

Financial Statements and Report of  
Independent Certified Public  
Accountants

**Los Angeles County Museum of Natural  
History Foundation**

June 30, 2020 (with summarized comparative  
financial information for June 30, 2019)

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Trustees  
Los Angeles County Museum of Natural History Foundation

We have audited the accompanying financial statements of the Los Angeles County Museum of Natural History Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles County Museum of Natural History Foundation as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Combining Statement of Activities and Changes in Net Assets for the year ended June 30, 2020, is presented for purposes of additional analysis, rather than to present the results of operations of the individual entities, and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Report on 2019 summarized comparative financial information**

We have previously audited the Foundation's 2019 financial statements (not presented herein), and we have expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2019. In our opinion, the accompanying summarized comparative financial information as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Los Angeles, California  
November 16, 2020

**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2020**

**(With summarized comparative financial information at June 30, 2019)**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,096,568	\$ 7,867,952
Accounts receivable	87,850	465,982
Grants and contributions receivable, net	32,179,048	11,592,932
Prepaid expenses and other assets	205,645	92,282
Investments	161,673,709	163,699,446
Investments held in trust under split-interest agreement	153,864	183,746
Leasehold improvements, equipment and exhibits, net	102,374,579	106,425,556
<b>Total assets</b>	<b>\$ 310,771,263</b>	<b>\$ 290,327,896</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,883,170	\$ 5,231,245
Paycheck Protection Program Loan	4,790,800	-
Obligations under split-interest agreement	78,504	108,551
Deferred revenue	23,050	299,940
Bonds payable, net	89,063,032	89,019,297
Interest rate swaps	29,296,298	21,281,372
<b>Total liabilities</b>	<b>127,134,854</b>	<b>115,940,405</b>
<b>NET ASSETS</b>		
Without donor restrictions	128,044,779	153,009,263
With donor restrictions	55,591,630	21,378,228
<b>Total net assets</b>	<b>183,636,409</b>	<b>174,387,491</b>
<b>Total liabilities and net assets</b>	<b>\$ 310,771,263</b>	<b>\$ 290,327,896</b>

The accompanying notes are an integral part of this financial statement.

**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the year ended June 30, 2020**

**(With summarized comparative financial information for the year ended June 30, 2019)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total</b>	<b>2019 Total</b>
<b>Operating revenue and support:</b>				
Private gifts, grants and contracts	\$ 3,087,607	\$ 11,249,340	\$ 14,336,947	\$ 13,141,290
Endowment income	8,687,173	812,975	9,500,148	8,533,466
Government grants	588,859	19,096,626	19,685,485	8,434,508
Museum admission fees	6,122,743	-	6,122,743	9,001,769
Support from the County of Los Angeles	17,711,306	-	17,711,306	17,091,809
Membership dues	2,756,321	5,274	2,761,595	3,504,802
Program income	1,538,787	5,381	1,544,168	2,208,561
Museum use and services	412,641	-	412,641	481,343
Museum shops, cafeteria and photo experience	720,064	-	720,064	1,258,096
Miscellaneous revenue	22,056	-	22,056	26,917
Special events revenue, net of cost of direct benefit to donors of \$0 and \$614,007, respectively	-	-	-	790,834
<b>Total revenue and support</b>	<b>41,647,557</b>	<b>31,169,596</b>	<b>72,817,153</b>	<b>64,473,395</b>
Net assets released from restrictions	1,733,642	(1,733,642)	-	-
<b>Total operating revenue and support and net assets released from restrictio</b>	<b>43,381,199</b>	<b>29,435,954</b>	<b>72,817,153</b>	<b>64,473,395</b>
<b>Operating expense:</b>				
Program services				
Education and exhibits	19,044,339	-	19,044,339	20,740,047
Research and collections	12,441,704	-	12,441,704	11,824,232
<b>Total program services</b>	<b>31,486,043</b>	<b>-</b>	<b>31,486,043</b>	<b>32,564,279</b>
Supporting services				
General and administration	3,613,237	-	3,613,237	4,577,055
Fundraising	4,636,480	-	4,636,480	5,301,379
<b>Total supporting services</b>	<b>8,249,717</b>	<b>-</b>	<b>8,249,717</b>	<b>9,878,434</b>

The accompanying notes are an integral part of this financial statement.

**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information for the year ended June 30, 2019)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total</b>	<b>2019 Total</b>
<b>Operating expense (continued):</b>				
Other expenses				
Museum use and services	\$ 491,611	\$ -	\$ 491,611	\$ 475,169
Provision for doubtful accounts	355,699	-	355,699	347,263
Depreciation	8,294,301	-	8,294,301	8,180,691
Amortization	43,735	-	43,735	43,735
	<hr/>	<hr/>	<hr/>	<hr/>
Total other expenses	9,185,346	-	9,185,346	9,046,858
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total operating expenses</b>	48,921,106	-	48,921,106	51,489,571
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Change in net assets from operations</b>	(5,539,907)	29,435,954	23,896,047	12,983,824
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Non-operating activities:</b>				
Interest and dividend income, net	(713,095)	268,139	\$ (444,956)	589,146
Debt service payments	(4,289,450)	-	\$ (4,289,450)	(4,231,608)
Realized and unrealized gain on investments, net	7,549,319	52,867	\$ 7,602,186	5,944,694
Unrealized loss on interest rate swaps	(8,014,926)	-	\$ (8,014,926)	(5,430,697)
Change in value of obligations under split-interest agreemen	-	165	\$ 165	4,420
Endowment distributed for operations	(8,454,425)	(1,045,723)	\$ (9,500,148)	(8,533,466)
Reclassification based on donor restrictions	(5,502,000)	5,502,000	\$ -	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total non-operating activities</b>	(19,424,577)	4,777,448	\$ (14,647,129)	(11,657,511)
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<b>Change in net assets</b>	(24,964,484)	34,213,402	\$ 9,248,918	1,326,313
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Net assets, beginning of the year	153,009,263	21,378,228	\$ 174,387,491	173,061,178
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ 128,044,779</u>	<u>\$ 55,591,630</u>	<u>\$ 183,636,409</u>	<u>\$ 174,387,491</u>

The accompanying notes are an integral part of this financial statement.

