Financial Statements and Report of Independent Certified Public Accountants

Los Angeles County Museum of Natural History Foundation

June 30, 2018 (with summarized comparative financial information for June 30, 2017)

Contents

Report of Independent Certified Public Accountants

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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, 2018, 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 Foundation'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 Foundation'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, 2018, 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, 2018, 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 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 2017 summarized comparative information

We have previously audited the Foundation's 2017 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2017. In our opinion, the accompanying summarized comparative financial information as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
December 12, 2018

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

STATEMENT OF FINANCIAL POSITION

As of June 30, 2018
(With summarized comparative financial information at June 30, 2017)

	2018	2017
ASSETS		
Assets		
Cash and cash equivalents	$ 6,697,673	$ 7,793,875
Investments	161,394,646	156,436,468
Investments held in trust under split-interest agreement	208,627	237,171
Accounts receivable	714,629	204,343
Grants and contributions receivable, net	5,364,059	5,374,140
Leasehold improvements, equipment and exhibits, net	109,004,000	110,903,521
Prepaid expenses and other assets	604,193	725,314
Total assets	$ 283,987,827	$ 281,674,832
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 5,402,364	$ 3,968,032
Obligations under split-interest agreement	137,853	166,427
Deferred revenues	560,195	104,888
Bonds payable, net	88,975,562	89,231,172
Interest rate swaps	15,850,675	20,811,219
Total liabilities	110,926,649	114,281,738
Net assets		
Unrestricted	158,515,046	148,783,408
Temporarily restricted	11,681,986	15,745,540
Permanently restricted	2,864,146	2,864,146
Total net assets	173,061,178	167,393,094
Total liabilities and net assets	$ 283,987,827	$ 281,674,832

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, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Operating revenue and support					
Private gifts, grants and contracts	$ 1,940,095	$ 1,861,299	$ -	$ 3,801,394	$ 6,362,893
Endowment income	7,586,177	127,587	-	7,713,764	7,601,863
Grant income	719,708	6,030,460	-	6,750,168	574,214
Museum admission fees	9,095,143	-	-	9,095,143	7,794,789
Support from the County of Los Angeles	16,821,482	-	-	16,821,482	16,159,000
Membership dues	3,640,489	6,860	-	3,647,349	3,584,930
Program income	2,067,446	67,938	-	2,135,384	1,964,534
Museum use and services	378,210	-	-	378,210	878,958
Museum shops, cafeteria and photo experience	1,309,720	-	-	1,309,720	1,284,282
Miscellaneous revenue	38,005	-	-	38,005	183,793
Special events revenue, net of cost of direct benefit to donors	-	-			
of $0 and $461,845, respectively	-	-	-	-	787,928
Total revenue and support	43,596,475	8,094,144	-	51,690,619	47,177,184
Net assets released from restrictions					
Satisfaction of restrictions	11,899,056	(11,899,056)	-	-	-
Total net assets released from restrictions	11,899,056	(11,899,056)	-	-	-
Total operating revenue and support and net assets released from restrictions	55,495,531	(3,804,912)	-	51,690,619	47,177,184
Operating expenses					
Program services					
Education and exhibits	20,739,814	-	-	20,739,814	19,499,385
Research and collections	11,927,896	-	-	11,927,896	11,271,186
Total program services	32,667,710	-	-	32,667,710	30,770,571
Supporting servcies					
General and administration	4,620,979	-	-	4,620,979	4,171,119
Fundraising	4,645,817	-	-	4,645,817	4,036,674
Total supporting services	$ 9,266,796	$ -	$ -	$ 9,266,796	$ 8,207,793

