Other long-term liabilities	183,819	-	-	183,819	126,188	-	-	126,188
Annuities payable	-	-	2,118,888	2,118,888	-	-	2,042,157	2,042,157
Bonds payable, net	-	279,207,893	-	279,207,893	-	279,211,119	-	279,211,119
Total liabilities	13,786,619	281,323,661	3,334,329	298,444,609	10,122,742	287,392,162	3,346,113	300,861,017
Net assets								
Unrestricted	14,160,234	295,763,761	70,067,043	379,991,038	7,855,548	310,494,384	66,751,658	385,101,590
Temporarily restricted	15,816,077	3,305,937	31,038,145	50,160,159	17,409,826	5,713,151	27,730,722	50,853,699
Permanently restricted	-	-	91,944,391	91,944,391	-	-	80,675,089	80,675,089
Total net assets	29,976,311	299,069,698	193,049,579	522,095,588	25,265,374	316,207,535	175,157,469	516,630,378
Total liabilities and net assets	$ 43,762,930	$ 580,393,359	$ 196,383,908	$ 820,540,197	$ 35,388,116	$ 603,599,697	$ 178,503,582	$ 817,491,395

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

California Academy of Sciences
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Change in unrestricted net assets								
Revenue and gains (losses)								
Admissions	$ 19,254,825	$ -	$ -	$ 19,254,825	$ 19,886,422	$ -	$ -	$ 19,886,422
Contributions	6,242,767	-	-	6,242,767	9,002,766	-	26,158	9,028,924
Memberships	7,694,402	-	-	7,694,402	8,821,940	-	-	8,821,940
Tuition and program fees	2,311,572	-	-	2,311,572	2,151,879	-	-	2,151,879
Auxiliary activities	5,580,201	-	9,022	5,589,223	4,946,854	-	9,631	4,956,485
Government grant revenue	948,774	-	-	948,774	1,084,729	-	-	1,084,729
City and County of San Francisco	7,022,327	-	-	7,022,327	6,102,855	-	-	6,102,855
Net investment income	-	7,164,859	395,648	7,560,507	-	6,278,869	401,790	6,680,659
Net realized and unrealized gains (losses) on investments	(1,719)	(295,974)	5,557,339	5,259,646	(1,034)	(79,967)	9,271,067	9,190,066
Gain (loss) on sale of property and equipment	-	-	-	-	-	(85,806)	-	(85,806)
Total revenue and gains (losses)	49,053,149	6,868,885	5,962,009	61,884,043	51,996,411	6,113,096	9,708,646	67,818,153
Net assets released from restrictions	13,912,108	2,489,447	5,275,693	21,677,248	10,436,919	200,000	4,581,172	15,218,091
Total unrestricted revenue, gains (losses), and other support	62,965,257	9,358,332	11,237,702	83,561,291	62,433,330	6,313,096	14,289,818	83,036,244
Expenses								
Biodiversity science and sustainability	10,980,145	5,300,514	-	16,280,659	11,874,785	5,439,999	-	17,314,784
Education and outreach	4,954,876	548,302	-	5,503,178	4,863,320	277,479	-	5,140,799
Exhibits and public engagement	18,661,152	8,976,444	-	27,637,596	18,851,601	8,109,796	-	26,961,397
Aquarium	7,988,098	4,912,716	-	12,900,814	7,897,089	4,664,917	-	12,562,006
Development	4,449,608	197,135	-	4,646,743	4,466,534	62,804	-	4,529,338
Membership	3,066,143	28,930	-	3,095,073	3,183,554	62,804	-	3,246,358
Management and general	14,995,226	4,236,335	-	19,231,561	13,995,146	3,412,432	-	17,407,578
Total operating expenses	65,095,248	24,200,376	-	89,295,624	65,132,029	22,030,231	-	87,162,260
Transfers between funds								
Other transfers	8,434,677	111,421	(7,922,317)	623,781	8,285,335	(311,421)	(7,973,914)	-
Reclassification of net assets	-	-	-	-	-	-	502,970	502,970
Change in unrestricted net assets	$ 6,304,686	$ (14,730,623)	$ 3,315,385	$ (5,110,552)	$ 5,586,636	$ (16,028,556)	$ 6,818,874	$ (3,623,046)