**Los Angeles County Museum of Natural History Foundation**  
(a California not-for-profit corporation)

**STATEMENT OF CASH FLOWS**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 9,248,918	\$ 1,326,313
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,294,301	8,180,691
Amortization of bond issuance costs	43,735	43,735
Provision for doubtful accounts	355,699	347,263
Realized and unrealized gain on investments, net	(7,602,186)	(5,944,694)
Unrealized loss on interest rate swaps	8,014,926	5,430,697
Increase in value of investments held in trust	29,882	24,881
Changes in operating assets and liabilities:		
Decrease in accounts receivable	325,829	248,647
Increase in grants and contributions receivable	(20,889,512)	(6,576,136)
(Increase)/decrease in prepaid expenses and other assets	(113,363)	511,911
Decrease in accounts payable and accrued expenses	(1,481,477)	(1,001,023)
Decrease in deferred revenues	(276,890)	(260,255)
<b>Net cash (used in) provided by operating activities</b>	<u>(4,050,138)</u>	<u>2,332,030</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	35,602,487	79,195,165
Purchases of investments	(25,974,564)	(75,555,269)
Purchases of building improvements, equipment and exhibits	(4,109,922)	(4,772,345)
<b>Net cash provided by (used in) investing activities</b>	<u>5,518,001</u>	<u>(1,132,449)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from paycheck protection program loan	4,790,800	-
Decrease in obligations under split-interest agreement	(30,047)	(29,302)
<b>Net cash provided by (used in) financing activities</b>	<u>4,760,753</u>	<u>(29,302)</u>
<b>Net change in cash and cash equivalents</b>	6,228,616	1,170,279
Cash and cash equivalents, beginning of year	<u>7,867,952</u>	<u>6,697,673</u>
Cash and cash equivalents, end of year	<u><u>\$ 14,096,568</u></u>	<u><u>\$ 7,867,952</u></u>
<b>Supplemental cash flow information:</b>		
Contributions of non-cash gifts	\$ 79,793	\$ 28,926
Cash paid for interest	\$ 4,055,215	\$ 3,803,155

The accompanying notes are an integral part of this financial statement.



**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

**NOTE 1 - NATURE OF THE ORGANIZATION**

The Los Angeles County Museum of Natural History Foundation (the "Foundation"), a California not-for-profit corporation, was incorporated in 1965 for the purpose of providing financial and other support to the Los Angeles County Museum of Natural History (the "Museum"). The County of Los Angeles (the "County"), through its Department of Museum of Natural History (the "Department"), in partnership with the Foundation, owns, operates and maintains the Museum. The mission of the Museum is to inspire wonder, discovery and responsibility for our natural and cultural worlds. This is accomplished through permanent and traveling exhibits, public programming, and educational and research programs.

The Foundation supports and assists in the maintenance and development of the Museum's educational, scientific and cultural programs and services, and in the expansion of its collections.

A Board of Governors appointed by the County's Board of Supervisors is the governing body of the Department. To better coordinate and facilitate management of the Museum and its operations, members of the Board of Governors also serve on the Foundation's Board of Trustees, and the Director of the Department also serves as the President of the Foundation.

The County reimburses the Foundation for certain services it provides for the Museum, and the amount of the reimbursement is reflected as part of the Foundation's revenue and support in the accompanying statement of activities and changes in net assets. In addition, the County provides funds directly to providers of services to the Museum, which are not included in the accompanying statement of activities and changes in net assets. As further discussed in Note 14 and in the supplemental combining statement of activities and changes in net assets for the fiscal year ended June 30, 2020, the County provided \$5,293,443 in funds directly to these providers of services. If the County's entire contribution under the funding agreement were to be included in the Foundation's statement of activities and changes in net assets, the Foundation's total revenue, including support from the County, would be \$78,110,597 for the fiscal year ended June 30, 2020.

The Foundation and the County, through the Department, currently share responsibility for the following family of museums:

***Natural History Museum of Los Angeles County***

In 1913, the Natural History Museum was the first cultural institution open to the public in Los Angeles. Located within Exposition Park, it has become a national leader in collections, research, exhibitions and education. It is one of the preeminent natural and cultural museums in the United States, with millions of specimens and artifacts in its collections covering 4.5 billion years of Earth and human history.

***The La Brea Tar Pits and Museum***

Established in 1977, the La Brea Tar Pits and Museum is recognized for having the largest and most diverse assemblage of extinct Ice Age plants and animals in the world, consisting of more than 600 species. During the summer, the public can observe paleontological fieldwork. The excavated fossils are cleaned, repaired and identified in a paleontology laboratory inside the Museum, which can be viewed by the public.

**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

***William S. Hart Museum***

The William S. Hart Museum was the home of William S. Hart, an American silent Western film star, which he bequeathed on his death to the County of Los Angeles. It contains the original furnishings, a collection of Western art, and memorabilia of early Hollywood and Native American artifacts. The William S. Hart Museum is situated in Hart Park in Newhall, California and also contains historic buildings and offers hiking trails, picnic areas and camping.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

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

*Without Donor Restrictions* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the Foundation's primary objectives.

*With Donor Restrictions* - Net assets that are subject to donor restrictions, which the Foundation has defined into two categories:

*Time or purpose restricted net assets* - Net assets that are subject to donor-imposed stipulations, either as to purpose or as to time, that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, time or purpose restricted net assets are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded under net assets without donor restrictions. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported under net assets with donor restrictions until the assets are placed in service.

*Perpetual endowments* - Net assets for which the donor has stipulated that the principal be maintained in perpetuity. The income earned on related investments is available for general Foundation operations unless otherwise restricted by the donor.

***Comparative Amounts***

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the fiscal year ended June 30, 2019, from which the summarized information was derived.

**Los Angeles County Museum of Natural History Foundation  
(a California not-for-profit corporation)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020  
(With summarized comparative financial information at June 30, 2019)**

***Cash and Cash Equivalents***

For the purposes of the statement of cash flows, cash equivalents consist of short-term, highly liquid invested funds with original maturities of three months or less. Cash and cash equivalents that are held for long-term purposes are not reported with cash and cash equivalents in the statement of financial position and cash flows, but rather are reported as investments.

***Investments***

The Foundation's investments are reflected on the statement of financial position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statement of activities and changes in net assets. The Foundation's investments consist of public and private equities, fixed income securities, mutual funds and alternative investments.

The Foundation's equity investments and fixed income securities are generally publicly traded on national securities exchanges and have readily available quoted market values. The Foundation's investments in alternative investments are carried at estimated fair value. Management established fair value of these nonmarketable investments based on valuations provided by investment advisors and custodians. The Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because of the inherent uncertainty of valuation of nonmarketable investments, the estimated fair value may differ significantly from the values that would have been used had a ready market for such investments existed.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

***Grants and Contributions Receivable***

Grants and contributions, which may include unconditional promises to give, are recognized as revenue in the period received or pledged. Conditional promises to give - those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions to be received after one year are recorded at the present value of expected future cash flows. The Foundation uses an interest rate commensurate with the risks involved to discount the contribution receivable ("pledge"). The discount rates used were between 0.22% to 1.63% for the fiscal year ended June 30, 2020 and between 2.07% to 2.97% for the fiscal year ended June 30, 2019. The discount rates will be applied over the life of the pledge. An allowance for uncollectible pledges of 5.0% has been established for recorded pledges.

***Leasehold Improvements, Equipment and Exhibits***

Leasehold improvements, equipment and exhibits are carried at cost, if purchased, or at fair value on the date of donation, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	10 to 30 years
Equipment and furnishings	5 years
Exhibits	2 to 15 years

**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

The Foundation reviews leasehold improvements, equipment and exhibits for impairment whenever events or changes in circumstances indicate that the carrying value of leasehold improvements, equipment and exhibits may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the fiscal years ended June 30, 2020 and 2019, there were no events or changes in circumstances indicating that the carrying amount of the leasehold improvements, equipment or exhibits might not be recoverable.