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, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Operating expenses (continued)					
Other expenses					
Ancillary services					
Museum use and services	$ 332,483	$ -	$ -	$ 332,483	$ 513,621
Recovery of allowance for doubtful pledges	(1,466)	-	-	(1,466)	51,915
Depreciation	8,185,395	-	-	8,185,395	8,050,861
Amortization	39,777	-	-	39,777	27,901
Total other expenses	8,556,189	-	-	8,556,189	8,644,298
Total operating expenses	50,490,695	-	-	50,490,695	47,622,662
Change in net assets from operations	5,004,836	(3,804,912)	-	1,199,924	(445,478)
Non-operating revenue, gains and losses					
Interest and dividend income, net	2,538,501	185,550	-	2,724,051	3,497,858
Debt service payments	(4,203,029)	-	-	(4,203,029)	(4,077,451)
Realized and unrealized gain (loss) on investments, net	8,830,787	(130,459)	-	8,700,328	18,722,206
Unrealized gain (loss) on interest rate swaps	4,960,543	-	-	4,960,543	8,568,650
Change in value of obligations under split-interest agreement	-	31	-	31	5,400
Endowment income for operations	(7,400,000)	(313,764)	-	(7,713,764)	(7,601,863)
Total other non-operating revenue, gains and losses	4,726,802	(258,642)	-	4,468,160	19,114,800
Change in net assets	9,731,638	(4,063,554)	-	5,668,084	18,669,322
Net assets, beginning of the year	148,783,408	15,745,540	2,864,146	167,393,094	148,723,772
Net assets, end of the year	$ 158,515,046	$ 11,681,986	$ 2,864,146	$ 173,061,178	$ 167,393,094

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, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 5,668,084	$ 18,669,322
Adjustments to reconcile the change in net assets		
to net cash provided by (used in) operating activities		
Depreciation	8,185,395	8,050,861
Net change in bond issuance cost	(255,610)	22,448
Recovery of uncollectible pledges	(1,466)	51,915
Realized and unrealized (gain) loss on investments, net	(8,700,328)	(18,722,206)
Unrealized (gain) loss on interest rate swaps	(4,960,543)	(8,568,650)
Change in value of investments held in trust	28,543	22,465
(Increase) decrease in		
Accounts receivable	(510,286)	351,092
Grants receivable and contributions receivable	11,548	(36,364)
Prepaid expenses and other assets	121,119	(79,406)
Increase (decrease) in		
Accounts payable and accrued expenses	1,434,333	(644,486)
Deferred revenues	455,307	(339,714)
Net cash provided by (used in) operating activities	1,476,096	(1,222,723)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	65,768,508	80,485,968
Purchases of investments	(62,026,358)	(77,522,624)
Purchases of building improvements, equipment and exhibits	(6,285,874)	(3,431,774)
Net cash used in investing activities	(2,543,724)	(468,430)
Cash flows from financing activities		
Decrease in obligations under split-interest agreement	(28,574)	(27,866)
Net cash used in financing activities	(28,574)	(27,866)
Net change in cash and cash equivalents	(1,096,202)	(1,719,019)
Cash and cash equivalents, beginning of year	7,793,875	9,512,894
Cash and cash equivalents, end of year	$ 6,697,673	$ 7,793,875
Supplemental cash flow information		
Contributions of non-cash gifts	$ 97,656	$ 982,570
Cash paid for interest	$ 3,532,467	$ 2,649,704

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

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 13 and in the supplemental combining statement of activities and changes in net assets for the fiscal year ended June 30, 2018, the County provided $4,048,723 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 $55,739,341 for the fiscal year ended June 30, 2018.

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.

NOTE 1 – NATURE OF THE ORGANIZATION - Continued

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 six hundred 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.

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, 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 and 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:

Unrestricted net assets – 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.

Temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 as unrestricted support. 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 as temporarily restricted support until the assets are placed in service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation (continued)

Permanently restricted net assets – 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, 2017, from which the summarized information was derived.

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 statements 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 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/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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments (continued)

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

The Foundation receives grants from federal agencies that are considered exchange transactions. The Foundation recognizes income from these grants as revenue and support only to the extent that expenditures have been made for the purposes specified by the grant agreement or when services have been provided.

Contributions, which may include unconditional promises to give, are recognized as revenue in the period received or pledged. Conditional promises to give 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 2.54% to 2.81% for the fiscal year ended June 30, 2018 and between 1.38% to 2.73% for the fiscal year ended June 30, 2017. The discount rates will be applied over the life of the pledge. An allowance for uncollectible pledges of 5.00% 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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Leasehold Improvements, Equipment and Exhibits (continued)

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, 2018 and 2017, 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 13.