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

California Academy of Sciences
Consolidated Statements of Activities (continued)
Years Ended June 30, 2018 and 2017

	2018				2017			
	Operating	Plant	Endowment	Total	Operating	Plant	Endowment	Total
Change in unrestricted net assets	$ 6,304,686	$ (14,730,623)	$ 3,315,385	$ (5,110,552)	$ 5,586,636	$ (16,028,556)	$ 6,818,874	$ (3,623,046)
Change in temporarily restricted net assets								
Contributions	12,709,262	182,233	-	12,891,495	10,737,387	2,035,022	-	12,772,409
Other transfers	-	(100,000)	-	(100,000)	(1,135,000)	150,000	-	(985,000)
Reclassification of net assets	-	-	-	-	-	-	(502,970)	(502,970)
Pledge write-off	(390,903)	-	-	(390,903)	(414,100)	-	-	(414,100)
Net investment income	-	-	515,610	515,610	-	-	468,300	468,300
Net realized and unrealized gains (losses) on investments	-	-	7,905,169	7,905,169	-	-	12,894,776	12,894,776
Change in value of investments held in trust	-	-	162,337	162,337	-	-	268,251	268,251
Net assets released from restrictions	(13,912,108)	(2,489,447)	(5,275,693)	(21,677,248)	(10,436,919)	(200,000)	(4,581,172)	(15,218,091)
Change in temporarily restricted net assets	(1,593,749)	(2,407,214)	3,307,423	(693,540)	(1,248,632)	1,985,022	8,547,185	9,283,575
Change in permanently restricted net assets								
Contributions	-	-	11,793,083	11,793,083	-	-	1,984,821	1,984,821
Other transfers	-	-	(523,781)	(523,781)	-	-	985,000	985,000
Change in permanently restricted net assets	-	-	11,269,302	11,269,302	-	-	2,969,821	2,969,821
Total change in net assets	4,710,937	(17,137,837)	17,892,110	5,465,210	4,338,004	(14,043,534)	18,335,880	8,630,350
Net assets								
Beginning 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
End of year	$ 29,976,311	$ 299,069,698	$ 193,049,579	$ 522,095,588	$ 25,265,374	$ 316,207,535	$ 175,157,469	$ 516,630,378

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 5,465,210	$ 8,630,350
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating activities		
Depreciation and amortization	16,844,244	15,945,676
Amortization of deferred bond financing costs	105,774	105,774
(Gain)/Loss on sale of property and equipment	-	85,806
Net realized and unrealized (gains)/losses on investments	(13,164,952)	(22,084,842)
Changes in investments held in trusts	(211,676)	88,628
Contributions permanently restricted for endowment	(11,793,083)	(1,984,921)
Contributions restricted for capital additions and improvements	(1,600,000)	(37,658)
Donated securities	(1,028,027)	(1,696,078)
Donated property and equipment	(232,970)	(1,999,091)
Proceeds from sale of donated securities	963,127	1,192,881
Changes in assets and liabilities		
Receivables, net	(1,361,518)	5,856,877
Inventory	1,845	1,931
Prepaid expenses and other	154,370	(181,974)
Accounts payable, accrued expenses, and other liabilities	1,209,317	(1,962,899)
Deferred revenue	1,954,173	37,604
Other long-term liabilities	57,631	(17,184)
Net cash provided by (used in) operating activities	(2,636,535)	1,980,880
Cash flows from investing activities		
Purchase of investments	(1,378,265,317)	(890,315,110)
Proceeds from sale of investments	1,374,330,375	887,575,595
Purchases of property and equipment	(6,123,644)	(3,426,492)
Net cash used in investing activities	(10,058,586)	(6,166,007)
Cash flows from financing activities		
Contributions restricted for endowment	11,856,542	3,039,825
Proceeds from sale of donated securities restricted for endowment	64,900	503,197
Contributions restricted for capital additions and improvements	1,600,000	37,658
Investment change on annuity trusts	127,063	(150,619)
Annuity trust payments to beneficiaries	(203,968)	(197,950)
Net cash provided by financing activities	13,444,537	3,232,111
Net change in cash, cash equivalents, and restricted cash	749,416	(953,016)
Cash, cash equivalents, and restricted cash at beginning of year	3,461,786	4,414,802
Cash, cash equivalents, and restricted cash at end of year	$ 4,211,202	$ 3,461,786
Supplemental information		
Cash paid for interest	$ 5,203,204	$ 3,431,497
Noncash transactions		
Accrued purchases of property and equipment	199,155	80,507
Donated securities	1,028,027	1,696,078

