

# **LOS ANGELES COUNTY MUSEUM OF NATURAL HISTORY FOUNDATION**



Financial Statements &  
Supplemental Information  
June 30, 2008 and 2007

**Los Angeles County  
Museum of Natural History Foundation  
Financial Statements  
and Supplementary Information  
June 30, 2008 and 2007**

**Los Angeles County Museum of Natural History Foundation**  
**Index to Financial Statements and Supplementary Information**  
**June 30, 2008 and 2007**

---

	<b>Page</b>
<b>Report of Independent Auditors</b> .....	1
Statements of Financial Position .....	2
Statement of Activities and Changes in Net Assets – 2008.....	3
Statement of Activities and Changes in Net Assets – 2007.....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6
Supplemental Schedule of Activities Information.....	18

**Report of Independent Auditors**

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

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Los Angeles County Museum of Natural History Foundation (the "Foundation") at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Supplemental Schedule of Activities Information on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

December 8, 2008

**Los Angeles County Museum of Natural History Foundation**  
**Statements of Financial Position**  
**June 30, 2008 and 2007**

---

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 30,596,165	\$ 19,016,281
Investments (Note 3)	112,847,973	105,937,513
Investments held in trust under split-interest agreements	447,721	1,621,576
Accounts receivable, net	454,654	71,979
Grants & contributions receivable, net (Note 4)	5,218,564	6,483,299
Leasehold improvements, equipment and exhibits (Note 5)	28,550,181	15,841,869
Other assets	1,154,798	2,232,404
Cash with Fiscal Agent (Note 8)	78,233,112	79,668,031
Interest rate swap agreement (Note 9)	—	1,676,165
Collections (Note 6)	—	—
	<u>—</u>	<u>—</u>
Total assets	<u>\$ 257,503,168</u>	<u>\$ 232,549,117</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 4,619,927	\$ 2,659,705
Obligations under split-interest agreements	222,160	362,844
Deferred revenue	422,341	530,751
Bonds payable (Note 8)	89,790,000	84,400,000
Interest rate swap agreement (Note 9)	5,319,164	—
	<u>—</u>	<u>—</u>
Total liabilities	<u>100,373,592</u>	<u>87,953,300</u>
Net assets (Note 11)		
Unrestricted		
Undesignated	952,731	14,104,057
Board-designated	107,157,360	100,072,562
Net investment in leasehold improvements, equipment and exhibits	<u>28,550,181</u>	<u>15,841,869</u>
Total unrestricted	136,660,272	130,018,488
Temporarily restricted	17,269,806	11,459,179
Permanently restricted	<u>3,199,498</u>	<u>3,118,150</u>
Total net assets	<u>157,129,576</u>	<u>144,595,817</u>
Total liabilities and net assets	<u>\$ 257,503,168</u>	<u>\$ 232,549,117</u>