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 unrestricted net assets in the year in which the items are acquired or as decreases in temporarily restricted net assets 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 is recorded at fair value when gift is received. The present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution to the appropriate net asset category. The liability account is charged with payments to beneficiaries. Annual adjustments are made between the liability account and the net assets 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 Tables.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

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. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes (continued)

To date, the Foundation has not recorded any uncertain tax positions. During the fiscal years ended June 30, 2018 and 2017, 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.

Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

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

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal year ended June 30, 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Financial instruments included in the Foundation's statement of financial position include cash and cash equivalents, accounts receivable, grants and contributions receivable, investments, accounts payable and accrued expenses, split-interest agreement liabilities, bonds payable and interest rate swaps. The following is a description of the valuation methodologies used for instruments measured at fair value:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimated Fair Value of Financial Instruments (continued)

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 due to their short-term maturity. Certain long-term grants receivable 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.

Investments, revenue bond trust accounts and derivative financial instruments (i.e., interest rate swaps and alternative investments) are reflected at estimated fair value as described below.

Investments
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.

Interest Rate Swaps
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 received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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, 2018, the Foundation held approximately $5,364,845 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. 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, 2018 and 2017, were $814,438 and $558,828, respectively. Amortization of the debt issuance costs for the years ended June 30, 2018 and 2017 was $39,777 and $22,448, respectively, and is reported within interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in its financial statements about its liquidity, financial performance and cash flows. This new standard is effective for the Foundation for the year ending June 30, 2019. The Foundation is in the process of evaluating the impact of this standard on its operations.

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 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, 2020 and can be early adopted in certain circumstances. The Foundation is in the process of evaluating the impact of this standard on its operations.

In December 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard eliminates the transaction-and industry-specific revenue recognition guidance. This standard creates a single, principle-based revenue recognition framework that requires entities to shift away from primarily rules-based U.S. GAAP and to apply significantly more judgment. With that increase in judgment, Topic 606 requires expanded disclosures surrounding revenue recognition. This new standard is effective for the Foundation for the year ending June 30, 2019 and can be early adopted in certain circumstances.

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:

	2018	2017
Cash and money market funds	$ 682,010	$ 514,966
Common and preferred stock and mutual funds	109,207,039	100,594,762
Corporate bonds	24,728,844	24,815,206
Government securities	433,107	488,382
Alternative investments	24,501,893	29,938,811
Private equity	2,836,747	1,092,571
Other	10,390	12,972
	162,400,030	157,457,670
Less investments held in trust under split-interest agreement	(208,627)	(237,171)
Less cash from operations	(796,757)	(784,031)
	$ 161,394,646	$ 156,436,468

Management fees paid for the fiscal years ended June 30, 2018 and 2017 were $380,727 and $402,160, respectively.

Significant Concentration of Investments

Both at June 30, 2018 and 2017, the Foundation had an investment of 16,823 shares, in the Angeles Absolute Return Fund with a net asset value of $24,501,893 and $22,966,495, respectively. At June 30, 2018 and 2017, the Foundation had a position in the Angeles Global Equity Opportunities Fund LLC with a net asset value of $75,506,152 and $44,533,556, respectively.

NOTE 3 – INVESTMENTS - Continued

Significant Concentration of Investments (continued)

As of June 30, 2018, the Foundation's investments were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ 682,011	$ -	$ -	$ 682,011
Stocks and mutual funds	33,700,887	75,506,152	-	109,207,039
Corporate bonds	24,728,844	-	-	24,728,844
Government securities	433,107	-	-	433,107
Alternative investments	-	-	24,501,893	24,501,893
Private equity	-	-	2,836,747	2,836,747
Other funds	10,390	-	-	10,390
Total investments	$ 59,555,239	$ 75,506,152	$ 27,338,640	$ 162,400,031

As of June 30, 2017, the Foundation's investments were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ 514,966	$ -	$ -	$ 514,966
Stocks and mutual funds	56,061,206	44,533,556	-	100,594,762
Corporate bonds	24,815,206	-	-	24,815,206
Government securities	488,382	-	-	488,382
Alternative investments	-	-	29,938,811	29,938,811
Private equity	-	-	1,092,571	1,092,571
Other funds	12,972	-	-	12,972
Total investments	$ 81,892,732	$ 44,533,556	$ 31,031,382	$ 157,457,670