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

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 450 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 158 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 800 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 (open through spring 2018) delves into the science of our dynamic planet and how to prepare for seismic events. The new *Giants of Land and Sea* exhibit celebrates Northern California's iconic natural phenomena like redwoods, marine mammals, and fog. 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.

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
The Academy's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 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 and contributions restricted for science and education. Upon satisfaction of such stipulations, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

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 for which the donated assets are invested to provide a permanent source of income for the Academy. Permanently restricted contributions are managed according to the Uniform

Prudent Management of Institutional Funds Act (UPMIFA) of the state of California. If the donor restricts the allowed use of the investment income earned by the endowment, the Academy classifies the income as temporarily restricted until amounts are appropriated for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by UPMIFA.

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., when the donor-restricted purposes have been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

Description of Funds

Operating Fund

The operating fund includes funds with neither donor-imposed restrictions nor board-imposed designations. These funds have been designated to support the general operations of the Academy. The operating fund also includes funds upon which donors have placed purpose or time-related spending restrictions and funds related to government grants which support the Academy's programs.

Plant Fund

The plant fund includes the Academy's fixed assets, net of related debt and accumulated depreciation and amortization, restricted and board-designated resources contributed specifically for construction projects, exhibit fabrication, plant additions, expenses related to the operations of the building, and the general capital improvement of the Academy's facilities. This fund also includes investment balances which will be used to pay down the bonds as they become due, the liability for the Academy's bonds, and the related investment income and debt expenses.

Endowment Fund

The Academy's endowment fund includes permanently restricted contributions which have been designated by the donor as endowment funds and unrestricted contributions which have been internally designated by the Board of Trustees as endowment funds. This fund also includes the realized and unrealized gains and losses associated with these endowments. Based on donor stipulations, the earnings on certain permanently restricted endowments must be used for specific purposes. Earnings from endowments without such purpose restrictions are used to support general operations of the Academy.

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.

Contributions

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 2018 and 2017, contributed assets and services totaled $418,011 and $2,505,836, respectively. A substantial number of volunteers have contributed significant amount of time to the Academy; however, no amounts have been reflected in the accompanying consolidated financial statements for such contributed services as these services do not meet the criteria for recognition as contributions under U.S. GAAP.

Contributions received which relate to the Academy's core activities are classified as unrestricted. Gifts of cash and other assets are reported as restricted support if received with donor stipulations that limit the use, either for time and/or purpose, of the donated assets. 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.

The Academy receives corporate sponsorships where revenue is recognized as both an exchange transaction and a contribution. In such instances, the Academy determines the fair value of the benefit provided to the sponsor and records that portion as earned revenue and the remaining portion as a contribution.

Contributions are recognized at fair value as revenue when received or unconditionally promised. Conditional promises to give are not recognized as revenue until the donor conditions are substantially met. A discount based on management's estimates is added to the present value of contributions which represents an additional factor in the fair value measurements. The discounts on those contributions are computed using an interest rate for the year in which the promise was received and considers market and credit risk as applicable. Amortization of the discount is included in contribution revenue.

Contributions are reviewed for collectability and reserves for uncollectible amounts are established when needed. There was no allowance against contributions receivable at June 30, 2018 or 2017.

At June 30, 2018 and 2017, 39% and 36% of contributions receivable were due from three and two donors, respectively. During fiscal years 2018 and 2017, 33% of contribution revenue was received from one and two donors, respectively.

Memberships and Tuition 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. Tuition and program fees are recognized in the period in which they are earned.

Auxiliary Activities
Auxiliary activities primarily include revenue from special events and commissions and occupancy fees related to the on-site retail store and restaurant. These revenues are recognized in the period when the event takes place or in the period the commissions/fees are earned.