The County owns all of the Museum buildings. The County owns the land on which the La Brea Tar Pits Museum is located and the land on which the Hart Museum is located. The State owns the land on which the Museum in Exposition Park is located. Under a ground lease, the County has leased the land from the State of California for a 75-year period, which expires in 2081. The County and the Foundation have entered into a funding agreement that extends to 2081 and the Foundation is occupying the buildings and land under this agreement, as referenced in Note 14. The fair value of the use of the buildings is not estimable and, therefore, not recorded in the accompanying financial statements.

***Collections***

The Foundation's collections that have been acquired through purchases, contributions and other acquisitions since the Foundation's inception are not recognized as assets in the accompanying statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as decreases in net assets with donor restrictions if the assets used to purchase the items were restricted by donors. Proceeds from deaccession or insurance recoveries are reflected as increases in the appropriate net asset classes.

***Split-Interest Agreement***

The Foundation has legal title to a gift annuity agreement subject to life interests of beneficiaries. No significant financial benefit is now being or can be realized until the contractual obligations are released.

The Foundation uses the actuarial method of recording the gift annuity agreement. Under this method, the asset was recorded at fair value when the gift was received. The present value of the aggregate annuity payable was recorded as a liability, based upon life expectancy tables, and the remainder was recorded as a contribution to the appropriate net asset category in the year received. The liability account is charged with payments to beneficiaries. Annual adjustments are made between the liability account and the net asset account for investment income and gains as well as actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at the Foundation's credit-adjusted rate of 2.52% at the time such agreement was recorded and over the beneficiaries' estimated lives according to the Annuity 2000 Mortality Table.

***Interest Rate Swap Agreement***

The Foundation uses an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in interest expenses that are caused by interest rate volatility. An interest rate swap agreement involves the exchange of fixed-rate and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 815, *Derivatives and Hedging*, all derivative instruments are recognized on the statement of financial position at their fair values and changes in fair value are recognized in the statement of activities and changes in net assets.

**Los Angeles County Museum of Natural History Foundation**  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

***Contributed Materials and Services***

The value of significant donated exhibit materials and equipment is reflected as contributions in the accompanying financial statements at the fair value of such exhibit materials and equipment at the date of contribution.

Contributed services are recognized if services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Foundation receives a significant amount of contributed services that do not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

***Income Taxes***

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Foundation has also been recognized by the California Franchise Tax Board as a Foundation that is exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

During the fiscal years ended June 30, 2020 and 2019, the Foundation performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

***Estimated Fair Value of Financial Instruments***

As defined in FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820"), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses the market or income approach. Based on this approach, the Foundation utilizes certain assumptions about the risk or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Includes inputs other than quoted prices that are directly or indirectly observable, including inputs in markets that are not considered to be active.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

**Los Angeles County Museum of Natural History Foundation**  
**(a California not-for-profit corporation)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

For the fiscal year ended June 30, 2020, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the fair value of financial instruments whether measured at fair value or historical cost:

- For cash and cash equivalents, accounts receivable, grants and contributions receivable, and accounts payable and accrued expenses, the carrying amounts represent a reasonable estimate of fair values or amounts to be collected due to their short-term maturity. Certain long-term grants and contributions receivable have been discounted using applicable market rates to approximate fair value. The split-interest agreement liabilities are reflected at their estimated fair values when received using the methodology described above.
- The basis of fair value for the Foundation's investments and revenue bond trust accounts differs depending on the investment type. For certain investments, market value is based on quoted market prices. These are classified within Level 1 of the fair value hierarchy. Some investments are based on unobservable inputs such as net asset value, cash flows, discount rates and alternative investments which are supported by little or no market activity; these are classified within Level 3 of the fair value hierarchy.
- The Foundation uses the income approach to determine the estimated fair value of its interest rate swaps. This approach generally represents a discounted cash flow model, which uses observable inputs such as credit ratings and historic default rates, credit spreads, credit default swap rates or other similar measures for similar observable instruments; these are classified within Level 2 of the fair value hierarchy.

***Revenue Recognition***

Annual membership dues and admissions are recognized as revenue when such income is considered earned. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Revenues from grants and contracts that are reimbursable are reported as increases in net assets without donor restriction, as allowable expenditures under such agreements are incurred.

On July 1, 2018, the Foundation adopted ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective method. ASC 606 prescribes a five-step model that includes: (1) identify the contract, (2) identify the performance obligations, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue when (or as) performance obligations are satisfied. Upon evaluation of the facts and circumstances related to the Foundation, it was determined that ASC 606 did not have an impact on the amount or timing of revenue recognition.

***Functional Expenses***

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management. Of the items classified on the statement of activities and changes in net assets as "other expenses," depreciation is primarily a program expense and the remainder of the expenses are primarily support expenses.

***Non-Operating Income (Expense)***

Non-operating income (expense) consists of amounts which, due to their nature, are not considered by management as part of operations. Specific items include investment results and other non-recurring items. All other activities are considered operating income (expense).

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020  
(With summarized comparative financial information at June 30, 2019)**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

***Reclassification***

Certain prior year amounts have been reclassified to conform to the current year presentation. Certain investments in the leveling table in Note 3 have been reclassified from the leveling table to the net asset value ("NAV") category. Contributions received in prior years were reclassified between net asset categories to correct the categorization based on donor restrictions.

***Concentration of Credit Risk***

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents, investments, pledges and receivables, and the interest rate swaps.

Cash and cash equivalents generally consist of cash, money market accounts and money market funds which have original maturity dates of three months or less. At times, such cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2020, the Foundation held \$12,467,097 of cash in excess of FDIC insurance limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

With respect to pledges and receivables, the Foundation routinely assesses the financial strength of its debtors and believes that the related credit risk exposure is limited.

***Debt Issuance Costs***

Certain costs related to the issuance of debt are deferred and amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Debt issuance costs that have been deferred are a direct deduction from the carrying amount of the respective debt liability. Debt issuance costs, net of accumulated amortization, as of June 30, 2020 and 2019, were \$726,968 and \$770,703, respectively. Amortization of the debt issuance costs for the years ended June 30, 2020 and 2019 was \$43,735 each year, respectively, and is reported under other expenses.

***Recent Accounting Pronouncements***

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. The guidance specifically clarifies how investments valued using the NAV practical expedient within the fair value hierarchy should be classified. The ASU was issued in order to address diversity in practice. The amended standard's key position exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. This ASU was adopted in the current fiscal year resulting in certain investments being removed from the leveling tables in Note 3.

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard redefines the term “lease” to mean “conveys the right to control the use of identified property, plant and equipment for a period of time in exchange for consideration.” The customer has right to control if it receives both the (1) right to obtain substantially all economic benefits from using an asset and (2) right to direct the use of that asset.

- **Lessee Impact:** The key impact to lessees is the requirement to show operating leases on the statement of financial position through recognizing a Right of Use (“ROU”) asset and liability, with the lease liability measured at the present value of the future lease payments and the asset measured at the lease liability adjusted for payments made before lease commencement and initial indirect costs. The leases would be classified into financing leases (recognize interest expense and amortization based on the interest method) and operating leases (recognize rent expense on a straight-line basis over the lease term).
- **Lessor Impact:** The impact to lessors is minimal, remaining similar to today’s standards. For direct financing leases, the lessor will recognize any loss up front, defer profit and account for investment in the lease using the interest method; and for operating leases, recognize an asset sale and account for investment in the lease using the interest method of the lease term.

