Academy of Motion Picture Arts and Sciences and its affiliates

Consolidated Financial Statements
June 30, 2019 and 2018

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Report of Independent Auditors

To the Board of Governors and Management of the
Academy of Motion Picture Arts and Sciences

We have audited the accompanying consolidated financial statements of the Academy of Motion Picture Arts and Sciences and its affiliates (the "Academy"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Motion Picture Arts and Sciences and its affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 2020 Main Street, Suite 400, Irvine, CA 92614
T: (949) 437 5200, F: (949) 437 5300, www.pwc.com/us

Emphasis of Matter
As discussed in Note 1 to the consolidated financial statements, the Academy has changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

November 22, 2019

Academy of Motion Picture Arts and Sciences and its affiliates
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 9,317,600	$ 9,708,900
Accounts and other receivables, net	2,151,400	3,373,300
Investments	542,167,600	533,144,300
Restricted investments	19,098,200	16,762,500
Bond funds held by trustee	-	73,121,900
Pledges receivable, net	120,638,500	94,342,900
Prepaid expenses	1,190,800	853,600
Deferred rent expense, net	23,248,600	23,587,400
Property, equipment and building improvements, net	461,317,500	318,115,500
Academy collections, carried at no value (Note 1)	-	-
Other assets, net	732,800	972,700
Total assets	$ 1,179,863,000	$ 1,073,983,000
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 25,660,200	$ 15,658,300
Accrued salaries and benefits	21,706,900	17,876,800
Grants payable, less discount	2,450,700	2,912,100
Deferred income	20,841,800	22,195,100
Debt	352,662,800	353,236,700
Total liabilities	423,322,400	411,879,000
Net assets		
Net assets without donor restrictions	620,138,600	557,993,400
Net assets with donor restrictions	136,402,000	104,110,600
Total net assets	756,540,600	662,104,000
Total liabilities and net assets	$ 1,179,863,000	$ 1,073,983,000

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

Academy of Motion Picture Arts and Sciences and its affiliates
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions		
Revenues and other support		
Academy Awards and related activities	$ 131,055,000	$ 131,774,000
Membership dues and theater rentals	3,578,000	2,949,800
Contributions, net	12,415,400	9,814,000
Research library and other educational and cultural activities	743,200	705,900
Investment income, net	23,443,200	15,607,700
Other income	31,000	11,800
Total revenues	171,265,800	160,863,200
Net assets released from restrictions	7,199,600	1,009,700
Total revenues and other support	178,465,400	161,872,900
Expenses		
Academy Awards and related activities	41,436,300	41,168,300
Membership, theater, and other operations	7,306,400	6,089,000
Preservation operations	19,748,700	19,017,500
Science and Technology Council operations	2,284,900	2,442,000
Museum development	13,294,600	9,455,900
Public outreach programs	6,192,200	6,015,600
Fundraising	2,949,500	3,330,600
General and administrative expenses	15,481,600	14,718,800
Interest expense	2,431,500	2,293,000
Total expenses	111,125,700	104,530,700
Increase in net assets from operations	67,339,700	57,342,200
Purchases of non-capitalized collections	(1,082,100)	(922,100)
Other components of net periodic benefit cost	(1,380,700)	(2,026,900)
Pension and postretirement-related changes other than net periodic benefit cost	(2,731,700)	4,386,000
Increase in net assets without donor restrictions	62,145,200	58,779,200
Changes in net assets with donor restrictions		
Contributions received, net of discount	38,397,400	60,879,400
Net assets released from restrictions	(7,199,600)	(1,009,700)
Investment income from restricted funds in perpetuity, net	1,093,600	581,300
Increase in net assets with donor restrictions	32,291,400	60,451,000
Total increase in net assets	94,436,600	119,230,200
Net assets		
Beginning of year	662,104,000	542,873,800
End of year	$ 756,540,600	$ 662,104,000

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

Academy of Motion Picture Arts and Sciences and its affiliates
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Changes in net assets	$ 94,436,600	$ 119,230,200
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	7,593,400	8,211,400
Debt premium accretion	(1,076,100)	(1,076,100)
Contributions for perpetual endowment and income	(2,500,000)	(5,600)
Purchases of non-capitalized collections	1,082,100	922,100
Contributions related to long-lived assets	(5,885,100)	(67,625,000)
Bad debt expense (recovery) related to pledges receivable	59,800	(2,224,400)
Present value adjustment to pledges receivable	928,100	7,170,100
Present value adjustment to grants payable	38,600	59,400
Net realized and unrealized gain on investments	(12,246,700)	(5,682,200)
Changes in assets and liabilities		
Accounts and other receivables	1,221,900	108,500
Pledges receivable	(23,873,400)	4,145,200
Prepaid expenses	(337,200)	96,400
Other assets	135,700	(115,500)
Accounts payable and accrued expenses	1,114,600	170,200
Accrued salaries and benefits	3,830,100	(3,613,600)
Grants payable	(500,000)	(500,000)
Deferred income	(1,353,300)	(1,965,900)
Net cash provided by operating activities	62,669,100	57,305,200
Cash flows from investing activities		
Sales and maturities of investments	738,635,700	1,882,332,700
Purchases of investments	(664,626,100)	(1,839,034,900)
Purchases of non-capitalized collections	(1,082,100)	(922,100)
Additions to property, equipment and building improvements	(140,962,900)	(98,418,000)
Net cash used in investing activities	(68,035,400)	(56,042,300)
Cash flows from financing activities		
Contributions for long-lived assets	3,720,800	1,240,600
Contributions for investment in perpetual endowments	1,254,200	1,005,600
Net cash provided by financing activities	4,975,000	2,246,200
Net (decrease) increase in cash and cash equivalents	(391,300)	3,509,100
Cash and cash equivalents		
Beginning of year	9,708,900	6,199,800
End of year	$ 9,317,600	$ 9,708,900
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amounts capitalized)	$ 2,542,000	$ 2,403,600
Supplemental schedule of noncash activities		
Property, equipment and building improvements included in accounts payable and accrued expenses	$ 17,379,700	$ 8,492,300
Write-off of fully depreciated property, equipment and building improvements	9,667,100	-
Donations to non-capitalized collections	2,943,800	2,758,000

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

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The accompanying consolidated financial statements include the accounts of the Academy of Motion Picture Arts and Sciences ("AMPAS") (tax-exempt entity under IRC 501(c)(6)) and its affiliates, including the Academy Foundation ("Foundation") (tax-exempt affiliate under IRC 501(c)(3)), the Vine Street Archive Foundation ("Vine Street"), the Academy Museum Foundation ("Museum"), and the Archival Foundation ("Archival") (collectively, the "Academy"). Vine, Museum and Archival are tax-exempt affiliates of Foundation under IRC 501(a)(3). All entities are not-for-profit corporations. All inter-entity transactions eliminate in consolidation. The purpose of Foundation is to promote and support educational and cultural activities related to the motion picture industry. The purpose of Vine Street is to own and operate the Mary Pickford Center for Motion Picture Study ("Pickford Center"). The purpose of the Museum, previously known as Homewood Foundation, is to develop a museum devoted to exploring and curating the history and future of the moving image. The purpose of Archival is to operate the Douglas Fairbanks Center for Motion Picture Study Fairbanks Center, the Margaret Herrick Library, and the Academy Film Archive. AMPAS's Board of Governors select the trustees of the Foundation and the Foundation's Board of Trustees appoints or ratifies the trustees of the other three foundations.