Government Grant Revenue
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, or, if conditions for performance are imposed, revenue is recognized when conditions have been met. 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, 2018 or 2017.

City and County of San Francisco Funding
The Academy receives funding from the City and County of San Francisco in support of operations related to the maintenance of the building. This revenue is recognized in the same period in which the Academy has incurred eligible operating expenses.

Allocation of Expenses
The costs of providing the major programs and other activities have been summarized on the consolidated statements of activities by the following functions: biodiversity science and sustainability, education and outreach, exhibits and public engagement, aquarium, development, membership, and management and general. Expenses that relate to more than one program or support activity include depreciation and amortization, payroll, marketing, building operations, and information technology costs. Depreciation and amortization 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.

Cash and Cash Equivalents
Cash and cash equivalents include all unrestricted 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.

Restricted Cash
Restricted cash consists of cash balances that have donor-imposed permanent restrictions and are due to be transferred to the endowment investment account within the next year. Restricted cash is held on deposit at various institutions. At times, cash deposits may exceed federally insured limits.

Investments and Fair Value Measurements
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.

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, 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.

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 U.S. GAAP. The practical expedient is an acceptable method under U.S. 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 U.S. 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.

Unrealized gains or losses are the difference between the cost and the fair market value of investments at June 30, 2018 and 2017. 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, 2018 and 2017, the allocation from the endowment funds for operating support for fiscal years 2019 and 2018 amounted to $8,048,035 and $7,251,389, respectively.

Property and Equipment
Building and related building improvements are valued at cost less accumulated depreciation and amortization. Depreciation and amortization 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 and amortization 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.

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 U.S. GAAP, 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 2018 and 2017, 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. Financing costs are amortized using the straight-line method, which approximates the effective interest method, and are included in the functional expense allocation in the plant fund in the consolidated statements of activities.

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.

The Academy files U.S. exempt organization returns and, as applicable, unrelated business income tax returns in federal and state jurisdictions. The Academy's tax returns for the years ended June 30, 2014, 2015, 2016, and 2017 are open for potential IRS/state tax board examination. The Partnership files U.S. partnership tax returns and, as applicable, income tax returns in state jurisdictions. The Partnership's tax returns for the years ended December 31, 2014, 2015, 2016, and 2017 are open for potential IRS/state tax board examination. To date, neither the Academy nor the Partnership have been notified by taxing authorities of any pending examination.

The Academy follows the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) 740-10, "Accounting for Uncertainty in Income Taxes". Management evaluated the Academy's tax positions and concluded that there were no material uncertainties in income taxes as of June 30, 2018 or 2017.

Recently Issued Accounting Pronouncements
In May 2014, the 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 ASU 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 ASU 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 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 the consolidated financial statements.

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 the 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. 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 June 2018, the FASB issued ASU No. 2018-08 ("ASU 2018-08") "*Not-for-Profit Entities – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*." ASU 2018-08 is effective for annual periods beginning after December 15, 2019, although early adoption is permitted. The Academy is currently evaluating the effect of adoption to the consolidated financial statements.

Newly Adopted Accounting Pronouncements
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 Academy has elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and

as such, these disclosures are not included herein. The Academy is currently evaluating the impact of adoption of the remainder of this standard on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 (“ASU 2016-08”) “*Statement of Cash Flows (Topic 230): Restricted Cash*”. The Academy has elected to early adopt this pronouncement effective July 1, 2017, using the required retrospective transition method to each period presented. The new guidance requires the statements of cash flows to reconcile the changes in the total of cash, cash equivalents, and restricted cash. As a result, transfers between cash, cash equivalents, restricted cash, and restricted cash equivalents will no longer be presented in the statements of cash flows.

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% of the limited partnership kick-out rights is deemed to have a controlling financial interest and must consolidate the limited partnership. ASU 2017-02 became effective for annual periods beginning after December 15, 2016. The Academy consolidates the California Academy of Sciences Endolith Endowment Fund, LP, and the adoption of this ASU did not have an impact on the Academy’s consolidated financial statements.