This new standard is effective for the Foundation for the year ending June 30, 2021. The Foundation is in the process of evaluating the impact of this standard on its operations.

**NOTE 3 - INVESTMENTS**

The Foundation’s investments consist of operating reserves, funds functioning as endowment and funds which have been restricted by the donor as endowment. The Foundation’s investments are governed by the Foundation’s investment policy, which sets asset allocation ranges for marketable and nonmarketable investments. Management establishes the fair value of Level 1 investments based on quoted market prices. Management establishes the fair value of Level 2 and 3 investments based on valuations provided by investment advisors/custodians.

Investments at June 30 are stated at fair value and consist of the following:

	2020	2019
Cash and money market funds	\$ 2,475,896	\$ 611,201
Common and preferred stock and mutual funds	98,595,663	106,624,531
Corporate bonds	25,061,857	24,005,142
Government securities	555,498	548,365
Alternative investments	22,793,055	24,505,221
Private equity	13,188,172	8,413,441
Other	803	4,775
	162,670,944	164,712,676
Less investments held in trust under split-interest agreement	(153,864)	(183,746)
Less cash held in trust under split-interest agreement	(843,371)	(829,484)
	<u>\$ 161,673,709</u>	<u>\$ 163,699,446</u>



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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
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Management fees paid for the fiscal years ended June 30, 2020 and 2019 were \$586,671 and \$467,587, respectively.

***Significant Concentration of Investments***

At both June 30, 2020 and 2019, the Foundation had a position in the Angeles Absolute Return Fund LTD with a net asset value of \$22,793,055 and \$24,505,221, respectively. At June 30, 2020 and 2019, the Foundation had a position in the Angeles Global Equity Opportunities Fund, LLC with a net asset value of \$97,597,585 and \$102,756,488, respectively. At June 30, 2020 and 2019, the Foundation had a position in the Angeles Diversified Income Fund, LLC with a net asset value of \$22,539,008 and \$21,888,229 respectively.

***Valuation Hierarchy***

As of June 30, 2020, the Foundation's investments were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	NAV	Total
Cash and money market funds	\$ 2,475,896	\$ -	\$ -	\$ -	\$ 2,475,896
Stocks and mutual funds	998,078	-	-	97,597,585	98,595,663
Corporate bonds	2,522,849	-	-	22,539,008	25,061,857
Government securities	555,498	-	-	-	555,498
Alternative investments	-	-	-	22,793,055	22,793,055
Private equity	-	-	-	13,188,172	13,188,172
Other funds	803	-	-	-	803
Total investments	<u>\$ 6,553,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,117,820</u>	<u>\$ 162,670,944</u>

As of June 30, 2019, the Foundation's investments were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	NAV	Total
Cash and money market funds	\$ 611,201	\$ -	\$ -	\$ -	\$ 611,201
Stocks and mutual funds	3,868,043	-	-	102,756,488	106,624,531
Corporate bonds	2,116,913	-	-	21,888,229	24,005,142
Government securities	548,365	-	-	-	548,365
Alternative investments	-	-	-	24,505,221	24,505,221
Private equity	-	-	-	8,413,441	8,413,441
Other funds	4,775	-	-	-	4,775
Total investments	<u>\$ 7,149,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,563,379</u>	<u>\$ 164,712,676</u>

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
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***Investments Valued at NAV***

As of June 30, 2020, the Foundation's investments valued at NAV totaled \$156,117,820. The investments are composed of the funds described below:

Stocks and Mutual Funds

\$97,597,585 is invested in the Angeles Global Equity Opportunities Fund, LLC, a multi-manager fund investing assets with a group of independent investment managers, primarily pursuing long-only public equity strategies accessed via managed account arrangements and underlying investment funds. As of June 30, 2020, approximately 65% of the Angeles Global Equity Opportunities Fund was invested in US, global, and emerging market long-only equity strategies through both managed accounts and investee funds. Approximately 25% was invested in passively managed exchange-traded funds ("ETFs") tracking the performance of selected market indices. Approximately 9% was invested in a global market long/short equity strategy. This strategy focuses on bottom-up fundamental company analysis and investment across sectors in the equity market, both long and short. The remaining 1% of the fund was held in cash and cash equivalents.

Members of this fund may withdraw all or some of such member's capital account on each withdrawal date (i.e., the last business day of each month) upon at least 16 business days' prior written notice to the manager. Withdrawal proceeds will generally be paid within 30 days of the relevant withdrawal date. These terms are dependent on the fund's ability to make withdrawals from the underlying strategies.

Corporate Bonds

\$22,539,008 is invested in the Angeles Diversified Income Fund, LLC, a multi-manager fund investing assets with a group of independent investment managers, primarily pursuing global fixed income strategies accessed via managed account arrangements and underlying investment funds. As of June 30, 2020, approximately 61% of the Angeles Diversified Income Fund was invested in actively managed global and emerging markets fixed income strategies through both managed accounts and investee funds. Approximately 22% was invested in passively managed ETFs tracking the performance of selected market indices. Approximately 17% was invested directly in US Treasury bills of varying maturities and coupons. The remaining balance of the fund was held in cash and cash equivalents.

Members of this fund may withdraw all or some of such member's capital account on each withdrawal date (i.e., the last business day of each month) upon at least 15 business days' prior written notice to the manager. Withdrawal proceeds will generally be paid within 30 days of the relevant withdrawal date. These terms are dependent on the fund's ability to make withdrawals from the underlying strategies.

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Alternative Investments

\$22,793,055 is invested in the Angeles Absolute Return Fund LTD, a fund of hedge funds. Approximately 54% of the Angeles Absolute Return Fund LTD includes investments in US, global, and emerging market long/short equity strategies. These strategies focus on bottom-up fundamental company analysis and investments across sectors in the equity market, both long and short, while generally maintaining full equity market exposure (e.g., beta of 1). Approximately 27% of this fund includes investments in credit-related strategies. These strategies focus on stressed and distressed corporate securities and may also include structured credit. Approximately 10% of this fund includes investments in multi-strategy funds. These strategies invest in corporate credit, equity and structured credit investments, with a focus on event-driven situations. Approximately 7% of this fund includes investments in activist strategies. These strategies invest in equities and take an active ownership approach with the intent to create value at the companies. The remaining 2% of the fund was held in cash and cash equivalents.

This fund has a one-year lock-up where no redemptions are permitted, which has been met. After one year, redemptions are permitted quarterly after 90 days' prior written notice. Proceeds will generally be paid within 40 days of the redemption date. These terms are dependent on the fund's ability to make withdrawals from the underlying strategies. There are no remaining capital commitments outstanding.