Principles of Consolidation and Basis of Presentation

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recognition of Revenues and Expenses

Academy Awards and related activities

The Academy has granted the domestic television broadcast rights to the American Broadcasting Company, Inc. ("ABC") through 2028 and the foreign broadcast rights to Buena Vista International ("BVI") through 2024 for the Academy Awards program. The revenues and expenses categorized as Academy Awards and related activities in the accompanying consolidated statements of activities include the Academy Awards program, Governors' Ball, nominations screenings, nominees' luncheon, and copyright/trademark protection. Academy Awards related contracts represent 97% and 99% of revenues in 2019 and 2018, respectively. Revenue is recognized at the point in time when each Academy Awards program, a functional license of intellectual property, is made available to the customer. The Academy has determined that each functional license constitutes a separate performance obligation.

The Academy utilizes judgment to determine the transaction price, which includes both fixed fees and minimum guarantees, and sales or usage based royalties. The fixed fee or minimum guarantee is allocated to each performance obligation based on estimates of relative stand-alone selling price. The amounts related to each performance obligation are recognized when the license has been delivered and the customer is able to begin to use and benefit from the license.

The Academy also can earn a usage-based royalty, and revenues are recognized at the later when the subsequent sale or usage occurs, or the performance obligation to which some or all the sales or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Cash collections from customers vary by contract and typically occurs within 90 days of revenue recognition. When the period between fulfillment of our performance obligation and the receipt of payment is expected to be greater than a year, a significant financing component is present. Any advance payments received under the contract are recorded as deferred income and allocated to the each of the performance obligations. The unrecognized portion of the payments is reflected as deferred income in the accompanying consolidated statement of financial position (Note 9).

Remaining performance obligations for Academy Awards related contracts include deferred revenue on the consolidated statements of financial position plus minimum guarantee or fixed fee contracts where the revenue will be recognized and the cash received in the future. The Academy is expected to recognize this revenue on an annual basis through 2028. The Academy applies the practical expedient and the remaining performance obligation does not include estimates of variable consideration or sales-based royalties in exchange for the licenses of intellectual property. Revenues expected to be recognized over the terms of the contracts related to contractual performance obligations that are unsatisfied as of June 30, 2019 total are:

	2020	2021	2022	Thereafter	Total
Remaining Performance Obligations	$ 115,471,000	$ 119,975,000	$ 124,593,000	$ 793,318,000	$ 1,153,357,000

Membership Dues

Membership dues are paid on a calendar year basis and are recognized as income ratably during the year; the portion of dues not yet recognized at June 30 is included in deferred income in the accompanying consolidated statements of financial position (Note 9).

Contributions

Unconditional contributions are recognized as revenue in the period in which they are received. Funds subsequently transferred from net assets with donor restrictions to net assets without donor restrictions, in amounts equal to such expenditures, have been reported in the accompanying consolidated statements of activities as net assets released from restrictions. . When the restriction is satisfied in the year the contribution is received, then the contribution is recorded in net assets without donor restrictions. Cash received from donors for the express purpose of the construction of long-lived assets is reflected as net assets with donor restrictions, and as a financing source in the consolidated statements of cash flows.

Unconditional promises to give are recorded as revenue in the period received. If the pledge is payable over more than one year, the pledge is discounted using an appropriate rate as of the date of the pledge. An allowance is established to provide for nonpayment of pledges if collectability is not reasonably assured.

Conditional promises to give consist of promises to give which contain donor imposed conditions that have not been substantially met (Note 5). These promises to give are recognized when the donor conditions are substantially met.

The Academy provides grants, contributions and awards to various film festivals, charities and student films awards. Grants payable are recognized in the period in which the commitment is made. If the grant is payable over more than one year, the grant is discounted using an appropriate rate as of the date of the grant.

Cash and Cash Equivalents
The Academy considers all highly liquid investments purchased with an original maturity of three months or less and held by the Academy to be cash equivalents except those held as part of the overall long-term investment portfolio strategy. The carrying value of cash and cash equivalents approximates fair value because of their short maturity.

Fair Value Measurements
The Academy follows authoritative guidance which defines fair value and establishes methods for measuring fair value by applying one of three observable approaches (market approach, income approach or cost approach) and expands required disclosures about fair value investments. This standard defines fair value as the exchange price that would be received for an asset, or paid to transfer a liability (exit price), in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level I Quoted prices in active markets for assets or liabilities that the Academy has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level II Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar assets or liabilities in markets that are either active or inactive, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III Inputs are unobservable for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. Unobservable inputs reflect the Academy's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances.

Assets and liabilities measured at fair value are classified and disclosed in Note 3. There have been no transfers of assets and liabilities between levels.

The Academy applies the authoritative guidance contained in FASB ASC 820-10, Fair Value Measurements and Disclosures, for estimating the fair value of investments in investment funds that have calculated Net Asset Value (NAV) per share in accordance with FASB ASC 946-10, Financial Services-Investment Companies (formerly the American Institute of Certified Public Accountants Audit and Accounting Guide, Investment Companies). According to this guidance, in circumstances in which NAV per share of an investment is not determinative of fair value, a reporting entity is permitted to estimate the fair value of an investment in an investment fund using the NAV per share of the investment (or its equivalent) without further adjustment, if the NAV per share of the investment is determined in accordance with FASB ASC 946-10 as of the reporting entity's measurement date. Accordingly, the Academy uses the NAV as reported by the money managers as a practical expedient, to determine the fair value of investments in investment funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment fund or prepare their financial statements consistent with the measurement principles of an investment fund. At June 30, 2019 and 2018, the fair value of all such investments in investment funds has been determined by using NAV as a practical expedient adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio.

Investments and Investment Income
All monies held by the Academy's investments portfolio managers are classified as investments. Changes in fair value are reported as investment income, net in the consolidated statements of activities. Investment fees for mutual fund investments are a deduction in interest and dividend income by the mutual fund. Investment fees for investment portfolio managers are billed directly to the Academy and included as a component of investment income, net.

Restricted Investments
Restricted investments represent donor gifts for long lived assets, the Academy Museum. The donations are invested by the Academy upon receipt. The cash value of the donation is reflected in this account and any market value adjustment is included in the investment account, as the earnings from the donations are not restricted to the purchase of long lived assets. The restricted investments are within the investments and investment income accounts disclosed in Note 3.

Bond Funds Held by Trustee
Bond funds held by Trustee represent the unused proceeds of the October 22, 2015 bond issuance (Note 10) restricted for the use on the museum project. The bond funds are within the investments and investment income accounts disclosed in Note 2.

Pledges Receivable
Pledges receivable represent unconditional promises to give to the proposed Academy Museum of Motion Pictures. Pledges in excess of one year are discounted to the net present value using a range of applicable discount rates (Note 5). The Academy has recorded an allowance for doubtful accounts to reduce the receivable balance to the estimated collectible balance (Note 5).

Deferred Rent Expense
Deferred rent expense represents amounts which have been contractually paid in advance of the lease terms at the Fairbanks Center and the Academy Museum of Motion Pictures ("Academy Museum"). The Fairbanks Center is being amortized over thirty years. The Academy Museum land and parking leases are amortized over the lease term and its renewal period (Note 7).

Property, Equipment and Building Improvements
Buildings, building improvements, furniture and equipment are carried at cost less accumulated depreciation. Expenditures that substantially extend the useful lives of assets are capitalized. The expenditures for the Academy Museum have been classified as construction in progress. Applicable construction period interest and property taxes are capitalized to construction in

progress when incurred. Maintenance and repairs are expensed as incurred. Depreciation expense is computed using the straight-line method over the useful lives of the assets: thirty years for the building and twenty to thirty years for building improvements, and three to ten years for furniture, fixtures and equipment.

When an asset is no longer useful, the asset is retired and any remaining net book value (historical cost less accumulated depreciation) is included in depreciation, which is allocated to program expenses in the accompanying consolidated statements of activities.