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

**Los Angeles County Museum of Natural History Foundation**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2008 (with comparative totals for 2007)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Totals	2007 Totals
<b>Operating revenue and support</b>					
Private gifts, grants and contracts	\$ 5,469,285	\$ 7,121,519	\$ —	\$ 12,590,804	\$ 19,573,185
Endowment income used for operations	3,586,389	295,901	—	3,882,290	3,432,016
Grant income	6,161,035	—	—	6,161,035	6,198,093
Museum admission fees	2,433,868	—	—	2,433,868	2,237,681
Support from the County of Los Angeles (Note 10)	8,356,000	—	—	8,356,000	6,347,000
Membership dues	2,093,419	13,530	—	2,106,949	1,862,669
Program income	549,122	21,468	—	570,590	755,441
Museum use and services	347,215	—	—	347,215	243,783
Museum shops and cafeteria	426,156	—	—	426,156	461,315
Museum catalogs and other	54,158	69,788	—	123,946	644,963
Special events revenue, net of cost of direct benefit to donors of \$497,752 in 2007	—	—	—	—	468,231
Total revenue and support	29,476,647	7,522,206	—	36,998,853	42,224,377
Net assets released from restrictions					
Satisfaction of restrictions	2,055,121	(2,055,121)	—	—	—
Total net assets released from restrictions	2,055,121	(2,055,121)	—	—	—
Total operating revenue and support and net assets released from restrictions	31,531,768	5,467,085	—	36,998,853	42,224,377
<b>Operating expenses</b>					
Program services					
Education	5,650,506	—	—	5,650,506	4,383,931
Research	6,675,829	—	—	6,675,829	5,535,642
Exhibits	3,503,959	—	—	3,503,959	3,030,575
Total program services	15,830,294	—	—	15,830,294	12,950,148
Supporting services					
General and administration	2,418,261	—	—	2,418,261	1,662,133
Fund-raising	2,920,902	—	—	2,920,902	3,241,766
Total supporting services	5,339,163	—	—	5,339,163	4,903,899
<b>Other expenses</b>					
Ancillary services					
Museum use and services	395,564	—	—	395,564	202,337
Allowance for doubtful pledges	657,692	—	—	657,692	—
Depreciation	431,774	—	—	431,774	488,583
Total other expenses	1,485,030	—	—	1,485,030	690,920
Total operating expenses	22,654,487	—	—	22,654,487	18,544,967
Change in net assets from operations	8,877,281	5,467,085	—	14,344,366	23,679,410
<b>Other non-operating revenues, (losses) and gains</b>					
Investment income	526,536	909,136	—	1,435,672	345,303
Realized and unrealized gains/(losses) on investments, net	9,747,830	—	—	9,747,830	17,108,037
Loss on bond refunding	(2,188,185)	—	—	(2,188,185)	—
Unrealized loss on interest rate swaps	(6,995,329)	—	—	(6,995,329)	1,676,165
Change in value of obligations under split interest agreements	260,040	(269,693)	81,348	71,695	76,976
Endowment income used for operations	(3,586,389)	(295,901)	—	(3,882,290)	(3,432,016)
Total non-operating revenues, gains and (losses)	(2,235,497)	343,542	81,348	(1,810,607)	15,774,465
Change in net assets	6,641,784	5,810,627	81,348	12,533,759	39,453,875
Net assets at the beginning of the year	130,018,488	11,459,179	3,118,150	144,595,817	105,141,942
Net assets at the end of the year	\$ 136,660,272	\$ 17,269,806	\$ 3,199,498	\$ 157,129,576	\$ 144,595,817