Private Equity

The Foundation has a total investment of \$13,188,172 in and unfunded commitments of \$18,707,007 to seven private investment funds as of June 30, 2020: Angeles Private Markets Fund 2 and Angeles Private Markets Fund 3, funds that allow investors to gain exposure to private equity, private debt, real estate and other real assets through an efficient and diversified fund of funds structure; Bain Capital Fund XII, a fund that focuses on businesses with sustainable competitive advantage and opportunities to drive transformational operational change; Dover Street IX L.P., a fund seeking to provide access to a global, diversified portfolio of secondary investments in private equity assets in leveraged buyout, growth equity, and venture capital strategies; Marlin Equity Fund V and Marlin Heritage Fund II, funds primarily focused on making investments in businesses that are experiencing operational or financial stress or special situations; and Oaktree Power Opportunities Fund V, a fund focused on control investments in mid-sized companies that provide equipment, services and software used in the generation, transmission, distribution, marketing or consumption of energy.

Investors in these funds are not permitted to make voluntary withdrawals from capital accounts and must be committed to the fund until dissolution, which is generally expected to occur ten years from either (a) the inception/commencement date of the fund or (b) the end of the fund's investment period (scheduled to occur 24 months following the termination of the investor contribution period, but may be extended or shortened at the manager's discretion). Additionally, managers of these funds generally retain the ability to extend the funds for three to four successive 12-month periods following the lapse of the initial terms described in the preceding sentence. The Foundation initially invested in these funds between December 2015 and December 2019.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

For the fiscal year ended June 30, 2020, the changes in fair value of the Foundation's investments valued at NAV are as follows:

Balance, beginning of year	\$ 157,563,379
Purchases	4,843,533
Sales	(14,633,988)
Realized gains (losses), net	856,257
Unrealized gains (losses), net	<u>7,488,639</u>
Balance, end of year	<u>\$ 156,117,820</u>

For the fiscal year ended June 30, 2019, the changes in fair value of the Foundation's investments valued at NAV are as follows:

Balance, beginning of year	\$ 123,844,792
Purchases	29,448,128
Sales	(976,351)
Realized gains (losses), net	583,522
Unrealized gains (losses), net	<u>4,663,288</u>
Balance, end of year	<u>\$ 157,563,379</u>

**NOTE 4 - GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants and contributions receivable at June 30 are expected to be received as follows:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 21,699,360	\$ 2,835,116
Due in between one and five years	6,410,000	4,680,000
Due after five years	<u>8,132,500</u>	<u>7,832,500</u>
	36,241,860	15,347,616
Less present value discount	(3,007,528)	(3,002,797)
Less allowance for uncollectible pledges	<u>(1,055,284)</u>	<u>(751,887)</u>
Total	<u>\$ 32,179,048</u>	<u>\$ 11,592,932</u>

Unconditional contributions receivable includes amounts from members of the Foundation's Board of Trustees of \$2,665,208 and \$2,036,500 as of June 30, 2020 and 2019, respectively.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE 5 - LEASEHOLD IMPROVEMENTS, EQUIPMENT AND EXHIBITS**

Leasehold improvements, equipment and exhibits consisted of the following at June 30:

	2020	2019
Leasehold improvements	\$ 119,825,766	\$ 119,596,114
Exhibits	54,914,567	54,878,599
Equipment and furnishings	13,361,519	13,151,210
Construction in progress	14,678,845	10,911,450
	202,780,697	198,537,373
Less accumulated depreciation	(100,406,118)	(92,111,817)
Total	<u>\$102,374,579</u>	<u>\$ 106,425,556</u>

Depreciation expense for the fiscal years ended June 30, 2020 and 2019 was \$8,294,301 and \$8,180,691, respectively.

**NOTE 6 - COLLECTIONS**

The Foundation's collections are comprised of artifacts of historical significance, scientific specimens and art objects that are held for educational, research, scientific and curatorial purposes. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for the collections.

**NOTE 7 - PAYCHECK PROTECTION PROGRAM (PPP) LOAN**

The Foundation applied for and received a Paycheck Protection Program ("PPP") loan in the amount of \$4,790,800 on April 8, 2020. The PPP is a federal program initiated under the CARES Act and administered by the Small Business Association (the "SBA") designed as a direct incentive for employers with fewer than 500 employees to keep their employees on the payroll during the COVID-19 pandemic. The SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.

The measurement period for calculating forgiveness ended on September 22, 2020 for the Foundation. The Foundation is in the process of applying for forgiveness and believes it has met the criteria for forgiveness of a substantial portion of the loan. Any amount not forgiven is due by April 8, 2022 at an interest rate of 1% per annum. That forgivable portion of the loan is unknown as of the date of the financial statements.

**NOTE 8 - LINE OF CREDIT**

The Foundation has an uncollateralized \$4,500,000 revolving line of credit with a bank that expires on December 31, 2021. During the fiscal years ended June 30, 2020 and 2019, no amounts were outstanding under the line of credit. Interest is payable monthly at 0.25% below the bank's prime rate, which was 3.25% at June 30, 2020 and 5.50% at June 30, 2019.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE 9 - BONDS PAYABLE**

On April 29, 2008, pursuant to an Amended and Restated Indenture (the "Indenture") by and between the California Infrastructure and Economic Development Bank, a public instrumentality of the State of California (the "Issuer"), and MUFG Union Bank, N.A. as trustee (the "Trustee"), \$89,790,000 of tax-exempt Variable Rate Demand Refunding Revenue Bonds were issued in two series: Series 2008A ("Series 2008A Bonds") was issued for \$44,895,000 and Series 2008B ("Series 2008B Bonds") was issued for \$44,895,000 (collectively, the "2008 Bonds").

The Issuer lent the proceeds of the 2008 Bonds to the Foundation pursuant to a loan agreement (the "Loan Agreement") by and between the Issuer and the Foundation. Such proceeds received by the Foundation were used to (i) redeem the \$84,400,000 California Infrastructure and Economic Development Bank Revenue Bonds (Los Angeles County Museum of Natural History Foundation) Series 2007A and Series 2007B (collectively, the "2007 Bonds"), which financed the acquisition, rehabilitation, renovation, construction, equipping and improvement by the Foundation of the facilities, galleries and exhibits of the Museum, (ii) establish a capitalized interest fund on the 2008 Bonds, and (iii) pay the costs of issuance of the 2008 Bonds. On the date of issuance of the 2008 Bonds, the 2007 Bonds were legally defeased and no longer deemed to be outstanding. At June 30, 2020 and 2019, no proceeds related to the 2008 Bonds were held in trust accounts by the Trustee.

On October 18, 2017, the Foundation completed a tender of its outstanding 2008 Bonds, amended the Indenture and Loan Agreement converting them to an index rate mode with a four year term, and placed the 2008 Bonds directly with Wells Fargo Municipal Capital Strategies, LLC, a unit of Wells Fargo & Company. At the same time, the two Direct Pay Letters of Credit with Wells Fargo that had supported the 2008 Bonds were cancelled and replaced with Continuing Covenant Agreements between Wells Fargo and the Foundation. On January 1, 2018, the margin rate factor applicable to the 2008 Bonds increased resulting in an increase in the LIBOR index rate. Wells Fargo and the Foundation agreed to lower the interest rate in effect on the 2008 Bonds by amending certain definitions which determine the LIBOR index rate. On May 1, 2018, a Second Amendment to Amended and Restated Indenture and a First Amendment to Continuing Covenant Agreements were entered into in order to adjust the interest rate calculations under the LIBOR index rate applicable to the 2008 Bonds. At June 30, 2020, the interest rate was 1.036% and at June 30, 2019, the interest rate was 2.83% on both the Series 2008A and the Series 2008B Bonds.