Impairment
The Academy's long-lived assets are carried at cost. Whenever events or changes in circumstances suggest that the carrying amount may not be recoverable, management assesses the recoverability of the carrying amount of its long-lived assets. If impaired, the Academy will reduce the carrying amount to its estimated fair value.

Debt Premium
Debt premium represents funds paid to the Academy in excess of the amount repayable on the fixed rate bonds at their maturity. Debt premium is amortized using the effective interest method over the life of the fixed rate bonds. The amortization is included in interest expense in the consolidated statements of activities. The debt premium is included in the Debt balance on the consolidated statements of financial position (Note 10).

Debt Issuance Costs
The Academy evaluates costs incurred related to debt financing to determine the appropriate accounting treatment in accordance with ASC 470. The debt issuance costs represent funds paid by the Academy to issue the fixed and variable rate bonds. Debt issuance costs are amortized over the term of the credit facility using the effective interest method or on a straight-line basis, if it is not significantly different from the effective interest method, and are recorded as interest expense in the consolidated statements of activities. The debt issuance cost is allocated to both bond types based on the proceeds generated for each type. Debt issuance costs are included in the Debt balance on the consolidated statements of financial position (Note 10).

Academy Collections
The Academy Collections consist of the holdings of the Academy Museum, the Margaret Herrick Library and the Academy Film Archive. The holdings consist of significant three-dimensional motion picture objects, documents, photographs and motion pictures. The holdings are made available to students and scholars for motion picture industry and art form research and will be available to the Academy Museum when opened. These collections are donated to, preserved and maintained by the Foundation, and are carried at no value on the consolidated statements of financial position.

Net Assets
The Academy presents net assets with donor restrictions, net assets without donor restrictions, in the accompanying consolidated financial statements. The amounts in each category are determined based on the source of the assets and donor-imposed restrictions (Note 13).

Net assets without donor restrictions are the part of net assets of a not-for-profit entity that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following: a) the nature of the not-for-profit entity, b) the environment in which it operates and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

This classification includes all revenues, gains and expenses not restricted by donors. The Academy reports all expenditures, with the exception of investment expenses, in this class of net assets, since the use of restricted contributions in accordance with donors' restrictions results in the release of the restriction.

The Academy follows authoritative guidance on classifying the net assets associated with donor-restricted endowment funds held by not-for-profit entities that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). This guidance also requires disclosures about endowments for organizations. It also provides guidance relating to the classification of investment income earned on donor-restricted contributions. For each donor-restricted endowment fund, not-for-profit organizations are required to classify the portion of the fund that is not classified as perpetual in nature as time restricted until appropriated for expenditure by the organization.

Within net assets with donor restrictions, the Foundation classifies donor-restricted contributions for (i) Academy Museum; (ii) Museum education programs; and (iii) Other education and restoration projects not yet used to fund program expenses as purpose restricted. The Academy's Board of Governors (the "Board") has designated some unrestricted Academy Museum contributions as construction funds. These board-designated contributions to the Academy Museum and related investment income are included in net assets without donor restrictions.

All Fairbanks Center endowment fund contributions are classified as perpetual in nature and the related income is classified as time restricted until the related income is appropriated for expenditure by the Archival Board of Trustees in accordance with the Academy's spending policy. All Nicholl endowment fund contributions are classified as perpetual in nature and the related income is classified in accordance with the grant document as perpetual in nature and time restricted until the related income is appropriated for expenditure by the Vine Street Board of Trustees in accordance with the Academy's spending policy. The Museum Project net assets with donor restrictions include both endowments and a promise to give an endowment, which is perpetual in nature. All board-designated contributions to the endowment and the related endowment investment income are included in net assets without donor restrictions (Note 11).

Concentrations of Credit Risk and Major Customers

The Academy is subject to concentrations of credit risk with respect to cash and cash equivalents and investments, which the Academy attempts to minimize by entering into these arrangements with major banks and financial institutions and investing in high-quality instruments. The Academy does not expect any counterparties to fail to meet their obligations.

The Academy has two major companies which represent 63% and 78% of total revenues in 2019 and 2018, respectively.

Advertising

Advertising costs are charged to expense in the period incurred. Advertising expense was $2,319,600 and $1,956,800 for the years ended June 30, 2019 and 2018, respectively, and is included in (i) Academy Awards and related activities and (ii) museum development in the accompanying consolidated statements of activities. In addition, the Foundation received a contributed advertising pledge of $250,000 for the year ended June 30, 2015 for the Academy Museum. Contributed advertising is recognized as a Museum development expense of $62,500 in 2018 in the accompanying consolidated statements of activities.

Fundraising
Fundraising costs are charged to expense in the period incurred. Fundraising costs consist of all expenses, including salary and benefits, associated with activities undertaken to induce potential donors to contribute money, securities, services, materials, other assets, or time.

Income Taxes
AMPAS, Foundation, Vine Street, Museum and Archival are non-profit organizations determined by the Internal Revenue Service and the California Franchise Tax Board to be exempt from federal and state income taxes, respectively.

The Academy has no open tax positions that result in material unrecognized tax benefits or liabilities.

Reclassifications
Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. There was no impact on net assets as a result of these reclassifications.

Significant Accounting Pronouncements Adopted in Current Year
Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* was promulgated in August 2016. The adoption of this standard streamlined and renamed the net assets presentation, provided qualitative and quantitative information on liquidity and availability of resources, and expanded the functional and natural expenses disclosure. The ASU has been applied to all periods presented and the changes from the prior year are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets, beginning of year, as originally reported:			
Unrestricted	$ 557,993,400	$ -	$ 557,993,400
Temporarily restricted	-	83,111,500	83,111,500
Permanently restricted	-	20,999,100	20,999,100
Total net assets, beginning of year	$ 557,993,400	$ 104,110,600	$ 662,104,000

ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* was promulgated in March 2017. Adoption of this Update resulted in the Academy reporting the pension service cost component in the same line item or line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are presented in the statement of activities separately from the service cost component and outside of a subtotal of changes in net assets from operations. The ASU has been applied to all periods presented.

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* was promulgated in May 2014. The new standard provides accounting guidance for all revenue arising from contracts with customers. On July 1, 2018, the Company adopted Topic 606 using the modified retrospective method for all contracts, which requires a cumulative effect adjustment, if any, to be recorded at the date of adoption. The adoption of the new accounting guidance resulted in additional disclosures but did not have a material impact to the reported results or changes to revenue recognition during the year.

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contribution Received and Contributions Made* was promulgated in June 2018. The standard is intended to clarify and improve the scope and the accounting guidance for contributions received and made. The ASU is effective for fiscal years beginning after June 15, 2018 and was applied on a modified prospective basis. The ASU did not have an impact to the consolidated financial statements.

ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities,* was promulgated in January 2016. This guidance affects all entities that hold financial assets or owe financial liabilities and primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for nonpublic business entities for annual periods beginning December 15, 2018. The Academy early adopted part of the guidance that exempts the Academy from disclosing the fair value of financial instruments measured at amortized cost.

New Accounting Pronouncements
ASU No. 2016-02, *Leases (Topic 842)* was promulgated in February 2016. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The guidance requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. The primary focus for the Academy is the lessee accounting model. Under this guidance, lessees well need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of the lease payments. The asset will be based on the liability; subject to adjustment, such as for initial direct costs. For income statement purposes, leases will be classified as either operating or finance and expensed accordingly. The Academy is currently evaluating the effect of adoption to the consolidated financial statements.