3. Investments

At June 30, 2018 and 2017, the fair value of investments is as follows:

	2018			2017		
	Plant	Endowment and Operating	Total	Plant	Endowment and Operating	Total
Cash and cash equivalents	$ 3,320,322	$ 4,975,398	$ 8,295,720	$ (3,675,087)	$ 8,210,188	$ 4,535,101
Government agency and foreign government obligations	13,328,892	6,615,432	19,944,324	14,501,732	4,947,687	19,449,419
Corporate bonds	243,883,562	4,462,262	248,345,824	241,136,585	3,553,297	244,689,882
Domestic and foreign equity securities and mutual funds	5,072,568	66,103,030	71,175,598	3,625,860	58,982,342	62,608,202
Exchange traded funds	-	4,744,395	4,744,395	-	5,120,148	5,120,148
Equity hedge funds	-	24,790,396	24,790,396	-	30,678,676	30,678,676
Commingled funds	-	52,079,244	52,079,244	-	46,237,889	46,237,889
Private equity funds	-	15,187,028	15,187,028	-	11,683,377	11,683,377
Real estate and other	206,961	725,318	932,279	242,000	635,136	877,136
Total investments	$ 265,812,305	$ 179,682,503	$ 445,494,808	$ 255,831,090	$ 170,048,740	$ 425,879,830

The following schedule summarizes the Academy's investment return for the years ended June 30, 2018 and 2017:

	2018			
	Operating	Plant	Endowment	Total
Net investment income	$ -	$ 7,164,859	$ 911,258	$ 8,076,117
Net realized and unrealized gains (losses) on investment	(1,719)	(295,974)	13,462,508	13,164,815
	$ (1,719)	$ 6,868,885	$ 14,373,766	$ 21,240,932

	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
	$ (1,034)	$ 6,198,902	$ 23,035,933	$ 29,233,801

Additional information related to alternative investments is as follows:

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; 15- to 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, 2018 and 2017, investments held in the Partnership were $175,791,931 and $165,192,910, and total assets were $181,396,279 and $166,373,978, respectively. 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.

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.

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, 2018 and 2017, the Partnership had unfunded commitments of $11,258,831 and $9,620,156, respectively, to underlying private equity funds. These Underlying Funds are expected to be liquidated in 1 to 7 years unless terminated earlier or extended longer as permitted in the Underlying Funds' partnership agreements.

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, 2018, by the ASC 820 valuation hierarchy defined in Note 2.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,295,720	$ -	$ -	$ 8,295,720
Government agency and foreign government obligations	74,714	19,869,610	-	19,944,324
Corporate bonds	-	248,345,824	-	248,345,824
Domestic and foreign equity securities and mutual funds	71,175,598	-	-	71,175,598
Exchange traded funds	4,744,395	-	-	4,744,395
Real estate and other	-	206,961	725,318	932,279
Investments - excluding nonmarketable equity investments at NAV	84,290,427	268,422,395	725,318	353,438,140
Investments held in trusts	5,864,359	-	-	5,864,359
Total assets included in the fair value hierarchy	$ 90,154,786	$ 268,422,395	$ 725,318	359,302,499
Nonmarketable equity investments at NAV				92,056,668
Total investments and investments held in trusts				$ 451,359,167

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 and 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	$ 77,969,599	$ 264,306,445	$ 635,136	342,911,180
Nonmarketable equity investments at NAV				88,599,942
Total investments and investments held in trusts				$ 431,511,122

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.

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 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, 2018 and 2017, the Academy had foreign currency forward contracts with notional amounts totaling $2,387,719 and $8,793,593, 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, 2018 and 2017, the Academy had futures contracts with notional amounts totaling $174,151,094 and $111,472,031, 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, 2018, the Academy did not have interest rate swaps. As of June 30, 2017, the Academy had interest rate swaps in which the Academy was paying a fixed interest rate with notional amounts totaling $81,455,000. Such contracts involve centralized, third-party counterparties. As of June 30, 2017, the cost-to-exit via countervailing positions was $186,992. Changes in value are recognized as realized or unrealized gains/(losses) until the positions are closed.

Credit Default Swaps
As of June 30, 2018, the Academy had credit default swaps with notional amounts totaling $600,000. As of June 30, 2017, the Academy did not have credit default swaps. 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.