For the fiscal years ended June 30, 2020 and 2019, the Foundation incurred \$4,037,407 and \$4,126,895, respectively, in interest expense associated with the 2008 Bonds, excluding the amortization of the bond issuance costs.

The loan payments are general obligations of the Foundation. No specific property is pledged under the Loan Agreement. The Foundation must meet an adjusted unrestricted net asset to indebtedness ratio ("UNA ratio") of 0.95 at each June 30 and December 31, or be subject to specific sanctions.

As of June 30, 2020, and 2019, the UNA ratio was 1.62:1 and 1.76:1, respectively. The Foundation was in compliance with the bond covenant requirements at June 30, 2020 and 2019.

The Foundation has incurred issuance costs related to the 2008 Bonds and the conversion described above. These costs were capitalized and are being amortized over the term of the 2008 Bonds, on a straight-line basis, which approximates the effective interest method. At June 30, 2020 and 2019, the originally capitalized amount was \$1,109,976. For the fiscal years ended June 30, 2020 and 2019, the amortization of these issuance costs was \$43,735 for each year, respectively. The 2008 Bonds are shown in the statement of financial position net of the unamortized issuance costs.

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The 2008 Bonds mandatory redemption requirements have been summarized in the following table:

<u>Redemption Date September 1,</u>	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
2026	\$ 3,175,000	\$ 3,180,000	\$ 6,355,000
2027	3,295,000	3,270,000	6,565,000
2028	3,350,000	3,405,000	6,755,000
2029	3,465,000	3,445,000	6,910,000
2030	3,550,000	3,555,000	7,105,000
2031	3,660,000	3,665,000	7,325,000
2032	3,785,000	3,770,000	7,555,000
2033	3,880,000	3,880,000	7,760,000
2034	4,010,000	4,020,000	8,030,000
2035	4,115,000	4,110,000	8,225,000
2036	4,240,000	4,235,000	8,475,000
2037 (Maturity)	4,370,000	4,360,000	8,730,000
Total principal payments	\$ 44,895,000	\$ 44,895,000	\$ 89,790,000
Less: amount representing unamortized discount and debt issuances costs			(726,968)
			<u>\$ 89,063,032</u>

On September 17, 2020, the 2008 bonds were fully refunded through the issuance of the \$122,520,000 California Infrastructure and Economic Development Bank (Los Angeles County Museum of Natural History Foundation) Refunding Revenue Bonds Series 2020. See Footnote 18 - Subsequent Events.

**NOTE 10 - INTEREST RATE SWAPS**

In April 2008, the Foundation entered into a 29-year interest rate swap agreement with a bank to reduce the impact of changes in interest rate on its 2008 Bonds. Under the swap agreement, which consists of two interest rate swaps, the Foundation agrees to pay the bank a fixed amount of interest at 3.385% per month, and will receive 56% of one-month London Inter-Bank Offered Rate ("LIBOR"), plus 23 basis points (.33% at June 30, 2020). The interest rate swap agreement expires on September 1, 2037. The Foundation recognized a net unrealized loss on mark to market of \$8,014,926 and a net unrealized loss on mark to market of \$5,430,697 for the fiscal years ended June 30, 2020 and 2019, respectively.

The Foundation has a \$25,000,000 Standby Letter of Credit with US Bank which is posted with the counterparty to the interest rate swap agreement as collateral against the swap termination fee. This Standby Letter of Credit replaces the need for the Foundation to post collateral. The Standby Letter of Credit was set to expire on October 13, 2020. However, this was canceled with the Refunding Revenue Bond Series 2020. See Footnote 18 - Subsequent Events.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

***Minimum Lease Payments***

The Foundation leases storage facilities and office equipment under several non-cancelable operating leases expiring at various dates through the fiscal year ending June 30, 2025. For the fiscal year ended June 30, 2020, rent expense relating to these leases amounted to \$544,934, which is recorded in the statement of activities and changes in net assets. The future minimum lease payments required under these operating leases are as follows:

<u>Years Ending June 30,</u>	
2021	\$ 549,235
2022	560,199
2023	214,958
2024	98,099
2025	98,099
	<hr/>
Total	<u>\$ 1,520,590</u>

***Litigation and Examinations***

In the normal course of operations, the Foundation may be named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the Foundation's financial position and cash flows.

Certain federal grants which the Foundation administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time. The Foundation expects that such amounts, if any, would not have a material impact on the financial position and cash flows of the Foundation.

**NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS**

At June 30, 2020 and 2019, net assets with donor restrictions consists of the following:

	<u>2020</u>	<u>2019</u>
Restricted as to time and/or purpose	\$ 47,600,994	\$ 14,688,212
Unappropriated endowment earnings	3,101,319	3,825,870
	<hr/>	<hr/>
Subtotal	50,702,313	18,514,082
	<hr/>	<hr/>
Endowment	4,889,317	2,864,146
	<hr/>	<hr/>
Total Net Assets with Donor Restrictions	<u>\$ 55,591,630</u>	<u>\$ 21,378,228</u>



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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE 13 - ENDOWMENT**

The Foundation's endowment consists of various individual donor-restricted and Board-designated endowment funds. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as perpetual endowment (a) the original value of the gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 perpetual endowment is classified as time or purpose restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the following factors are to be considered in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund,
- The purposes of the Foundation and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Foundation, and
- The investment policies of the Foundation.

The following table presents the Foundation's endowment composition and net asset classification as of June 30, 2020:

		With Donor Restrictions		
	Without Donor Restrictions	Time or Purpose Restricted	Perpetual Endowment	Total
Donor-restricted endowment funds	\$ -	\$ 3,101,319	\$ 4,889,317	\$ 7,990,636
Board-designated endowment funds	154,161,002	-	-	154,161,002
Endowment, end of year	<u>\$ 154,161,002</u>	<u>\$ 3,101,319</u>	<u>\$ 4,889,317</u>	<u>\$ 162,151,638</u>

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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Changes in endowment assets for the fiscal year ended June 30, 2020 were as follows:

		With Donor Restrictions		
	Without Donor Restrictions	Time or Purpose Restricted	Perpetual Endowment	Total
Endowment, beginning of year	\$ 148,418,197	\$ 3,825,871	\$ 2,864,146	\$ 155,108,214
Gifts and pledge payments	180,478	-	2,025,171	2,205,649
Investment return				
Investment income (net)	(749,317)	268,139	-	(481,178)
Net gains (realized and unrealized)	7,549,319	53,032	-	7,602,351
Total investment return	6,800,002	321,171	-	7,121,173
Additional appropriation of endowment assets for fiscal year 2020	(20,365)	-	-	(20,365)
Release of restrictions for spending	-	(1,045,723)	-	(1,045,723)
Recategorization based on donor restrictions	(1,202,000)	-	-	(1,202,000)
Other	(15,310)	-	-	(15,310)
Endowment, end of year	\$ 154,161,002	\$ 3,101,319	\$ 4,889,317	\$ 162,151,638

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as funds of perpetual duration. At June 30, 2020, the Foundation had no endowment funds with fair values below the original gift amount.