ASU No. 2016-18, *Restricted Cash, Statement of Cash Flows (Topic 230)* was promulgated in November 2016. This ASU is effective for fiscal years beginning after December 15, 2018. Retrospective application to all prior periods presented on the date of adoption is required. Early adoption is permitted. This update requires that restricted cash is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The Academy is currently evaluating the effect of adoption to the consolidated financial statements.

Accounting Standards Update ("ASU") No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections* was promulgated in March 2019. This ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. This guidance modifies the definition of the term collections and requires that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care. The Academy does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

ASU No. 2019-01, *Leases (Topic 842) Codification Improvements* was promulgated in March 2019. This ASU is effective for fiscal years beginning after December 15, 2019. An entity should apply the amendments as of the date that it first applies Topic 842 (see below), using the same transition methodology. Early adoption is permitted. This guidance clarified various sections of Topic 820: (i) determining the fair value of the underlying asset by lessors that are not manufacturers or dealers;

(ii) presentation on the statement of cash flows—sales-type and direct financing leases; and (iii) transition disclosures related to *Topic 250, Accounting Changes and Error Corrections*. The Academy does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

ASU No. 2018-13, *Fair value measurement (Topic 820)—Disclosure framework—Changes to the disclosure requirements for fair value measurement* was promulgated in August 2018. This ASU is effective for fiscal years beginning after December 15, 2019. The transition guidance for the applicable amendment should be applied retrospectively to all periods presented upon the effective date. Early adoption is permitted. This guidance made changes to various sections of Topic 820. The Academy does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* was promulgated in August 2018. This ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. This guidance made changes to various sections of Topic 820. The Academy is impacted by the amendment which requires entities to disclose (i) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and (ii) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The Academy does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

2. Availability and Liquidity

The following represents the Academy's financial assets at June 30, 2019 and 2018 that are available to meet cash needs for general expenditures within one year of the date of the statements of financial position:

	2019	**2018**
Financial assets at year end:		
Cash and cash equivalents	$ 9,317,600	$ 9,708,900
Accounts and other receivables, net	2,151,400	3,373,300
Investments	542,167,600	533,144,300
Restricted investments	19,098,200	16,762,500
Bond funds held by trustee	-	73,121,900
Pledges receivable	120,638,500	94,342,900
	693,373,300	730,453,800
Less amounts not available to be used for operations in one year:		
Donor restricted funds	136,402,000	104,110,600
Less donor restricted funds with purpose restrictions to be met within one year	(31,422,700)	(15,812,100)
Bond funds held by trustee	-	73,121,900
Board designated funds	117,683,500	116,075,300
	222,662,800	277,495,700
Financial assets available to meet general expenditures over the next twelve months	$ 470,710,500	$ 452,958,100

The Academy's goal is to maintain financial assets to meet at least a full year of operating expenses. As part of its liquidity plan, this potential cash requirement is invested in readily marketable mutual fund investments.

3. Investments

Investments, including restricted investments and bond funds held by trustees, consist of the following at June 30:

	2019	2018
Cash and cash equivalents	$ 14,844,000	$ 52,871,700
Fixed income		
Fixed income securities	36,678,800	82,019,200
Mutual fund–fixed income	252,702,700	215,548,600
Equities		
Mutual fund–equity	90,855,000	101,838,600
Real estate		
REIT investments	11,603,600	12,135,800
Real estate alternative investments	13,694,900	13,328,700
Alternative investments		
Mutual fund–alternative investments	50,977,000	61,427,100
Absolute return hedge fund	89,909,800	83,859,000
	$ 561,265,800	$ 623,028,700

The table above includes the bond funds held by trustees in fixed income securities with fair value of $73,121,900 as of June 30, 2018.

Investment income, net consists of the following for the years ended June 30:

	2019	2018
Interest and dividend income	$ 13,656,200	$ 13,339,800
Net realized gain on investments	6,693,300	3,572,200
Net unrealized gain on investments	5,553,400	2,110,000
Investment fees	(898,400)	(1,083,400)
Net of restricted bond investment income offset by capitalized interest costs	(463,800)	(1,749,600)
	$ 24,540,700	$ 16,189,000

Investment income, net is classified in the statement of financial position as follows at June 30:

	2019	2018
Net assets with donor restrictions	$ 1,093,600	$ 581,300
Net assets without donor restrictions	23,447,100	15,607,700
	$ 24,540,700	$ 16,189,000

4. Fair Value Measurements

The following table summarizes by level, within the fair value hierarchy, the Academy's assets measured at fair value as of June 30, 2019:

	Assets (Liabilities)				
	Level I	**Level II**	**Level III**	**NAV**	**Total**
Assets					
Cash and cash equivalents	$ 14,844,000	$ -	$ -	$ -	$ 14,844,000
Fixed income					
Fixed income securities	-	36,678,800	-	-	36,678,800
Mutual fund–fixed income	252,702,700	-	-	-	252,702,700
Equities					
Mutual fund–equity	90,855,000	-	-	-	90,855,000
Real estate					
REIT investments	11,603,600	-	-	-	11,603,600
Real estate alternative investments	-	-	-	13,694,900	13,694,900
Alternative investments					
Mutual fund–alternative investments	31,029,500	19,947,500	-	-	50,977,000
Absolute return hedge fund	-	-	-	89,909,800	89,909,800
	$ 401,034,800	$ 56,626,300	$ -	$ 103,604,700	$ 561,265,800

The following table summarizes the valuation of the Academy's assets and liabilities that are recorded at fair value by the fair value hierarchy levels as of June 30, 2018:

	Assets (Liabilities)				
	Level I	**Level II**	**Level III**	**NAV**	**Total**
Assets					
Cash and cash equivalents	$ 52,871,700	$ -	$ -	$ -	$ 52,871,700
Fixed income					
Fixed income securities	-	82,019,200	-	-	82,019,200
Mutual fund–fixed income	215,548,600	-	-	-	215,548,600
Equities					
Mutual fund–equity	101,838,600	-	-	-	101,838,600
Real estate					
REIT investments	12,135,800	-	-	-	12,135,800
Real estate alternative investments	-	-	-	13,328,700	13,328,700
Alternative investments					
Mutual fund–alternative investments	38,753,500	22,673,600	-	-	61,427,100
Absolute return hedge fund	-	-	-	83,859,000	83,859,000
	$ 421,148,200	$ 104,692,800	$ -	$ 97,187,700	$ 623,028,700

Valuation Methodologies

Cash and Cash Equivalents

Certain cash balances and highly liquid cash equivalents purchased with original maturities of three months or less have been designated to be part of the overall long-term investment portfolio strategy and as such are included as investments by the Academy. The carrying value of these investments approximates fair value because of their short maturity, and, therefore, have been categorized as Level I in the fair value hierarchy.

Mutual Funds

The Academy's mutual fund holdings include equity based funds, fixed income based funds, and alternative investment funds which are commonly known as 'absolute return' funds. Generally, the fair values of shares in mutual funds are based on inputs that are quoted prices in active markets for identical assets and, therefore, have been categorized in Level I in the fair value hierarchy.

Certain investments held by the Academy, specifically certain investments in the 'alternative investments mutual fund' category include securities with market inputs that are observable using similar assets and as a result have been categorized as Level II in the fair value hierarchy.

Fixed Income Securities
The fair values of fixed income securities are based on quoted prices in active markets for identical assets, if available, or evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are categorized as Level II.

Real Estate Investment Trusts (REITs)
The fair values of real estate investment trusts are based on inputs that are quoted prices in active markets for identical assets and, therefore, have been categorized in Level I in the fair value hierarchy. All REITs held by the Academy are priced using active market exchanges.

Real Estate Alternative Investments
Alternative real estate investments consist of investments in funds composed of direct investments in a pool of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals from sources with professional qualifications and are based upon net asset value (NAV) as reported by the investment manager.