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

**Los Angeles County Museum of Natural History Foundation**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Totals
<b>Operating revenue and support</b>				
Private gifts, grants and contracts	\$ 17,907,515	\$ 1,664,520	\$ 1,150	\$ 19,573,185
Endowment income used for operations	3,396,488	35,528	-	3,432,016
Grant income	6,198,093	-	-	6,198,093
Museum admission fees	2,237,681	-	-	2,237,681
Support from the County of Los Angeles (Note 10)	6,347,000	-	-	6,347,000
Membership dues	1,848,504	14,165	-	1,862,669
Program income	593,394	162,047	-	755,441
Museum use and services	243,783	-	-	243,783
Museum shops and cafeteria	461,315	-	-	461,315
Museum catalogs and other	644,963	-	-	644,963
Special events revenue, net of cost of direct benefit to donors of \$497,752 in 2007	<u>468,231</u>	<u>-</u>	<u>-</u>	<u>468,231</u>
Total revenue and support	40,346,967	1,876,260	1,150	42,224,377
Net assets released from restrictions				
Satisfaction of restrictions	2,154,916	(2,154,916)	-	-
Change in donor stipulation	<u>(37,856)</u>	<u>549,839</u>	<u>(511,983)</u>	<u>-</u>
Total net assets released from restrictions	<u>2,117,060</u>	<u>(1,605,077)</u>	<u>(511,983)</u>	<u>-</u>
Total operating revenue and support and net assets released from restrictions	<u>42,464,027</u>	<u>271,183</u>	<u>(510,833)</u>	<u>42,224,377</u>
<b>Operating expenses</b>				
Program services				
Education	4,383,931	-	-	4,383,931
Research	5,535,642	-	-	5,535,642
Exhibits	<u>3,030,575</u>	<u>-</u>	<u>-</u>	<u>3,030,575</u>
Total program services	<u>12,950,148</u>	<u>-</u>	<u>-</u>	<u>12,950,148</u>
Supporting services				
General and administration	1,662,133	-	-	1,662,133
Fund-raising	<u>3,241,766</u>	<u>-</u>	<u>-</u>	<u>3,241,766</u>
Total supporting services	<u>4,903,899</u>	<u>-</u>	<u>-</u>	<u>4,903,899</u>
Other expenses				
Ancillary service				
Museum use and services	202,337	-	-	202,337
Depreciation	<u>488,583</u>	<u>-</u>	<u>-</u>	<u>488,583</u>
Total other expenses	<u>690,920</u>	<u>-</u>	<u>-</u>	<u>690,920</u>
Total operating expenses	<u>18,544,967</u>	<u>-</u>	<u>-</u>	<u>18,544,967</u>
Change in net assets from operations	<u>23,919,060</u>	<u>271,183</u>	<u>(510,833)</u>	<u>23,679,410</u>
<b>Other non-operating revenues, gains and (losses)</b>				
Investment income	19,575	325,728	-	345,303
Realized and unrealized gains on investments, net	16,899,413	208,624	-	17,108,037
Unrealized gain on interest rate swaps	1,676,165	-	-	1,676,165
Change in value of obligations under split-interest agreements	-	76,976	-	76,976
Endowment income used for operations	<u>(3,396,488)</u>	<u>(35,528)</u>	<u>-</u>	<u>(3,432,016)</u>
Total non-operating revenues, gains and (losses)	<u>15,198,665</u>	<u>575,800</u>	<u>-</u>	<u>15,774,465</u>
Change in net assets	39,117,725	846,983	(510,833)	39,453,875
Net assets at the beginning of the year	<u>90,900,763</u>	<u>10,612,196</u>	<u>3,628,983</u>	<u>105,141,942</u>
Net assets at the end of the year	<u>\$130,018,488</u>	<u>\$ 11,459,179</u>	<u>\$ 3,118,150</u>	<u>\$ 144,595,817</u>

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

**Los Angeles County Museum of Natural History Foundation**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2008 and 2007**

---

	2008	2007
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 12,533,759	\$ 39,453,875
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	500,991	503,505
Provision for uncollectible pledges	657,692	-
Realized and unrealized gains on investments, net	(9,747,830)	(17,108,037)
Unrealized loss/(gains) on interest rate swap	6,995,329	(1,676,165)
Contributions restricted for long-term investment or capital project	-	(1,150)
Contributions of non-cash securities	(1,109,297)	(555,531)
Bond interest revenue (net of expense)	(189,507)	-
Loss on refunding	2,188,185	-
Change in value of investments held in trust	347,313	(32,882)
Changes in operating assets and liabilities		
Accounts receivable	(382,675)	139,407
Grants and contributions receivable	607,043	(5,248,345)
Other assets	(97,775)	165,607
Accounts payable and accrued liabilities	2,176,503	567,419
Deferred revenues	(108,410)	139,999
Net cash provided by operating activities	<u>14,371,321</u>	<u>16,347,702</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	15,811,053	7,773,080
Purchases of investments	(11,864,388)	(4,223,609)
Proceeds from sale of investments held in trusts	826,542	-
Purchases of leasehold improvements, equipment and exhibits	<u>(13,356,365)</u>	<u>(8,842,285)</u>
Net cash used in investing activities	<u>(8,583,158)</u>	<u>(5,292,814)</u>
<b>Cash flows from financing activities</b>		
Decrease/(Increase) in funds held in trust	1,552,957	(79,668,031)
Proceeds from issuance/refunding of revenue bonds	5,390,000	84,400,000
Revenue bond cost of issuance	(1,010,552)	(2,178,552)
Contributions restricted for long-term investment or capital projects	-	1,150
Obligation under split-interest agreements	<u>(140,684)</u>	<u>(44,093)</u>
Net cash provided by financing activities	<u>5,791,721</u>	<u>2,510,474</u>
Net increase in cash and cash equivalents	11,579,884	13,565,362
Cash and cash equivalents at the beginning of the year	<u>19,016,281</u>	<u>5,450,919</u>
Cash and cash equivalents at the end of the year	<u>\$ 30,596,165</u>	<u>\$ 19,016,281</u>
<b>Supplemental cash flow information</b>		
Contribution of non-cash securities	\$ 1,109,297	\$ 555,531
Cash paid for interest	\$ 3,562,626	\$ 606,078