The Foundation has adopted an investment and spending policy for endowment assets that attempt to provide sufficient income to sustain funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as funds functioning as endowment. Under this policy, the long-term investment objective is to attain an inflation-adjusted total return (net of investment management fees and other costs) at least equal to the contemplated spending rate and to meet the Foundation's need for short-term, medium-term and long-term funding. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate consistent with the Foundation's long-term objectives.

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To satisfy its long-term objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation with a mix of equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year a percentage of the prior twelve calendar quarters' trailing average of the fair market value at June 30. The allowable spending rate for the fiscal years ended June 30, 2020 and 2019, was 5.0% to cover operations and debt service related payments. In the fiscal years ended June 30, 2020 and 2019, the Board approved an additional draw of up to 0.5% to cover campaign expenses.

**NOTE 14 - AFFILIATION WITH THE COUNTY OF LOS ANGELES**

As discussed in Note 1, the Foundation provides support and assistance in the maintenance and development of the Museum's educational, scientific and cultural programs and services and expansion of collections. In connection with this assistance, the County and the Foundation have entered into a funding agreement that extends to June 30, 2081. Under the terms of the funding agreement, the County provided \$23,004,749 and \$21,077,820 to the Foundation for the fiscal years ended June 30, 2020 and 2019, respectively. These funds were used to operate and generally administer the Museum and maintain and preserve the Museum and all structures and facilities in good repair and working order.

During the fiscal years ended June 30, 2020 and 2019, \$17,711,306 and \$17,091,809, respectively, were received directly by the Foundation as reimbursements for certain Foundation services and are included in the accompanying statement of activities and changes in net assets as support from the County. The remaining amounts of \$5,293,443 and \$3,986,011, respectively, were provided directly by the County to other providers of services to the Museum and are not reflected in the accompanying financial statements.

The amount provided under the agreement with the County will be adjusted annually by the Consumer Price Index, but no such annual adjustment shall exceed 5%. The Foundation is responsible for contributing each fiscal year towards its operations for the benefit of the Museum an amount no less than 80% of the amount provided by the County. For the fiscal years ended June 30, 2020 and 2019, the Foundation provided \$55,105,848 and \$47,381,586, respectively, excluding unrealized gains and losses on investments, representing 240% of the amounts provided by the County for 2020 and 225% for 2019.

During the fiscal year ended June 30, 2020, the Foundation received a commitment from Los Angeles County of \$15,000,000 for the NHM Commons project, approved by the Los Angeles County Board of Supervisors in March 2020.

**NOTE 15 - RETIREMENT PLAN**

The Foundation maintains certain defined contribution retirement plans (the "Plans"), which are offered to all of its eligible employees. Contributions are made by the Foundation as well as voluntarily by employees. Effective January 1, 2017, the Foundation began automatically enrolling employees in the plan at a 3% employee contribution. Employees can choose to contribute more, less or opt-out completely. The Foundation contributes 3% of employees' eligible pay whether the employee contributes or not. Additionally, the Foundation matches 40% of employee deferrals up to a total of 5% of eligible pay. Employees are vested after two years of service. The Foundation has the right to terminate its involvement with the Plans at any time. The Plans are funded as incurred. The Foundation's contribution totaled \$1,012,827 and \$985,804 for the fiscal years ended June 30, 2020 and 2019, respectively.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
(With summarized comparative financial information at June 30, 2019)

**NOTE 16 - AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the Foundation's financial assets as of June 30, 2020, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include endowment funds set aside for long-term investing that could be drawn upon with the approval of the governing board.

	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 14,096,568	\$ 7,867,952
Investments	161,673,709	163,699,446
Investments held in trust under split-interest agreement	153,864	183,746
Accounts receivable	87,850	465,982
Grants and contributions receivable, net	<u>32,179,049</u>	<u>11,592,932</u>
 Total Financial assets	 208,191,040	 183,810,058
 Receivables scheduled to be collected in more than one year (see Note 4)	 (10,479,689)	 (8,757,816)
Contractual or donor-imposed restrictions:		
Endowment funds (including funds which are perpetual in nature)	(7,990,636)	(6,690,017)
Other donor restrictions	(39,197,682)	(4,259,727)
Investment held in charitable remainder trust	(153,864)	(183,746)
Board designations:		
Endowment funds, net of fiscal year 2021 appropriation of \$9,242,434	<u>(144,918,568)</u>	<u>(148,418,197)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 5,450,601</u>	 <u>\$ 15,500,555</u>

At the beginning of each fiscal year, the Foundation receives a lump sum payment from the County representing the operational transfer in accordance with the funding agreement between the County and the Foundation. The Foundation received \$17.7 million in July 2020 (for fiscal year 2021) and \$17.1 million in July 2019 (for fiscal year 2020).

**NOTE 17 - ANALYSIS OF EXPENSES**

The financial statements report certain categories of expenses (e.g., depreciation, amortization) that are attributable to one or more program or supporting services of the Foundation. Those expenses include the Executive Office, Guest Relations department, Marketing and Communications department and Administration (includes Operations department, and the Offices of Finance, Human Resources and Information Technology). The costs of these departments are allocated based on management's evaluation of where efforts are made.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

Expenses by function and natural classification for the year ended June 30, 2020 is:

	Education and Exhibits	Research and Collections	Total	General and Administration	Fundraising	Total	Total Expenses	2019 Total Expenses
Operating expenses								
Salaries and wages	\$ 13,360,372	\$ 8,982,203	\$ 22,342,575	\$ 1,529,932	\$ 3,182,105	\$ 4,712,037	\$ 27,054,612	\$ 26,711,103
Professional fees	669,637	279,929	949,566	172,943	471,830	644,773	1,594,339	2,087,597
Museum use services and services	1,029,838	898,074	1,927,912	1,455,092	200,174	1,655,266	3,583,178	3,984,237
Occupancy	-	-	-	-	-	-	-	418,906
Insurance/ participation fees and travel	276,012	324,032	600,044	169,659	76,365	246,024	846,068	875,061
Advertising and printing	1,207,101	38,051	1,245,152	5,285	124,994	130,279	1,375,431	2,247,513
Exhibit building and supply costs	294,404	25,860	320,264	-	-	-	320,264	768,930
Information technology	280,704	185,092	465,796	111,461	97,120	208,581	674,377	913,332
Repair and maintenance	640,558	419,430	1,059,988	393,083	82,710	475,793	1,535,781	1,344,361
Office expense	88,122	85,462	173,584	49,951	114,591	164,542	338,126	361,877
Other	1,197,591	1,203,571	2,401,162	217,442	286,591	504,033	2,905,195	3,204,965
Recovery of allowance for doubtful pledges	-	-	-	355,699	-	355,699	355,699	347,263
Depreciation	3,984,761	2,603,253	6,588,014	756,019	950,268	1,706,287	8,294,301	8,180,691
Amortization	-	-	-	43,735	-	43,735	43,735	43,735
Total operating expenses	<u>\$ 23,029,100</u>	<u>\$ 15,044,957</u>	<u>\$ 38,074,057</u>	<u>\$ 5,260,301</u>	<u>\$ 5,586,748</u>	<u>\$ 10,847,049</u>	<u>\$ 48,921,106</u>	<u>\$ 51,489,571</u>

**NOTE 18 - SUBSEQUENT EVENTS**

The Foundation has performed an evaluation of subsequent events through November 16, 2020, which is the date the financial statements were available to be issued.