Property valuations and valuation-sensitive assumptions of each underlying asset are reviewed by the investment manager and values are adjusted if there has been a significant change in circumstances related to the underlying property since the last valuation. In addition, the investment manager may cause additional appraisals to be performed.

The investment manager estimates the fair value based on the most probable price in cash, or terms which can be expressed in cash equivalents, for which the alternative investments will sell in a competitive market under all conditions for a fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under duress.

Absolute Return Hedge Fund
The fair values of hedge fund investments are based upon net asset value (NAV) as reported by the investment manager. This fund is a private fund, which is actively managed to achieve the goal of outperforming a chosen benchmark.

Investments Calculated at Net Asset Value
As of June 30, 2019, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those instruments, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute return hedge fund 1	$ 4,849,900	None	Monthly	14 Days
Absolute return hedge fund 2	85,059,900	None	Quarterly	90 Days
Real estate alternative investments				
US	13,648,900	None	Semi-annual	60 Days
European	46,000	None	Semi-annual	60 Days

The European real estate alternative investment is in liquidation. Distributions are made from the fund as assets are sold. Final liquidation is expected in calendar 2019.

The Academy has entered into an agreement to participate in a Real Estate Investment Fund. The total commitment is $6 million. No funds have been invested as of June 30, 2019.

5. Pledges Receivable, Net

Pledges receivable have been discounted using a range of discount rates between 0.11% to 4.11% for the years ended June 30, 2019 and 2018 and have the following schedule of collections:

	2019	2018
Less than 1 year	$ 28,422,700	$ 12,669,800
Greater than 1 year to 5 years	67,535,500	56,278,100
Greater than 5 years to 10 years	30,541,700	31,218,400
Greater than 10 years	10,000,000	9,050,000
	136,499,900	109,216,300
Less: Allowance for doubtful accounts	(1,000,200)	(940,400)
Less: Discount	(14,861,200)	(13,933,000)
	$ 120,638,500	$ 94,342,900

The Foundation has conditional promises to receive pledges for the Academy's proposed museum based on donor specified milestones, which are not reflected in the consolidated financial statements, as follows:

	2019	2018
Less than 1 year	$ 1,550,000	$ 1,575,000
Greater than 1 year to 5 years	13,010,000	12,510,000
Greater than 5 years to 10 years	-	1,000,000
Greater than 10 years	32,030,000	32,030,000
	$ 46,590,000	$ 47,115,000

In addition, the Foundation has promises to receive in-kind donations for the Academy's proposed museum for which a value has not yet been determined.

6. Property, Equipment and Building Improvements, Net

Property, equipment and building improvements, net consist of the following at June 30:

	2019	2018
Land	$ 21,117,000	$ 21,117,000
Building	9,601,000	9,601,000
Building improvements	48,688,000	48,727,500
Furniture, fixtures and equipment	40,660,700	44,808,700
Construction in progress	404,023,300	259,652,600
	524,090,000	383,906,800
Less: Accumulated depreciation	(62,772,500)	(65,791,300)
	$ 461,317,500	$ 318,115,500

Depreciation expense totaled $6,648,200 and $7,244,700 for the years ended June 30, 2019 and 2018, respectively. Depreciation expense is allocated to program expenses in the accompanying consolidated statements of activities.

7. Deferred Rent Expense

Deferred rent, net, consists of the following at June 30:

	2019	2018
Academy Museum Lease	$ 22,687,200	$ 22,687,200
Academy Museum Parking Leases	2,000,000	2,000,000
Fairbanks Center Lease	950,100	950,100
	25,637,300	25,637,300
Less: Accumulated amortization	(2,388,700)	(2,049,900)
	$ 23,248,600	$ 23,587,400

Estimated future annual amortization expense associated with the above deferred rent expense is summarized in the following amortization schedule:

2020	$ 317,100
2021	307,100
2022	307,100
2023	307,100
2024	307,100
2025 and thereafter	21,703,100
	$ 23,248,600

Academy Museum Lease

On October 18, 2012, the Academy entered into a lease with Museum Associates for the facility, which will house the Academy Museum. The lease was amended in December 2013 to include an adjoining parcel of land. The base rent will be $36,108,000, plus interest, with a lease term of 55 years, which is renewable for another 55 years at no additional cost. Total base rental payments for the amended lease were payable on October 1, 2014 with interest calculated at 5% per year from date the initial lease was signed. The Academy will, at its own expense, improve the property to house the Academy Museum. Due to the significant construction component involved in the museum lease and the Academy's responsibility for all the costs of developing the site, the Academy is deemed the owner of the construction project in accordance with build-to-suit lease accounting guidance. Accordingly, management has performed an analysis of the leased property and has determined an allocation of lease value of $14,800,000 and $21,308,000 to the building and land, respectively, based on market values at lease inception excluding interest. The amount allocated to the building value is included in construction in progress until completion and will then be depreciated over the life of the building. The amount allocated to the land will be treated as an operating lease. The portion of lease payments, including interest, included in construction in progress is $12,884,900 and in deferred lease payments is $22,687,200.

8. Accrued Salaries and Benefits

Accrued salaries and benefits comprises the following at June 30:

	2019	2018
Postretirement medical plan	$ 3,121,500	$ 3,044,600
Accrued pension benefits	15,714,400	12,805,400
Other accrued benefit expenses	386,000	447,400
Accrued salaries and vacation	2,422,800	1,519,800
Deferred compensation plan	62,200	59,600
	$ 21,706,900	$ 17,876,800

9. Deferred Income

Deferred income comprises the following at June 30:

	2019	2018
Academy Awards	$ 18,750,000	$ 20,858,300
Membership dues	2,046,800	1,311,800
Theater rentals	45,000	25,000
	$ 20,841,800	$ 22,195,100

During the year, there was no increase in deferred income for Academy Awards and $2,083,333 was recognized into revenue.

10. Debt

Debt comprises the following at June 30:

	2019	2018
Variable rate debt		
Museum variable rate bonds	$ 128,000,000	$ 128,000,000
Fixed rate debt		
Museum fixed rate bonds	212,960,000	212,960,000
Fixed rate bond premium, net	14,593,000	15,669,100
	227,553,000	228,629,100
	355,553,000	356,629,100
Less: Unamortized debt issuance costs	(2,890,200)	(3,392,400)
	$ 352,662,800	$ 353,236,700

Museum Bonds

On October 22, 2015, the California I-Bank issued two series of Revenue Bonds with a par value of $340,960,000. The purpose of issuance is to (i) finance the Academy Museum ($288,097,500); (ii) repay the Vine Street bonds ($35,000,000); (iii) repay a promissory note ($28,000,000); (iv) terminate the existing derivative instrument ($5,723,000) and (iv) fund a portion of the bond issuance costs ($2,704,900). The first series issued, Series 2015A, were fixed rate bonds with a par value of $212,960,000. The series generated a premium of $18,565,400. The Series A were issued in a variety of tranches with a portion maturing each year beginning on November 1, 2020. The final tranche matures on November 1, 2045. The rates range from 2 to 5% with an average coupon of 4.24%. Taking into account the bond premium, the effective interest rate is 4.14%. The second series issued, Series 2015B, were variable rate bonds with a par value of $128,000,000. Series B matures in 2020 but can be remarketed for up to an additional twenty-five years. The interest rate adjusts weekly and is calculated at 70% of LIBOR plus a spread of 0.95%. The interest rate at June 30, 2019 and 2018 is 2.63% and 2.42%, respectively. The bonds are collateralized by the revenue of the Academy. The bond agreements include certain nonfinancial covenants, primarily pertaining to continuing disclosure requirements, which the Academy was in compliance with at June 30, 2019.