NOTE 3 – INVESTMENTS - Continued

Investments Valued at Net Asset Value

For the fiscal year ended June 30, 2018, the changes in fair value of the Foundation's Level 3 investments are as follows:

Balance, beginning of year	$	31,031,382
Purchases		2,281,743
Sales		(6,563,747)
Realized gains (losses), net		(879,907)
Unrealized gains (losses), net		1,469,169
Balance, end of year	$	27,338,640

For the fiscal year ended June 30, 2017, the changes in fair value of the Foundation's Level 3 investments are as follows:

Balance, beginning of year	$	28,022,636
Purchases		1,398,289
Sales		(1,115,476)
Realized gains (losses), net		(464,728)
Unrealized gains (losses), net		3,190,661
Balance, end of year	$	31,031,382

The following table summarizes the Foundation's investments in funds valued using the fair value as of June 30, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of hedge funds (a)	$ 24,501,893	$ -	Quarterly	90 days' notice
Private equity (b)	2,836,747	21,097,009	N/A	N/A
Total investments	$ 27,338,640	$ 21,097,009		

(a) The Foundation invests in the Angeles Absolute Return Fund LTD. Approximately 42% of this fund 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.

NOTE 3 – INVESTMENTS - Continued

Investments Valued at Net Asset Value (continued)

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 16% 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 12% 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 fund held approximately 3% in cash/other.

This fund has a one-year lock-up where no redemptions are permitted. After one year, redemptions are permitted quarterly after ninety days' prior written notice. Proceeds will generally be paid within forty days of the redemption date. These terms are dependent on the fund's ability to make withdrawals from the underlying strategies.

(b) The Foundation had commitments to five private investment funds as of June 30, 2018: Angeles Private Markets Fund 2, a fund that allows 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

NOTE 4 – GRANTS AND CONTRIBUTIONS RECEIVABLE

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

	2018	2017
Due within one year	$ 1,549,878	$ 1,440,574
Due in between one and five years	832,000	966,500
Due after five years	5,832,500	5,817,500
	8,214,378	8,224,574
Less present value discount	(2,445,694)	(2,444,343)
Less allowance for uncollectible pledges	(404,625)	(406,091)
Total	$ 5,364,059	$ 5,374,140

Unconditional contributions receivable include amounts from members of the Foundation's Board of Trustees of $3,965,000 and $3,677,840 as of June 30, 2018 and 2017, respectively.

NOTE 5 – LEASEHOLD IMPROVEMENTS, EQUIPMENT AND EXHIBITS

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

	2018	2017
Leasehold improvements	$119,306,124	$118,948,033
Exhibits	54,701,573	54,701,573
Equipment and furnishings	12,731,355	12,613,208
Construction in progress	6,196,074	386,438
	192,935,126	186,649,252
Less accumulated depreciation	(83,931,126)	(75,745,731)
Total	$109,004,000	$110,903,521

Depreciation expense for the fiscal years ended June 30, 2018 and 2017 was $8,185,395 and $8,050,861, 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 – LINE OF CREDIT

The Foundation has an uncollateralized $4,500,000 revolving line of credit with a bank that expires on December 31, 2019. During the fiscal years ended June 30, 2018 and 2017, no amounts were outstanding under the line of credit. Interest is payable monthly at .25% below the bank's prime rate, which was 5.00% at June 30, 2018 and 3.75% at June 30, 2017.

NOTE 8 – 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 Bonds (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 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, 2018 and 2017, no proceeds related to the 2008 Bonds were held in trust accounts by the Trustee.

Originally, the 2008 Bonds bore interest at a daily interest rate determined by the Remarketing Agent. At June 30 2017, the interest rate was .60%, on both the Series 2008A and the Series 2008B Bonds.

NOTE 8 – BONDS PAYABLE - Continued

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, 2018, the interest rate was 2.47% on both the Series 2008A and the Series 2008B Bonds.