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

# Los Angeles County Museum of Natural History Foundation

## Notes to Financial Statements

### June 30, 2008 and 2007

---

#### 1. Nature of Organization

The Los Angeles County Museum of Natural History Foundation (the "Foundation"), a California nonprofit 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 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, as well as providing personnel to augment the Museum's staff. The Foundation is governed by a Board of Trustees.

The County of Los Angeles (the "County"), through its Department of Museum of Natural History (the "Department"), operates and maintains the Museum. A Board of Governors appointed by the 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 statements of activities. In addition, the County provides funds directly to providers of services to the Museum, which are not included in the accompanying financial statements. For a description of the funding agreement between the County and the Foundation, see Note 10.

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 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 more than 33 million specimens and artifacts in its collections covering 4.5 billion years of Earth and human history.

#### ***Page Museum at the La Brea Tar Pits***

Established in 1977, the Page Museum at the La Brea Tar Pits is recognized for having the largest and most diverse assemblage of extinct Ice Age plants and animals in the world, consisting of more than 650 species. During the summer, the public can observe paleontological fieldwork. The excavated fossils are cleaned, repaired and identified in a paleontology laboratory inside the Page Museum, which can be viewed by the public.

#### ***William S. Hart Museum***

The William S. Hart Museum was the home of William S. Hart, the first cowboy movie 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 Museum is situated in Hart Park in Newhall, which also contains historic buildings, and offers hiking trails, picnic areas and camping.

# Los Angeles County Museum of Natural History Foundation

## Notes to Financial Statements

### June 30, 2008 and 2007

---

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The Foundation's financial statements have been prepared on the accrual basis of accounting.

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 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 financial statements 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.
- 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.

### Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash equivalents consist of short-term, highly liquid invested funds with original maturities of less than three months. 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.

### Investments

The Foundation's investments consist of cash, money market funds, common and preferred stock, corporate bonds, and government securities.

Investments are carried at fair value which is based upon quoted market prices. Unrealized gains or losses are the difference between the cost and fair value of investments and are included as nonoperating activities in the statement of activities and changes in net assets. Realized gains and losses on dispositions are determined on the basis of specific identification and are included in nonoperating activities.

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 change could materially affect the amounts reported in the combined statements of financial position.

# Los Angeles County Museum of Natural History Foundation

## Notes to Financial Statements

### June 30, 2008 and 2007

---

#### 2. Summary of Significant Accounting Policies (Continued)

##### 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.

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 receivable are recorded at the present value of expected future cash flows. The discount rate used for the year ended June 30, 2008 and 2007 for new pledges was 2.75% and 3.3%, respectively.

##### Leasehold Improvements, Equipment and Exhibits

Leasehold improvements, equipment and exhibits are carried at cost if purchased, or if donated, at fair value on the date of donation. 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	5 to 15 years

The Foundation reviews leasehold improvements, equipment and exhibits for impairment whenever events or changes in circumstances indicate that the carrying value of property, building 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 2008 and 2007, there were no events or changes in circumstances indicating that the carrying amount of the leasehold improvements, equipment and exhibits may not be recoverable.

When qualifying assets are financed with the proceeds of restricted tax-exempt borrowings, the amount of interest cost is capitalized less any interest earned on temporary investment of the proceeds of the borrowings, from the date of the borrowings until the assets constructed with those borrowings are ready for their intended use.

The Foundation does not own the buildings or land. The buildings are owned by the County. The State of California and City of Los Angeles each own approximately one-half of the land on which the Museum is located. Under a ground lease, the County has leased the State-owned portion of the land from the State for a 75-year period, which expires in 2081. The County occupies most of the portion of the Natural History Museum Campus owned by the City of Los Angeles under a lease executed in 1924 which under the provisions of State law now operates as a periodic tenancy that renews annually. The County occupies a small portion of the Natural History Museum Campus under a lease with the City of Los Angeles executed in 1930 that pursuant to its terms expires in 2010.