Aggregate principal payments for the next five years are summarized in the following amortization schedule:

2020	$ -
2021	132,220,000
2022	4,425,000
2023	4,640,000
2024	4,870,000
	$ 146,155,000

Fixed Rate Bond Premium
Fixed rate bond premium consists of the following at June 30:

	2019	2018
Bond premium	$ 18,565,400	$ 18,565,400
Less: Accumulated amortization	(3,972,400)	(2,896,300)
	$ 14,593,000	$ 15,669,100

Debt Issuance Costs
Debt issuance costs consist of the following at June 30:

	2019	2018
Bond issuance costs	$ 4,731,400	$ 4,731,400
Less: Accumulated amortization	(1,841,200)	(1,339,000)
	$ 2,890,200	$ 3,392,400

Estimated future annual amortization expense associated with the above bond issuance costs is summarized in the following amortization schedule:

2020	$ 502,200
2021	263,400
2022	142,000
2023	138,800
2024	135,500
2025 and thereafter	1,708,300
	$ 2,890,200

Interest Expenditure

Interest expenditure consists of the following for the years ended June 30:

	2019	2018
Bond and debt interest expense	$ 13,198,500	$ 12,479,700
Amortization of bond premium	(1,076,100)	(1,076,100)
Amortization of bond and debt issuance costs	502,100	502,100
	$ 12,624,500	$ 11,905,700

Interest expenditures are classified as follows at June 30:

	2019	2018
Consolidated statements of activities and changes in net assets		
Interest expense	$ 2,431,500	$ 2,293,000
Consolidated statements of financial position		
Capitalized interest as part of construction in progress in Property, equipment and building improvements	10,193,000	9,612,700
	$ 12,624,500	$ 11,905,700

11. Endowment Funds

The Academy's endowment consists of individual donor-restricted endowment funds and funds designated for the endowment by the Board. The net assets associated with endowment funds, including funds designated by the Board to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Academy classifies as net assets with donor restrictions the original value of gifts donated to the perpetual endowment, the original value of subsequent gifts to the perpetual endowment, and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the perpetual endowment is classified as time related restricted net assets within donor restricted net assets, until those amounts are appropriated for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulate endowment funds:

- Duration and preservation of the fund
- Purpose of the board-designated and donor-restricted endowment fund
- General economic conditions
- Potential effects of inflation and deflation

- Expected total return and appreciation of investments

- Other resources and investment policies of the Academy

The composition of the endowment funds consists of the following at June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
At June 30, 2019			
Donor–restricted funds	$ -	$ 25,060,100	$ 25,060,100
Board–designated funds	44,345,800	-	44,345,800
Total endowment funds	$ 44,345,800	$ 25,060,100	$ 69,405,900
At June 30, 2018			
Donor–restricted funds	$ -	$ 20,583,700	$ 20,583,700
Board–designated funds	42,737,600	-	42,737,600
Total endowment funds	$ 42,737,600	$ 20,583,700	$ 63,321,300

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions
Endowment net assets at June 30, 2017	$ 42,435,100	$ 19,519,400
Investment income, net	823,800	392,600
Net appreciation of investments	1,034,400	188,600
Contributions	-	1,000,000
Uses of net assets	(1,555,700)	(516,900)
Endowment net assets at June 30, 2018	42,737,600	20,583,700
Investment income, net	1,471,800	725,800
Net appreciation of investments	960,700	371,800
Contributions	-	3,627,200
Uses of net assets	(824,300)	(248,400)
Endowment net assets at June 30, 2019	$ 44,345,800	$ 25,060,100

The portion of net assets with donor restrictions that is required to be retained in perpetuity either by explicit donor stipulation or by UPMIFA at June 30, 2019 and 2018 consists of the following:

	2019	2018
Restricted for Fairbanks Center	$ 12,875,100	$ 12,875,100
Restricted for Nicholl Fellowship Program	5,624,000	5,624,000
Restricted for Museum Education Programs	4,751,600	1,500,000
Total endowment assets classified as perpetual in nature	$ 23,250,700	$ 19,999,100

The portion of net assets with donor restrictions endowment funds that is required to be retained temporarily either by explicit donor stipulation or by UPMIFA at June 30, 2019 and 2018 consists of the following:

	2019	2018
Restricted for Fairbanks Center	$ 1,296,600	$ 563,800
Restricted for Nicholl Fellowship Program	286,500	3,400
Restricted for Museum Education Programs	226,300	17,400

The Academy has adopted endowment investment and spending policies that attempt to preserve the endowment's assets. Under this policy, assets are expected to earn an average rate of return of inflation plus 4%, over a full market cycle. Actual returns in any given year may vary from this amount.

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

The Board of Governors of the Academy determines the method to be used to appropriate endowment funds for expenditure. The Board limits the use of the endowment to years in which it has realized investment income. The portion of the prior year's investment income to be spent is determined at the first Board meeting in accordance with any donor-imposed restrictions. Accordingly, over the long term, the Academy expects the current spending policy to allow for slow growth of the endowment.

The fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor limitations. The Academy recorded no deficits for the years ended June 30, 2019 and 2018.

12. Pension and Other Post-Retirement Benefit Plans

The Academy maintains an insured noncontributory defined benefit plan covering all non-union full-time employees over 21 years of age who have completed one year of service. Pension benefits under the plan are based on years of credited service and salary levels. The Academy annually contributes amounts to the plan. Such amounts are actuarially determined to provide the plan with sufficient assets to meet future benefit payment requirements. The plan's assets are invested in a variety of mutual funds. In June 2012, the Academy approved changes to the plan, which became effective July 1, 2013. Under these changes, plan benefits accrue under a cash balance plan for all employees under the age of 55 at the effective date. The actuarial lump sum of each participant's accrued benefit at the effective date is the opening cash balance amount. Beginning July 1, 2013, participant's accounts will be allocated a percentage of their salary as an annual contribution and receive an interest credit based on the performance of the plan's investments. For employees age 55 and over at the effective date, the prior plan provisions were not altered by the amendment.

The Academy maintains a defined contribution plan covering all non-union employees over twenty-one years of age. Each calendar year, participants may contribute up to the maximum tax-deferred contribution allowed by federal law. Participants who have attained age 50 before the end of the calendar year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. Each plan year, the Academy may make an additional discretionary matching contribution. Such additional contribution by the Academy to the plan will be allocated to each participant in the ratio of the participant's compensation from the Academy for the plan year to the aggregate of such compensation for all eligible employees. During the years ended June 30, 2019 and 2018, the Academy did not elect to make the discretionary contribution. In addition, the plan has a "qualified automatic contribution arrangement ("QACA")." A QACA is a plan design where the Academy commits to making a certain contribution. The required contribution is a safe harbor matching contribution equal to 100% of the employee's salary deferrals up to 1% of compensation plus 50% of salary deferrals between 1% and 6% of compensation. The commitment to make the contribution enables the Academy to simplify the administration of the plan by ensuring that nondiscrimination regulations are met. The matching contribution is made during the first quarter of the next calendar year. During the years ended June 30, 2019 and 2018, the Academy has made QACA contributions totaling $684,000 and $662,400, respectively.

The Academy also sponsors a postretirement health care plan that includes medical, dental and vision benefits. The benefits are available to all employees who were at least age 55 as of January 1, 2013, who retire on or after age 65 with a minimum of 20 years of service ("Benefit Qualifications"). Eligible spouses are also covered. The benefits are fully insured health care benefits. Participants are required to contribute 25% of the cost of the coverage (50% for employees who were not at least age 60, or already retired, as of January 1, 2013). The Academy funds the plan on a pay-as-you-go basis, so there are no plan assets.