***Bonds Payable***

During September 2020, pursuant to an Indenture of Trust dated September 1, 2020 (the "Trust Indenture") by and between the California Infrastructure and Economic Development Bank, a public instrumentality of the State of California (the "Issuer"), and MUFG Union Bank, N.A., as trustee, \$122,520,000 of tax-exempt fixed rate Refunding Revenue Bonds Series 2020 (the "2020 Bonds") were issued. The 2020 Bonds become due July 1, 2050, with one half bearing interest at a rate of 3% and the other half at a rate of 4%, payable each January 1 and July 1.

The Issuer lent the proceeds of the 2020 Bonds to the Foundation pursuant to a Loan Agreement (the "Loan Agreement") by and between the Issuer and the Foundation. Such proceeds received by the Foundation were used to (i) refund the 2008 Bonds described in Footnote 9, (ii) pay final termination payments to be due on two interest rate swap transactions relating to the 2008 Bonds as described in Footnote 10, (iii) fund working capital expenses of the Foundation, and (iv) pay certain costs of issuance related to the 2020 Bonds.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended June 30, 2020**  
**(With summarized comparative financial information at June 30, 2019)**

The 2020 Bonds are limited obligations of the Issuer and as and to the extent set forth in the Trust Indenture will be payable solely from the revenues to be received by the Issuer under the Loan Agreement (consisting primarily of loan payments to be made by the Foundation) and, except for a rebate fund as set forth in the Trust Indenture, from other funds and accounts held under the Trust Indenture. The Bonds are subject to optional redemption by the Issuer on or after July 1, 2030. The Foundation's payment obligations under the Loan Agreement are general, unsecured obligations of the Foundation.

**COVID-19**

In March 2020, the World Health Organization categorized Coronavirus Disease 2019 (COVID-19) as a pandemic. The outbreak of COVID-19 has severely impacted the global economy, including closures of non-essential services which triggered significant disruptions to local economies and organizations, including the Natural History Museums of Los Angeles County.

In keeping with guidelines from the State of California and the Los Angeles County Department of Public Health, the Museums were closed to the public on March 14, 2020. The leadership team and Board of Trustees responded quickly to evaluate the immediate financial impact and adjusted spending levels based on the estimated reduction of admission and other earned revenue for the remainder of the fiscal year ended June 30, 2020 and for the operating budget for the fiscal year ending June 30, 2021. The Foundation obtained a PPP loan in order to employ the entire workforce through the end of the fiscal year ended June 30, 2020. The workforce, other than those employees determined to be essential workers, worked from home, and continue to split time between home and the Museums. The outdoor exhibits were allowed to open at the end of August 2020 with reduced capacities, and the indoor Museums are expected to open in the first half of 2021 at limited capacities. Digital offerings and outreach were increased to engage community members and donors. The Foundation continues to receive annual funding from individual and institutional donors and has been the recipient of new levels of support from institutions that have provided emergency grants for operations during the pandemic-related closure.

The Foundation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the fiscal year ended June 30, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Foundation for future periods. The Foundation expects the COVID-19 pandemic to negatively impact near-term revenues derived from attendance. Management will continue to monitor COVID-19 and potential volatility in the market, and has not yet been able to determine the full financial impact of these events.

## **SUPPLEMENTAL INFORMATION**

**Los Angeles County Museum of Natural History Foundation**  
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**COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the year ended June 30, 2020

	Combined	County of Los Angeles	Eliminations	Los Angeles County Museum of Natural History Foundation
<b>Operating revenue and support:</b>				
Private gifts, grants and contracts	\$ 14,336,947	\$ -	\$ -	\$ 14,336,947
Endowment income	9,500,148	-	-	9,500,148
Government grants	19,685,485	-	-	19,685,485
Museum admission fees	6,122,743	-	-	6,122,743
Appropriation from the County of Los Angeles	23,004,749	(23,004,749)	-	-
Support from the County of Los Angeles	-	-	17,711,306	17,711,306
Membership dues	2,761,595	-	-	2,761,595
Program income	1,544,168	-	-	1,544,168
Museum use and services	412,641	-	-	412,641
Museum shops, cafeteria and photo experience	720,064	-	-	720,064
Miscellaneous revenue	22,056	-	-	22,056
Total operating revenue and support	<u>78,110,596</u>	<u>(23,004,749)</u>	<u>17,711,306</u>	<u>72,817,153</u>
<b>Operating expense:</b>				
Program services				
Education and exhibits	26,044,009	(6,999,670)	-	19,044,339
Research and collections	17,692,257	(5,250,553)	-	12,441,704
Total program services	<u>43,736,266</u>	<u>(12,250,223)</u>	<u>-</u>	<u>31,486,043</u>
Supporting services				
General and administration	14,367,763	(10,754,526)	-	3,613,237
Operating contract with County of Los Angeles - Operational Transfer	(17,711,306)	-	17,711,306	-
Fundraising	4,636,480	-	-	4,636,480
Total supporting services	<u>1,292,937</u>	<u>(10,754,526)</u>	<u>17,711,306</u>	<u>8,249,717</u>



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**COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the year ended June 30, 2020

		County of Los Angeles	Eliminations	Los Angeles County Museum of Natural History Foundation
	Combined			
<b>Operating expense (continued):</b>				
Other expenses				
Museum use and services	\$ 491,611	\$ -	\$ -	\$ 491,611
Provision for doubtful accounts	355,699	-	-	355,699
Depreciation	8,294,301	-	-	8,294,301
Amortization	43,735	-	-	43,735
Total other expenses	9,185,346	-	-	9,185,346
<b>Total operating expenses</b>	54,214,549	(23,004,749)	17,711,306	48,921,106
<b>Change in net assets from operations</b>	23,896,047	-	-	23,896,047
<b>Non-operating activities:</b>				
Interest and dividend income, net	(444,956)	-	-	(444,956)
Debt service payments	(4,289,450)	-	-	(4,289,450)
Realized and unrealized gain on investments, net	7,602,186	-	-	7,602,186
Unrealized loss on interest rate swaps	(8,014,926)	-	-	(8,014,926)
Change in value of obligations under split-interest agreement	165	-	-	165
Endowment distributed for operations	(9,500,148)	-	-	(9,500,148)
<b>Total non-operating activities</b>	(14,647,129)	-	-	(14,647,129)
<b>Change in net assets</b>	9,248,918	-	-	9,248,918
Net assets, beginning of the year	174,387,491	-	-	174,387,491
Net assets, end of year	<u>\$ 183,636,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,636,409</u>