Academy of Motion Picture Arts and Sciences and its affiliates

Consolidated Financial Statements
June 30, 2020 and 2019

Page(s)

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, 2020 and 2019, 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, 2020 and 2019, 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

November 20, 2020

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Academy of Motion Picture Arts and Sciences and its affiliates
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 11,654,200	$ 7,472,200
Restricted cash	1,983,900	1,845,400
Accounts and other receivables, net	1,844,800	2,151,400
Investments	635,256,700	561,265,800
Bond funds held by trustee	8,178,900	-
Pledges receivable, net	114,674,100	120,638,500
Prepaid expenses	1,243,900	1,190,800
Deferred rent expense, net	22,931,500	23,248,600
Property, equipment and building improvements, net	544,335,400	461,317,500
Academy collections, carried at no value (Note 1)	-	-
Other assets, net	896,600	732,800
Total assets	$ 1,343,000,000	$ 1,179,863,000
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 16,281,600	$ 25,660,200
Accrued salaries and benefits	27,307,700	21,706,900
Grants payable, less discount	1,981,800	2,450,700
Deferred income	19,985,400	20,841,800
Debt	488,239,900	352,662,800
Total liabilities	553,796,400	423,322,400
Net assets		
Net assets without donor restrictions	647,510,600	620,138,600
Net assets with donor restrictions	141,693,000	136,402,000
Total net assets	789,203,600	756,540,600
Total liabilities and net assets	$ 1,343,000,000	$ 1,179,863,000

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, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions		
Revenues and other support		
Academy Awards and related activities	$ 131,862,100	$ 131,055,000
Membership dues and theater rentals	4,073,800	3,578,000
Contributions, net	8,262,300	12,415,400
Research library and other educational and cultural activities	780,700	743,200
Investment income, net	5,078,700	23,443,200
Other income	67,400	31,000
Total revenues	150,125,000	171,265,800
Net assets released from restrictions	8,256,900	7,199,600
Total revenues and other support	158,381,900	178,465,400
Expenses		
Academy Awards and related activities	42,039,400	41,436,300
Membership, theater, and other operations	7,704,000	7,306,400
Preservation operations	20,970,700	19,748,700
Science and Technology Council operations	2,435,400	2,284,900
Museum development	17,277,300	13,294,600
Public outreach programs	12,717,200	6,192,200
Fundraising	2,993,500	2,949,500
General and administrative expenses	16,133,200	15,481,600
Interest expense	2,281,000	2,431,500
Total expenses	124,551,700	111,125,700
Increase in net assets from operations	33,830,200	67,339,700
Purchases of non-capitalized collections	(1,234,400)	(1,082,100)
Other components of net periodic benefit cost	(184,700)	(1,380,700)
Pension and postretirement-related changes other than net periodic benefit cost	(5,039,300)	(2,731,700)
Increase in net assets without donor restrictions	27,371,800	62,145,200
Changes in net assets with donor restrictions		
Contributions received, net	13,379,300	38,397,400
Net assets released from restrictions	(8,256,900)	(7,199,600)
Investment income from restricted funds in perpetuity, net	168,800	1,093,600
Increase in net assets with donor restrictions	5,291,200	32,291,400
Total increase in net assets	32,663,000	94,436,600
Net assets		
Beginning of year	756,540,600	662,104,000
End of year	$ 789,203,600	$ 756,540,600

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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Changes in net assets	$ 32,663,000	$ 94,436,600
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	7,447,500	7,593,400
Debt premium accretion	(2,185,000)	(1,076,100)
Contributions for perpetual endowment and income	-	(2,500,000)
Purchases of non-capitalized collections	1,234,400	1,082,100
Contributions related to long-lived assets	(1,000,000)	(5,885,100)
Bad debt expense related to pledges receivable	123,000	59,800
Present value adjustment to pledges receivable	(2,455,000)	928,100
Present value adjustment to grants payable	31,100	38,600
Net realized and unrealized gain on investments	4,780,700	(12,246,700)
Changes in assets and liabilities		
Accounts and other receivables	306,600	1,221,900
Pledges receivable	(239,900)	(23,873,400)
Prepaid expenses	(53,100)	(337,200)
Other assets	(183,100)	135,700
Accounts payable and accrued expenses	3,218,100	1,114,600
Accrued salaries and benefits	5,600,800	3,830,100
Grants payable	(500,000)	(500,000)
Deferred income	(856,400)	(1,353,300)
Net cash provided by operating activities	47,932,700	62,669,100
Cash flows from investing activities		
Sales and maturities of investments	1,052,435,300	738,880,400
Purchases of investments	(1,139,158,100)	(664,626,100)
Purchases of non-capitalized collections	(1,234,400)	(1,082,100)
Additions to property, equipment and building improvements	(102,184,600)	(140,962,900)
Net cash used in investing activities	(190,141,800)	(67,790,700)
Cash flows from financing activities		
Contributions for long-lived assets	9,410,700	3,720,800
Contributions for investment in perpetual endowments	125,600	1,254,200
Proceeds from debt issuance	138,578,000	-
Debt issuance costs	(1,357,000)	-
Net cash provided by financing activities	146,757,300	4,975,000
Net (decrease) increase in cash, cash equivalents, and restricted cash	4,548,200	(146,600)
Cash, cash equivalents, and restricted cash		
Beginning of year	9,577,700	9,724,300
End of year	$ 14,125,900	$ 9,577,700
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amounts capitalized)	$ 2,391,500	$ 2,542,000
Supplemental schedule of noncash activities		
Property, equipment and building improvements included in accounts payable and accrued expenses	$ 4,783,000	$ 17,379,700
Write-off of fully depreciated property, equipment and building improvements	375,300	9,667,100
Donations to non-capitalized collections	2,964,400	2,943,800

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. 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. All inter-entity transactions eliminate in consolidation.