For the fiscal years ended June 30, 2018 and 2017, the Foundation incurred $3,641,199 and $2,886,798, 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 assets to indebtedness ratio ("UNA ratio") of 0.75 at each June 30 and December 31 through the calendar year 2011, and 0.95 at each June 30 and December 31 thereafter, or be subject to specific sanctions.

As of June 30, 2018 and 2017, the UNA ratio was 1:73:1 and 1:65:1, respectively. The Foundation was in compliance with the bond covenant requirements at June 30, 2018 and 2017.

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, 2018 the capitalized amount was $1,109,976 and at June 30, 2017, the capitalized amount was $953,263. For the fiscal years ended June 30, 2018 and 2017, the amortization of these issuance costs was $39,777 and $22,448, respectively. The 2008 Bonds are shown in the statement of financial position net of the unamortized issuance costs.

NOTE 8 – BONDS PAYABLE - Continued

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

Redemption Date September 1,	Series A	Series B	Total
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 issuance costs			(814,438)
			$ 88,975,562

NOTE 9 – INTEREST RATE SWAPS

In April 2008, the Foundation entered into a twenty-nine-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 twenty-three basis points (1.40% at June 30, 2018). The interest rate swap agreement expires on September 1, 2037. The Foundation recognized a net unrealized gain on mark to market of $4,960,543 and a net unrealized gain of $8,568,650 for the fiscal years ended June 30, 2018 and 2017, 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 to expire on October 23, 2017, but was extended to October 13, 2020.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Minimum Lease Payments

The Foundation leases storage facilities and office equipment under several noncancelable operating leases expiring at various dates through the fiscal year ending June 30, 2023. For the fiscal year ended June 30, 2018, rent expense relating to these leases amounted to $512,963, 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:

Years Ending June 30,	
2019	$ 533,033
2020	543,368
2021	554,013
2022	564,977
2023	219,735
Total	$ 2,415,126

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 significant impact on the financial position and cash flows of the Foundation.

NOTE 11 – NET ASSETS

Unrestricted net assets, including Board-designated endowments and net investment in leasehold improvements, equipment and exhibits, at June 30, were as follows:

	2018	2017
Unrestricted undesignated	$ 7,940,305	$ 7,472,608
Board-designated endowment funds	147,211,416	141,008,498
Net investment in leasehold improvements, equipment and exhibits	3,363,325	302,302
Total	$ 158,515,046	$ 148,783,408

Temporarily restricted net assets at June 30, were as follows:

	2018	2017
Restricted as to purpose		
Programs (including Research and Collections and Education and Exhibits)	$ 5,805,109	$ 9,838,687
Administration	448,392	503,368
	6,253,501	10,342,055
Restricted as to time	5,428,485	5,403,485
Total	$ 11,681,986	$ 15,745,540

Permanently restricted net assets totaling $2,864,146 at June 30, 2018 and 2017 are contributions restricted by donors for investment in perpetuity, the earnings from which are restricted for specific purposes.

NOTE 12 – 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

NOTE 12 – ENDOWMENT - Continued

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent 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 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
- The investment policies of the Foundation

The following table presents the Foundation's endowment composition and net asset classification as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,037,559	$ 2,864,146	$ 6,901,705
Board-designated endowment funds	147,211,414	-	-	147,211,414
Endowment net assets, end of year	$147,211,414	$ 4,037,559	$ 2,864,146	$154,113,119

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

NOTE 12 – ENDOWMENT - Continued

Changes in endowment net assets for the fiscal year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 141,008,498	$ 4,307,693	$ 2,864,146	$ 148,180,337
Campaign gifts	2,304,283	-	-	2,304,283
Investment return				
Investment income (net)	2,097,644	216,135	-	2,313,779
Net gains/(loss) (realized and unrealized)	8,830,787	(130,459)	-	8,700,328
Total investment return	13,232,714	85,676	-	13,318,390
Appropriation of endowment assets for fiscal year 2019	(7,578,567)	-	-	(7,578,567)
Replacement of endowment assets previously appropriated for expenditure	(239,000)	(313,764)	-	(552,764)
Other	787,769	(42,046)	-	745,723
Endowment net assets, end of year	$ 147,211,414	$ 4,037,559	$ 2,864,146	$ 154,113,119

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. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. At June 30, 2018, the Foundation had no endowment funds with fair values below the original gift amount.