# Los Angeles County Museum of Natural History Foundation

## Notes to Financial Statements

### June 30, 2008 and 2007

---

## 2. Summary of Significant Accounting Policies (Continued)

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

As a result of pending negotiations, the State of California and the City of Los Angeles may exchange parcels of real property. If this occurs as currently contemplated, the State of California will own all of the real property on which the Natural History Museum Campus is located and, pursuant to the terms of the Ground Lease, will become subject to the terms and provisions of the Ground Lease with the State of California.

### **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 statements 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 deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

### **Endowment Funds Used for Operations**

As a part of the annual budgeting process, the Board has approved a spending level from accumulated endowment gains of the unrestricted investments. This amount is calculated as 4%, based on a three year quarterly average as of April of each year (for the subsequent operating year). Such amount is reflected in the accompanying statements of activities as operating revenues. The amount is offset by a non-operating charge in the same amount, also entitled endowment funds used for operations. For the years ended June 30, 2008 and 2007, these amounts were \$3,882,290 and \$3,432,016, respectively.

### **Interest Rate Swap**

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. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Under current accounting standards, 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.

### **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) creating or enhancing long-lived assets or (b) requiring 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 does 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 income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

# Los Angeles County Museum of Natural History Foundation

## Notes to Financial Statements

### June 30, 2008 and 2007

---

## 2. Summary of Significant Accounting Policies (Continued)

### **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.

### **Non-operating (Expense)/Income**

Non-operating (expense)/income consist 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 interest rate swaps.

The Foundation maintains its cash and cash equivalents with investment-grade institutions. These account balances usually exceed federally insured limits. However, the Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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 change could materially affect the amounts reported in the combined statements of financial position.

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.

### **Reclassification**

Within the Statement of Activities, operating expenses have been reclassified and allocated based on its functional activities. The prior year amounts have been reclassified to conform with the current year presentation and consistent with its operations. Such reclassifications had no effect on the change in net assets or net asset balances as previously reported.

**Los Angeles County Museum of Natural History Foundation**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

---

**3. Investments**

Investments consisted of the following at June 30:

	<b>2008</b>	<b>2007</b>
Cash and money market funds	\$ 296,384	\$ 358,336
Common and preferred stock	111,157,483	105,606,112
Corporate bonds	1,692,773	1,197,154
Government securities	144,808	397,487
Mutual funds	<u>4,246</u>	<u>—</u>
Total investments	113,295,694	107,559,089
Less: Investments held in trust under split-interest agreements	<u>(447,721)</u>	<u>(1,621,576)</u>
	<u>\$ 112,847,973</u>	<u>\$ 105,937,513</u>

At June 30, 2008 and 2007, the Foundation had an investment in 890 and 917 shares, respectively, of Berkshire Hathaway, Inc. – Class A common stock with a fair value of \$107,467,500 and \$100,388,575, respectively.

Management fees paid for the years ended June 30, 2008 and 2007 were \$46,631 and \$30,933, respectively.

**4. Grants and Contributions Receivable**

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

	<b>2008</b>	<b>2007</b>
Within one year	\$ 4,724,177	\$ 4,367,544
Within two to five years	564,394	2,000,000
After five years	<u>950,000</u>	<u>300,000</u>
	6,238,571	6,667,544
Less: Discount	(362,315)	(184,245)
Allowance for uncollectible amounts	<u>(657,692)</u>	<u>—</u>
	<u>\$ 5,218,564</u>	<u>\$ 6,483,299</u>

Contributions to be received after one year are recorded at the present value of expected future cash flows. The discount rate used for the year ended June 30, 2008 and 2007 for new pledges was 2.75% and 3.3%, respectively. During the year, an allowance for uncollectible pledges has been established based on specifically identified pledges, combined with a general allowance rate of 5%. The pledge allowance rate was applied on the total undiscounted unpaid pledges.