The Academy uses a June 30 measurement date for its plans.

Obligations, funded status and net periodic benefit costs are as follows at June 30:

	Pension Benefits		**Postretirement Health Plan**	
	2019	**2018**	**2019**	**2018**
Employer's contribution	$ 2,600,000	$ 2,700,000	$ 88,300	$ 75,300
Plan participants' contributions	-	-	21,900	18,600
Benefit payments	3,818,600	4,615,500	110,200	93,900
Funded status	(15,714,400)	(12,805,400)	(3,009,400)	(2,923,300)
Accrued benefit cost	(15,714,400)	(12,805,400)	(3,009,400)	(2,923,300)
Net periodic benefit costs/(income)	3,008,000	3,512,300	(65,600)	196,400
Accumulated plan benefit obligation	40,037,000	37,362,800	-	-
Fair value of plan assets	25,268,800	25,457,000	-	-
Projected plan benefit obligation	40,983,200	38,262,400	3,121,500	3,044,600

The following is a reconciliation of the beginning and ending balances of the benefit obligation:

	Pension Benefits		Postretirement Health Plan	
	2019	**2018**	**2019**	**2018**
Benefit obligation at end of prior year	$ 38,262,400	$ 42,107,100	$ 3,044,600	$ 3,902,200
Service cost	1,532,000	1,635,400	29,700	46,400
Interest cost	1,559,200	1,496,800	130,200	150,100
Plan participants' contributions	-	-	21,900	18,600
Amendments	-	-	-	-
Actuarial loss (gain)	3,448,200	(2,361,400)	5,200	(978,700)
Benefit payments	(3,818,600)	(4,615,500)	(110,100)	(94,000)
Benefit obligation at end of year	$ 40,983,200	$ 38,262,400	$ 3,121,500	$ 3,044,600

The following is a reconciliation of the beginning and ending balances of the fair value of plan assets:

	Pension Benefits		Postretirement Health Plan	
	2019	**2018**	**2019**	**2018**
Value of assets at end of prior year	$ 25,457,000	$ 26,706,700	$ -	$ -
Actual return on plan assets	1,093,200	733,600	-	-
Employer contributions	2,600,000	2,700,000	88,300	75,300
Plan participants' contributions	-	-	21,900	18,600
Benefit payments	(3,818,600)	(4,615,400)	(110,200)	(93,900)
Expenses	(62,800)	(67,900)	-	-
Value of plan assets at end of year	$ 25,268,800	$ 25,457,000	$ -	$ -

The following is the amount of net benefit cost recognized each year:

	Pension Benefits		Postretirement Health Plan	
	2019	**2018**	**2019**	**2018**
Service cost	$ 1,532,000	$ 1,635,400	$ 29,700	$ 46,400
Interest cost	1,559,200	1,496,800	130,200	150,000
Expected return on plan assets	(1,394,700)	(1,452,700)	-	-
Recognition of prior service cost	(467,100)	(467,100)	-	-
Recognition of net loss (gain)	673,300	1,019,800	(225,500)	-
Net loss recognized due to settlement	1,105,300	1,280,100		-
Total net benefit cost	$ 3,008,000	$ 3,512,300	$ (65,600)	$ 196,400

Amounts recognized in the consolidated statements of financial position are as follows at June 30:

	Pension Benefits		Postretirement Health Plan	
	2019	**2018**	**2019**	**2018**
Accrued salaries and benefits	$ (15,714,400)	$ (12,805,400)	$ (3,121,500)	$ (3,044,600)

Weighted-average assumptions used to determine benefit obligations are as follows at June 30:

	Pension Benefits		Postretirement Health Plan	
	2019	**2018**	**2019**	**2018**
Discount rate	3.40 %	4.30 %	3.50 %	4.40 %
Rate of compensation increase	3.00	3.00	NA	NA

Weighted-average assumptions used to determine net periodic benefit cost are as follows for the years ended June 30:

	Pension Benefits		Postretirement Health Plan	
	2019	**2018**	**2019**	**2018**
Discount rate	4.30 %	3.75 %	4.40 %	4.00 %
Expected long-term return on plan assets	5.50	5.50	NA	NA
Rate of compensation increase	3.00	3.00	NA	NA

The Academy determines the discount rate assumption based on a cash flow analysis for the plans. In this analysis, the plans' projected cash flows (on a Projected Benefit Obligation and Accumulated Pension Benefit Obligation basis) are discounted back to the measurement date using spot rates from a yield curve of high-quality fixed-income corporate bond rates, resulting in a present value of the cash flows. A single discount rate is then determined which would yield the same present value. For this purpose, the Ryan Above-Median yield curve is used.

Assumed health care costs trend rates are as follows at June 30:

	2019	**2018**
Health care cost trend rate assumed for next year	6.00 %	6.25 %
Ultimate trend rate	4.00	4.00
Year that the rates reach the ultimate trend rate	8	9

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. One percentage point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total 2019 service cost and interest cost components	$ 21,700	$ (18,200)
Effect on postretirement benefit obligation at June 30, 2019	405,200	(341,400)

The Academy expects to contribute $2,850,000 to its pension plan and $112,000 to its postretirement health plan in 2020.

Amounts not yet recognized as a change in net assets without donor restrictions arising from a defined benefit plan (or a postretirement benefit plan) but not yet reclassified as components of net periodic pension cost (or net periodic postretirement benefit cost):

	Pension Benefits		Postretirement Health Plan	
	2019	2018	2019	2018
Prior service cost	$ (2,218,500)	$ (2,685,600)	$ -	$ -
Net loss	14,310,300	12,276,400	(584,700)	(815,400)
	$ 12,091,800	$ 9,590,800	$ (584,700)	$ (815,400)

Amounts expected to be recognized as components of net periodic benefit cost during fiscal 2020:

	Pension Benefits	Postretirement Health
Prior service cost	$ (467,100)	$ -
Net loss/(gain)	839,800	(139,800)
	$ 372,700	$ (139,800)

Other changes in plan assets and benefit obligations included in the change in the reduction to assets without donor restrictions at June 30:

	Pension Benefits		Postretirement Health Plan	
	2019	2018	2019	2018
Net loss (gain)	$ 3,812,500	$ (1,574,500)	$ 5,200	$ (978,700)
Amortization of net loss	(673,200)	(1,019,700)	225,500	-
Net loss due to settlement accounting	(1,105,300)	(1,280,100)	-	-
Prior service credit	-	-	-	-
Amortization of prior service costs	467,100	467,100	-	-
	$ 2,501,100	$ (3,407,200)	$ 230,700	$ (978,700)

The Academy expects to remit the following benefit payments, which reflect expected future service:

	Pension Benefits	Postretirement Health Plan
2020	$ 3,299,000	$ 112,000
2021	4,263,000	129,000
2022	2,963,000	143,000
2023	2,927,000	160,000
2024	2,953,000	173,000
2025-2029	14,916,000	947,000

Pension Plan Assets

The Board has established an investment policy for pension plan assets and has delegated oversight of such assets to an investment committee. The investment policy sets forth the objective of providing for future pension benefits by targeting returns consistent with a stated tolerance of risk. The primary investment strategies are: (i) to have investment returns that exceed the actuarial investment return assumption and (ii) preservation of capital. Plan assets are invested in mutual and real estate funds. Target and actual allocations of major pension plan assets are as follows for the years ended June 30:

	Target Allocation		Actual Allocation	
	2019	2018	2019	2018
Equity assets	25.0 %	20.0 %	23.1 %	21.9 %
Fixed income assets	30.0	35.0	26.8	31.4
Alternative investment assets	40.0	40.0	41.5	39.8
Real estate assets	5.0	5.0	6.7	6.3
Cash and cash equivalents	0.0	0.0	1.9	0.6