The Foundation has adopted investment and spending policies 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.

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.

NOTE 12 – ENDOWMENT - Continued

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, 2018 and 2017, was 5% to cover operations and debt service related payments. The spending rate is reviewed periodically to ensure it is consistent with the long-term investment objectives 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.

NOTE 13 – 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 $20,870,205 and $19,657,589 to the Foundation for the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017, $16,821,482 and $16,159,000, 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 $4,048,723 and $3,498,589, 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, 2018 and 2017, the Foundation provided $34,869,136 and $31,018,184, respectively, excluding unrealized gains and losses on investments, representing 167% of the amounts provided by the County for 2018 and 158% for 2017.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2018
(With summarized comparative financial information for the year ended June 30, 2017)

NOTE 14 – RETIREMENT PLAN

The Foundation maintains certain defined contribution retirement plans (the "Plans"), which are offered to all of its full-time 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. Prior to 2017, the Foundation matched participant contributions up to a maximum of 5% of each participant's salary (as defined in the agreements). 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 $915,160 and $761,408 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTE 15 – SUBSEQUENT EVENTS

The Foundation has performed an evaluation of subsequent events through December 12, 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION: COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

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

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2018

	Combined	County of Los Angeles	Eliminations	Los Angeles County Museum of Natural History Foundation
Operating revenue and support				
Private gifts, grants and contracts	$ 3,801,394	$ -	$ -	$ 3,801,394
Endowment income	7,713,764	-	-	7,713,764
Grant income	6,750,168	-	-	6,750,168
Museum admission fees	9,095,143	-	-	9,095,143
Appropriation from the County of Los Angeles	20,870,205	(20,870,205)	-	-
Support from the County of Los Angeles	-	-	16,821,482	16,821,482
Membership dues	3,647,349	-	-	3,647,349
Program income	2,135,384	-	-	2,135,384
Museum use and services	378,210	-	-	378,210
Museum shops, cafeteria and photo experience	1,309,720	-	-	1,309,720
Miscellaneous revenue	38,005	-	-	38,005
Total operating revenue and support	55,739,342	(20,870,205)	16,821,482	51,690,619
Operating expenses				
Program services				
Education and exhibits	20,839,130	(99,316)	-	20,739,814
Research and collections	12,615,124	(687,228)	-	11,927,896
Total program services	33,454,254	(786,544)	-	32,667,710
Supporting services				
General and administration	7,883,158	(3,262,179)	-	4,620,979
Operating contract with the County	-	(16,821,482)	16,821,482	-
Fundraising	4,645,817	-	-	4,645,817
Total supporting services	$ 12,528,975	$ (20,083,661)	$ 16,821,482	$ 9,266,796

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

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED

For the Year Ended June 30, 2018

	Combined	County of Los Angeles	Eliminations	Los Angeles County Museum of Natural History Foundation
Operating expenses (continued)				
Other expenses				
Ancillary services				
Museum use and services	$ 332,483	$ -	$ -	$ 332,483
Recovery of allowance for doubtful pledges	(1,466)	-	-	(1,466)
Depreciation	8,185,395	-	-	8,185,395
Amortization	39,777	-	-	39,777
Total other expenses	8,556,189	-	-	8,556,189
Total operating expenses	54,539,418	(20,870,205)	16,821,482	50,490,695
Change in net assets from operations	1,199,924	-	-	1,199,924
Non-operating revenue, gains and losses				
Interest and dividend income, net	2,724,051	-	-	2,724,051
Debt service payments	(4,203,029)	-	-	(4,203,029)
Realized and unrealized gain on investments, net	8,700,328	-	-	8,700,328
Unrealized gain on interest rate swaps	4,960,543	-	-	4,960,543
Change in value of obligations under split-interest agreement	31	-	-	31
Endowment income from operations	(7,713,764)	-	-	(7,713,764)
Total other non-operating revenue, gains and losses	4,468,160	-	-	4,468,160
Change in net assets	5,668,084	-	-	5,668,084
Net assets, beginning of the year	167,393,094	-	-	167,393,094
Net assets, end of the year	$ 173,061,178	$ -	$ -	$ 173,061,178