**Los Angeles County Museum of Natural History Foundation**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

---

**5. Leasehold Improvements, Equipment and Exhibits**

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

	<b>2008</b>	<b>2007</b>
Leasehold improvements	\$ 21,392,520	\$ 21,190,547
Exhibits	1,630,299	1,620,695
Equipment and furnishings	9,508,959	8,801,515
Work-in-progress	<u>26,356,618</u>	<u>14,135,554</u>
Subtotal	58,888,395	45,748,311
Less: Accumulated depreciation and amortization	<u>(30,338,214)</u>	<u>(29,906,442)</u>
	<u>\$ 28,550,181</u>	<u>\$ 15,841,869</u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$431,774 and \$488,583, respectively.

**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.

**7. Line of Credit**

The Foundation has an uncollateralized \$4,500,000 revolving line of credit with a bank that expires on July 1, 2009. During the fiscal years and as of June 30, 2008 and 2007, no amounts were outstanding under the line of credit. Interest is payable monthly at 0.25% below the bank's prime rate, which was 5.00% at June 30, 2008 and 8.25% at 2007.

**8. Refunding Revenue Bonds**

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 Union Bank of California, N.A., as trustee (the "Trustee"), \$89,790,000 of tax-exempt Variable Rate Demand Refunding Revenue Bonds ("2008 Bonds") were issued in two series: Series 2008A was issued for \$44,895,000 and series 2008B was issued for \$44,895,000.

**Los Angeles County Museum of Natural History Foundation**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

---

**8. Refunding Revenue Bonds (Continued)**

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 ("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 defeased and no longer deemed to be outstanding under the Indenture. At June 30, 2008, \$78,233,112, of proceeds related to this issuance were held in trust accounts by the Trustee.

For the year ended June 30, 2008, the Foundation incurred \$993,963 of issuance costs related to the 2008 Bonds. These costs were capitalized and are being amortized over the bond terms on a straight-line basis. At June 30, 2008, the amortized 2008 Bond costs were \$5,712.

For the year ended June 30, 2008, the Foundation incurred \$3,771,178 in interest expense associated with the 2007 and 2008 Bonds, which was completely offset by the interest earnings on the unexpended bond proceeds. Therefore, no interest expense was capitalized.

The 2008 Bonds bear interest at a daily interest rate determined by the Remarketing Agent. At June 30, 2008, the interest rate was 1.45% on the 2008 Bonds.

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 .75 at each June 30<sup>th</sup> and December 31<sup>st</sup> through the calendar year 2011, and .95 at each June 30<sup>th</sup> and December 31<sup>st</sup> thereafter, or be subject to specific sanctions. As of June 30, 2008, the UNA ratio was 1.39:1.

**Los Angeles County Museum of Natural History Foundation**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

---

**8. Refunding Revenue Bonds (Continued)**

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

Mandatory Bond Redemption Requirements

<b>Redemption Date September 1</b>	<b>Series A</b>	<b>Series B</b>	<b>Total</b>
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*	<u>4,370,000</u>	<u>4,360,000</u>	<u>8,730,000</u>
Total	<u>\$ 44,895,000</u>	<u>\$ 44,895,000</u>	<u>\$ 89,790,000</u>

\*Maturity

The estimated fair value of the Foundation's bonds payable was approximately the amount of the bonds outstanding on the statements of financial position at June 30, 2008 and 2007, respectively.

**9. Interest Rate Swap Agreement**

In April 2007, the Foundation entered into a 30 year interest rate swap agreement with a bank to reduce the impact of changes in interest rate on its 2007 Bonds. Under the swap agreement, the Foundation agreed to pay to the bank a fixed amount of interest, 3.30% per month, and will receive an amount equal to 56% of one-month London Inter-Bank Offered Rate ("LIBOR") plus 23 basis points.

In April 2008, when the 2007 Bonds were replaced by the 2008 Bonds, a new interest rate swap agreement with a different bank replaced the original swap agreement. Under the new swap agreement, the Foundation agrees to pay the bank a fixed amount of interest at 3.385% per month, and will receive an amount equal to 56% of one-month LIBOR plus 23 basis points. The interest rate swap agreement expires on September 1, 2037.