Fair Value of Pension Plan Assets

The following table sets forth the fair value of the Academy's pension plan assets, by asset type, at June 30, 2019:

	Assets				
	Level I	Level II	Level III	NAV	Total
Cash and cash equivalents	$ 483,500	$ -	$ -	$ -	$ 483,500
Fixed income					
Mutual fund - fixed income	6,773,500	-	-	-	6,773,500
Equity					
Mutual fund - equity	5,832,400	-	-	-	5,832,400
Real estate					
Real estate fund	-	-	-	1,683,300	1,683,300
Alternative investments					
Mutual fund - alternative investments	2,646,900	2,416,300	-	-	5,063,200
Absolute return hedge fund	-	-	-	5,433,000	5,433,000
	$ 15,736,300	$ 2,416,300	$ -	$ 7,116,300	$ 25,268,900

The following table sets forth the fair value of the Academy's pension plan assets, by asset type, at June 30, 2018:

	Assets				
	Level I	**Level II**	**Level III**	**NAV**	**Total**
Cash and cash equivalents	$ 155,900	$ -	$ -	$ -	$ 155,900
Fixed income					
Mutual fund - fixed income	7,993,700	-	-	-	7,993,700
Equity					
Mutual fund - equity	5,560,300	-	-	-	5,560,300
Real estate					
Real estate fund	-	-	-	1,614,100	1,614,100
Alternative investments					
Mutual fund - alternative investments	2,661,600	2,339,300	-	-	5,000,900
Absolute return hedge fund	-	-	-	5,132,100	5,132,100
	$ 16,371,500	$ 2,339,300	$ -	$ 6,746,200	$ 25,457,000

For a description of the fair value hierarchy and for an explanation of the valuation methodologies used to determine fair value of the assets of the pension plan, refer to Note 3, fair value measurements.

Investments Calculated at Net Asset Value
As of June 30, 2019, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those instruments, are as follows:

	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Absolute return hedge fund 1	$ 609,400	None	Monthly	14 Days
Absolute return hedge fund 2	4,823,600	None	Quarterly	90 Days
Real estate fund	1,683,300	None	Quarterly	45 Days

There have been no transfers into or out of Level III investments in 2019 and 2018.

Long-Term Rate of Return
The expected long-term rate of return on assets assumption is 5.5%. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio.

13. Net Assets

Net assets comprise the following at June 30:

	2019	2018
With donor restrictions		
Perpetual in nature		
Fairbanks Center	$ 12,875,100	$ 12,875,100
Nicholl fellowship program	5,624,000	5,624,000
Museum education programs	4,751,600	2,500,000
Purpose restricted		
Academy Museum	99,024,800	80,480,000
Other education and restoration projects	4,294,500	2,046,600
Time related		
Academy Museum	8,022,600	-
Fairbanks Center endowment	1,296,600	563,800
Nicholl fellowship program	286,500	3,500
Museum education programs	226,300	17,600
	$ 136,402,000	$ 104,110,600
Without donor restrictions		
Board designated		
Fairbanks Center	$ 44,345,800	$ 42,737,600
Academy Museum	73,337,700	73,337,700
Undesignated	502,455,100	441,918,100
	$ 620,138,600	$ 557,993,400

14. Natural Classification of Expenses

The following presents the natural classifications by program and support area for the year ended June 30, 2019 and June 30, 2018 and reflects the allocation of depreciation, information technology, and interest. Depreciation and information technology are allocated based on estimated usage. Interest expense on external debt is allocated to the programs which benefited from the proceeds of external debt. Capitalized interest expense is not included.

For the year ended June 30, 2019:

	Academy Awards	Membership, Theater	Preservation	Science and Technology Council	Museum	Public Outreach Programs	Fundraising	General and Administrative	Total
Salaries	$ 8,380,500	$ 3,430,700	$ 8,385,400	$ 1,339,900	$ 5,375,400	$ 2,711,800	$ 1,480,600	$ 6,151,400	$ 37,255,700
Benefits	1,967,800	783,300	2,367,600	292,200	1,092,800	484,100	300,100	1,026,600	8,314,500
Grants to third parties	-	-	-	-	-	693,500	-	88,600	782,100
Program expenses	28,401,700	1,852,900	4,595,300	458,200	5,622,800	1,819,500	969,800	5,434,300	49,154,500
Information technology	2,576,300	535,900	923,700	108,400	646,800	301,900	107,900	1,441,400	6,642,300
Depreciation	110,000	703,600	3,476,700	86,200	556,800	181,400	91,100	1,339,300	6,545,100
Interest expense	-	-	1,448,300	-	983,200	-	-	-	2,431,500
	$ 41,436,300	$ 7,306,400	$ 21,197,000	$ 2,284,900	$ 14,277,800	$ 6,192,200	$ 2,949,500	$ 15,481,600	$ 111,125,700

For the year ended June 30, 2018:

	Academy Awards	Membership, Theater	Preservation	Science and Technology Council	Museum	Public Outreach Programs	Fundraising	General and Administrative	Total
Salaries	$ 8,797,600	$ 2,858,000	$ 8,490,900	$ 1,339,900	$ 4,206,600	$ 1,978,300	$ 1,527,500	$ 5,621,500	$ 34,820,300
Benefits	1,902,000	678,800	3,160,900	292,200	916,500	580,300	451,300	3,067,100	11,049,100
Grants to third parties	-	-	-	-	-	804,000	-	59,400	863,400
Program expenses	26,793,700	1,635,000	2,680,300	615,400	3,328,500	2,321,500	1,069,900	2,875,100	41,319,400
Information technology	3,555,000	243,200	904,600	108,400	507,500	271,300	143,500	1,340,200	7,073,700
Depreciation	119,900	674,000	3,780,800	86,200	496,800	60,200	138,400	1,755,500	7,111,800
Interest expense	-	-	1,365,800	-	927,200	-	-	-	2,293,000
	$ 41,168,200	$ 6,089,000	$ 20,383,300	$ 2,442,100	$ 10,383,100	$ 6,015,600	$ 3,330,600	$ 14,718,800	$ 104,530,700

15. Commitments and Contingencies

The Academy leases certain storage space and equipment under noncancelable operating leases, which expire at various dates through 2037. Rental expense for operating leases was $3,608,000 and $2,923,900 for the years ended June 30, 2019 and 2018, respectively. The following is a schedule of future minimum lease payments (net of noncancelable sublease rentals) under noncancelable leases:

2020	$ 2,237,100
2021	2,158,000
2022	2,005,200
2023	1,335,600
2024	839,900
2025 and thereafter	5,838,500
	$ 14,414,300

In the normal course of business, the Academy may enter into contracts or agreements, from time to time, with tenants and other vendors that commit the Academy to specific or contingent liabilities. As of June 30, 2019 and 2018, there were $20,309,900 and $9,599,800 in museum development related contracts that management considered significant (either individually or in aggregate) to the Academy's consolidated financial statements.

The Academy is involved in various legal matters arising in the ordinary course of business. The Academy's management believes that the outcome of these legal matters will not have a significant effect on the Academy's consolidated financial statements.

16. Related Party Transactions

The Academy occasionally pays for the services of governors in connection with the production of the annual Academy Awards telecast and the annual Governors Awards program as well as other professional services. In 2019, the Academy had no related party transactions. In 2018, the Academy paid two governors a total of $54,000.

17. Subsequent Events

The Academy has evaluated subsequent events through November 22, 2019, which is the date of the financial statements issuance.