Swaptions
As of June 30, 2018, the Academy had swaptions with notional amounts totaling $4,500,000. As of June 30, 2017, the Academy did not have swaptions. 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.

Collateral for Financial Instruments
As of June 30, 2018 and 2017, the Academy had posted collateral for centrally-cleared swaps in the amounts of $22,000 and $137,295, respectively.

As of June 30, 2018 and 2017, the Academy had posted collateral for futures and options in the amounts of $288,155 and $181,350, 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, 2018:

	Notional Amount	Fair Value Asset / (Liability)
Derivative type		
Foreign currency contracts	$ 2,387,719	$ 18,329
Futures contracts	174,151,094	-
Credit default swaps	600,000	(34,472)
Swaptions	4,500,000	(4,587)
	$ 181,638,813	$ (20,730)

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)
	$ 201,720,624	$ (195,533)

Gains and Losses on Investments in 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, 2018 and 2017 is as follows:

	2018	2017
Foreign currency contracts	$ 18,329	$ (8,541)
Futures contracts	(178,290)	(3,668,550)
Interest rate swaps	-	(90,240)
Credit default swaps	5,854	-
Swaptions	1,616	-
	$ (152,491)	$ (3,767,331)

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, 2018 and 2017, the Academy’s net counterparty exposure amounted to $15,577 and $8,542, 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: contributions 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 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 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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 31,038,145	$ 91,944,391	$122,982,536
Board-designated endowment funds	70,067,043	-	-	70,067,043
Total endowment funds	$ 70,067,043	$ 31,038,145	$ 91,944,391	$193,049,579

Changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 66,751,658	$ 27,730,722	$ 80,675,089	$175,157,469
Investment return				
Investment income	395,648	515,610	-	911,258
Realized and unrealized gains (losses)	5,557,339	8,067,506	-	13,624,845
Contributions	-	-	11,793,083	11,793,083
Withdrawals/transfers	(2,637,602)	(5,275,693)	(523,781)	(8,437,076)
Endowment net assets at end of year	$ 70,067,043	$ 31,038,145	$ 91,944,391	$193,049,579

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	$ 66,751,658	$ 27,730,722	$ 80,675,089	$175,157,469

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	$ 66,751,658	$ 27,730,722	$ 80,675,089	$175,157,469

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, 2018:

Restricted for research support	$ 21,203,844
Restricted for public program support	32,519,149
Restricted for general operations	38,221,398
Total endowment assets classified as permanently restricted net assets	$ 91,944,391

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	36,284,348
Total endowment assets classified as permanently restricted net assets	$ 80,675,089

Temporarily Restricted Net Assets

The portion of perpetual endowment funds not yet appropriated by the Board of Trustees under UPMIFA as of June 30, 2018:

Restricted for research support	$ 18,796,436
Restricted for public program support	7,778,668
Restricted for general operations	4,463,041
Total endowment assets classified as temporarily restricted net assets	$ 31,038,145

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 division chair support	3,841,620
Total endowment assets classified as temporarily restricted net assets	$ 27,730,722

Temporarily restricted net assets at June 30, 2018 and 2017 are restricted for the following purposes:

	2018	2017
Research	$ 30,849,632	$ 21,107,361
Public programs	8,387,688	17,203,769
Plant and new academy project	60,071	70,493
General operations	7,783,118	9,554,764
Investments held in trust	3,079,650	2,917,312
	$ 50,160,159	$ 50,853,699

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. These deficits may result from unfavorable market fluctuations and are classified as a reduction of unrestricted net assets. There were no deficits of this nature as of June 30, 2018 or 2017.

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. As of June 30, 2018 and 2017, the allocation from the endowment funds for operating support for fiscal years 2019 and 2018 amounted to $8,048,035 and $7,251,389, respectively.