Amounts received or paid to the bank under these agreements have been recognized in the statement of activities and changes in net assets. The Foundation recognized a net unrealized loss of \$6,995,329 at June 30, 2008 and a net unrealized gain of \$1,676,165 at June 30, 2007.

**Los Angeles County Museum of Natural History Foundation**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

---

**10. Affiliation with the County of Los Angeles**

**Funding Agreement**

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 of Los Angeles 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 approximately \$13.5 million and \$12.1 million to the Foundation for the years ended June 30, 2008 and 2007 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. At June 30, 2008 and 2007, \$8,356,000 and \$6,347,000, respectively, were received directly by the Foundation as reimbursements for certain Foundation services and are included in the accompanying statements of activities as support from the County of Los Angeles. The remaining amounts of \$5,185,183 and \$5,745,173 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. During 2008 and 2007, the Foundation provided approximately \$29 million and \$36.0 million, respectively, excluding unrealized gains and losses on investments, representing 212% of the amounts required under the agreement for 2008 and 297% for 2007.

**11. Net Assets**

Unrestricted net assets at June 30, 2008 and 2007 include Board-designated amounts totaling \$107,157,360 and \$100,072,562, respectively, which comprise the balance of the unrestricted portion of the Foundation's endowments. The net investment in leasehold improvements, equipment and exhibits amounts totaling \$28,550,181 and \$15,841,869 at June 30, 2008 and 2007, respectively, are comprised of leasehold improvements, equipment and exhibits.

Temporarily restricted net assets at June 30 are available for the following purposes:

	<b>2008</b>	<b>2007</b>
Research and Collections	\$ 3,706,578	\$ 4,965,250
Education	2,163,357	1,578,764
Administration	143,830	76,348
Capital projects	<u>11,256,041</u>	<u>4,838,817</u>
	<u>\$ 17,269,806</u>	<u>\$ 11,459,179</u>

Permanently restricted net assets totaling \$3,199,498 at June 30, 2008 and \$3,118,150 at June 30, 2007 are contributions restricted by donors for investment in perpetuity, the earnings from which are generally restricted for specific purposes.

# Los Angeles County Museum of Natural History Foundation

## Notes to Financial Statements

### June 30, 2008 and 2007

---

#### 12. Retirement Plan

The Foundation contracts with certain multi-employer 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. The Foundation matches participant contributions up to a maximum of 3% to 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. It is the Foundation's policy to fund the costs of the Plans as incurred. The retirement plans expense totaled approximately \$292,194 and \$281,883 for the years ended June 30, 2008 and 2007, respectively.

#### 13. Commitments and Contingencies

##### Litigation

In the normal course of business, the Foundation may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Foundation as of June 30, 2008.

##### Construction and Renovation

In April 2008, the Foundation, entered into an agreement with California Infrastructure and Economic Development Bank to issue \$89,790,000 in tax-exempt Variable Rate Demand Refunding Revenue Bonds. The proceeds from the sales of these bonds were used to redeem the 2007 Bonds which financed the acquisition, rehabilitation, renovation, construction, equipping and improvements by the Foundation of the facilities, galleries and exhibits of the Museum, established the capitalized accounts and funded other costs associated with the sales and delivery of the bonds.

In November 2006, the Foundation entered into an agreement for the construction project on the 1913 building and executed a Notice To Proceed for the first of several components under this agreement in the amount of \$8,745,268. At June 30, 2008, additional components of the work under the agreement had been authorized by the Foundation bringing the total Guaranteed Maximum Price under the agreement to \$19,820,457. As of June 30, 2008 the total construction costs were \$13,242,217.

#### 14. New Accounting Standards

In September 2006 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands the disclosures about fair value measurement. It is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact of this Statement on the Foundation's financial statements.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. This statement provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in the statement of activities. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Museum is currently evaluating the potential effect on the financial statements of adopting SFAS 159.