5. Contributions Receivable, net

As of June 30, 2018 and 2017, contributions receivable were as follows:

	2018	2017
Contributions receivable before discount and allowance	$ 15,691,033	$ 16,643,381
Less: Unamortized discount	(513,654)	(205,235)
Less: Allowance for doubtful contributions receivable	-	-
Contributions, net	$ 15,177,379	$ 16,438,146
Amounts due		
Within one year	$ 6,794,277	$ 8,046,983
Two to five years	5,846,756	8,596,398
More than five years	3,050,000	-
Contributions receivable before discount and allowance	$ 15,691,033	$ 16,643,381

Discount rates used to calculate the present value of contributions receivable for the fiscal years ended June 30, 2018 and 2017 ranged from 0.36% to 3.34% and 0.11% to 5.12%, respectively.

6. Notes Receivable, net

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, 2018 and 2017 was $1,141,752 and $1,077,292, respectively.

The Academy has adopted, as part of the compensation package to attract and retain talent for scientific research, a Home Purchase Loan Program. Under the program, the Academy extends loans to qualified employees. Individual notes cannot exceed $150,000 and no more than ten notes can be outstanding at any point in time. As of June 30, 2018 and 2017, respectively, the Academy held Promissory Notes from six employees and five employees for housing support. The notes have fixed interest rates ranging from 2.22% to 3.22%, payable monthly or on their respective anniversary dates of each year. The notes receivable including accrued interest at June 30, 2018 and 2017 were $492,888 and $413,056, respectively.

7. Property and Equipment, net

At June 30, 2018 and 2017, the major classes of property and equipment were as follows:

	2018	2017
Land	$ 710,000	$ 710,000
Building and improvements	371,128,592	370,903,944
Aquarium	33,946,780	33,349,214
Planetarium	7,133,765	6,426,902
Library and rare books	12,526,087	12,526,087
Furniture, equipment and software	27,389,435	26,590,172
Phone and information technology/infrastructure	6,917,321	6,880,001
Exhibit halls	30,311,512	26,249,771
Construction in progress	1,697,643	1,441,158
	491,761,135	485,077,249
Less: Accumulated depreciation and amortization	(156,553,949)	(139,709,705)
	$ 335,207,186	$345,367,544

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was $16,844,244 and $15,945,676, respectively.

8. Employees' Retirement Plan

The Academy maintains defined-contribution plans in the U.S., subject to Section 403(b) of the IRC. For the year ended June 30, 2018, 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, 2018, 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, 2018 and 2017, the Academy made matching payments of $1,318,494 and $1,207,002, 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 2008 Series E Bonds was terminated and a direct purchase agreement between the Academy and J.P. Morgan Chase bank was enacted governing the 2008Series 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 subject to monthly reset. The remaining series were converted to the Index Interest Rate on December 2, 2013. Interest rates on the remaining Series are set monthly. For all Series, monthly interest rates ranged from 1.63% to 2.14% and 1.12% to 1.52% during the years ended June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, the Academy incurred bond interest costs and remarketing fees of $5,097,430 and $3,429,169, respectively. Interest and remarketing costs are included in the functional expense allocation within the Plant fund in the consolidated statements of activities.

The Academy amortizes debt issuance costs related to the 2008 bonds over a 30 year life. These debt issuance costs are presented as a direct deduction from the carrying value of the debt liability. Unamortized debt issuance costs were $2,242,107 and $2,238,881 as of June 30, 2018 and 2017, respectively. The Academy recognized amortization expense of $105,774 for each of the years ended June 30, 2018 and 2017. As of June 30, 2018 and 2017, there were no principal payments due within the next five years.

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 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, 2018, 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, 2018 and 2017, 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 and County of San Francisco charter states that the City and County shall provide funds necessary for the maintenance, operation, and continuance of the Academy and funds deemed proper for the maintenance, operation, and continuance of its Golden Gate Park building. During the fiscal years ended June 30, 2018 and 2017, the Academy received $7,022,327 and $6,102,855, respectively, from the City for this support.

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 9, 2018, which is the date of issuance of this report. No subsequent events were identified except as follows:

In August 2018, the Academy refinanced the 2008 Bonds through the issuance of 2018 Series A-D revenue bonds (“2018 Bonds”). The 2018 Bonds were issued through the California Infrastructure and Economic Development Bank in the amount of $281,450,000. The 2018 Bonds will mature in August 2047, however, they are subject to mandatory tender beginning in August 2021.