**Los Angeles County Museum of Natural History Foundation**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

---

**14. New Accounting Standards (Continued)**

In August 2008, the FASB issued FASB Staff Position ("FSP") 117-1, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and expands disclosures about an organization's endowment (both donor-restricted) and board-designated funds, whether or not the organization is subject to UPMIFA. The standard is to be effective for fiscal years ending after December 15, 2008. The Museum is currently evaluating the potential effect on the financial statements of adopting FSP 117-1.

**Los Angeles County Museum of Natural History Foundation**  
**Supplemental Schedule of Activities Information**  
**For the Year Ended June 30, 2008**  
**(Supplementary Information – See Report of Independent Accountants)**

If the County's entire contribution under the funding agreement, including the reimbursement of the Foundation for services and direct payments to other providers of services for the Museum, were to be included in the Foundation's statement of activities for the year ended June 30, 2008, its total revenue and support would total \$42,184,036, which approximates the size of the Foundation's operating budget for that year.

	Los Angeles County Museum of Natural History Foundation	County of Los Angeles Support and Expenditures	Eliminations	Total Museum
<b>Revenue and support</b>				
Private gifts, grants and contracts	\$ 12,590,804	\$ -	\$ -	\$ 12,590,804
Endowment income used for operations	3,882,290	-	-	3,882,290
Grant income	6,161,035	-	-	6,161,035
Museum admission fees	2,433,868	-	-	2,433,868
Appropriation from the County	-	13,541,183	-	13,541,183
Support from the County of Los Angeles (Note 10)	8,356,000	-	(8,356,000)	-
Membership dues	2,106,949	-	-	2,106,949
Program income	570,590	-	-	570,590
Museum use and services	347,215	-	-	347,215
Museum shops and cafeteria	426,156	-	-	426,156
Museum catalogs and other	123,946	-	-	123,946
	<u>36,998,853</u>	<u>15,541,183</u>	<u>(8,356,000)</u>	<u>42,184,036</u>
Total revenue and support				
<b>Expenses</b>				
Program services				
Education	5,650,506	186,313	-	5,836,819
Exhibits	3,503,959	64,862	-	3,568,821
Research	6,675,829	1,498,662	-	8,174,491
	<u>15,830,294</u>	<u>1,749,837</u>	<u>-</u>	<u>17,580,131</u>
Total program services				
Supporting services				
General and administration	2,418,261	3,435,346	-	5,853,607
Operating contract with the foundation	-	8,356,000	(8,356,000)	-
Fund-raising	2,920,902	-	-	2,920,902
	<u>5,339,163</u>	<u>11,791,346</u>	<u>(8,356,000)</u>	<u>8,774,509</u>
Total supporting services				
Other expenses				
Ancillary services				
Museum use and services	395,564	-	-	395,564
Allowance for doubtful pledges	657,692	-	-	657,692
Depreciation	431,774	-	-	431,774
	<u>1,485,030</u>	<u>-</u>	<u>-</u>	<u>1,485,030</u>
Total other expenses				
Total expenses	<u>22,654,487</u>	<u>13,541,183</u>	<u>(8,356,000)</u>	<u>27,839,670</u>
Change in net assets from operations	<u>14,344,366</u>	<u>-</u>	<u>-</u>	<u>14,344,366</u>
<b>Other non-operating revenues, gains and (losses)</b>				
Investment income	1,435,672	-	-	1,435,672
Realized and unrealized gains on investments, net	9,747,830	-	-	9,747,830
Loss on bond refunding	(2,188,185)	-	-	(2,188,185)
Unrealized loss on interest rate swaps	(6,995,329)	-	-	(6,995,329)
Change in value of obligations under split-interest agreements	71,695	-	-	71,695
Endowment income used for operations	(3,882,290)	-	-	(3,882,290)
	<u>(1,810,607)</u>	<u>-</u>	<u>-</u>	<u>(1,810,607)</u>
Total non-operating revenues and (losses)				
Change in net assets	12,533,759	-	-	12,533,759
Net assets at the beginning of the year	<u>144,595,817</u>	<u>-</u>	<u>-</u>	<u>144,595,817</u>
Net assets at the end of the year	<u>\$ 157,129,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,129,576</u>