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 95% and 97% of revenues in 2020 and 2019, 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 of 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 occur within 90 days of revenue recognition. When the period between fulfillment of the Academy's 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 each of the performance obligations. Deferred income is recognized as revenue in the period the performance obligation is fulfilled. The unrecognized portion of the payments is reflected as deferred income in the accompanying consolidated statements of financial position (Note 9).

Remaining performance obligations for Academy Awards related contracts include deferred income 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, 2020 are:

	2021	2022	2023	Thereafter	Total
Remaining Performance Obligations	$ 119,975,000	$ 124,593,000	$ 129,125,000	$ 664,194,000	$ 1,037,887,000

Revenues expected to be recognized over the terms of the contracts related to contractual performance obligations that are unsatisfied as of June 30, 2019 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 or investment in perpetual endowment are 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 due in 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 in 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 or held by Bond Trustee. The carrying value of cash and cash equivalents approximates fair value because of their short maturity.

Restricted Cash
Restricted cash consists of contributions received by the Academy, which contain donor restrictions that require the Academy to maintain the contributions in a separate bank account until the funds are spent in accordance with the donor agreement.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Statements of Financial Position that sums to amounts shown in the Statements of Cash Flows:

	2020	**2019**
Cash and cash equivalents	$ 11,654,200	$ 7,472,200
Restricted cash	1,983,900	1,845,400
Cash included in investments	487,800	260,100
	$ 14,125,900	$ 9,577,700

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 Unadjusted 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, 2020 and 2019, 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.

Bond Funds Held by Trustee
Bond funds held by Trustee represent the unused proceeds of the March 10, 2020 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 3.

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 buildings, 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 debt 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 and 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"). 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 Academy Museum contributions that are no longer subject to donor restrictions 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 perpetual in nature and the related income is 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 perpetual in nature and the related income is classified in accordance with the grant document as perpetual in nature or 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 customers which represent 82% and 73% of total revenues in 2020 and 2019, respectively.

Advertising
Advertising costs are charged to expense in the period incurred. Advertising expense was $1,923,200 and $2,319,600 for the years ended June 30, 2020 and 2019, respectively, and is included in (i) Academy Awards and related activities and (ii) museum development 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.

COVID-19
With respect to the impact of COVID-19, the outbreak has caused domestic and global disruption in operations for non-profit and entertainment institutions. The impact (i) may materially affect the ability of the Academy to conduct its operations and/or the cost of operations and (ii) has negatively impacted the financial markets and has and may continue to materially affect the returns on and value of the Academy’s investments. The full impact of COVID-19 or any other similar outbreaks in the future and the scope of any adverse impact on the Academy’s finances and operations cannot be fully determined at this time.

Reclassifications
Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. There was no impact on net assets as a result of these reclassifications.

Significant Accounting Pronouncements Adopted in Financial Statement Period
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 standard was adopted in 2019.

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 was adopted in 2019.

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* was promulgated in May 2014. The new standard provided 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 was intended to clarify and improve the scope and the accounting guidance for contributions received and made. The ASU was effective for fiscal years beginning after June 15, 2018 and was applied on a modified prospective basis. The ASU was adopted in 2019 and 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 affected 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 was effective for nonpublic business entities for annual periods beginning December 15, 2018. The Academy adopted the standard in 2019.

ASU No. 2016-18, *Restricted Cash, Statement of Cash Flows (Topic 230)* was promulgated in November 2016. This ASU was effective for fiscal years beginning after December 15, 2018. Retrospective application to all prior periods presented on the date of adoption was required. This update required that restricted cash be 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 ASU was adopted in 2020 and did not have a material impact to the consolidated financial statements.

ASU No. 2020-03, *Codification Improvements to Financial Instruments* was promulgated in March 2020. This ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments in this Update represent changes to clarify or improve the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The ASU was adopted in 2020 and did not have a material impact to the consolidated financial statements.

New Accounting Pronouncements

ASU No. 2016-02, *Leases (Topic 842)* was promulgated in February 2016. 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. This ASU effective date was modified by ASU No. 2020-05, *Contracts with Customers (Topic 606) and Leases (Topic 842)—Effective Dates for Certain Entities,* which is detailed below.

ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)—Effective Dates for Certain Entities* was promulgated in June 2020. The ASU amendments defer the effective date of Leases to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, for not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market that have not yet issued financial statements (or made financial statements available for issuance). Early application continues to be permitted which means that an entity may choose to implement Leases before those deferred effective dates. The Academy has chosen to delay adoption of *Leases* under this standard.

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 above), 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, 2020 and 2019 that are available to meet cash needs for general expenditures within one year of the date of the statements of financial position:

	2020	2019
Financial assets at year end		
Cash and cash equivalents	$ 11,654,200	$ 7,472,200
Restricted cash	1,983,900	1,845,400
Accounts and other receivables, net	1,844,800	2,151,400
Investments	635,256,700	561,265,800
Bond funds held by trustee	8,178,900	-
Pledges receivable	114,674,100	120,638,500
	773,592,600	693,373,300
Less amounts not available to be used for operations in one year		
Donor restricted funds	141,693,000	136,402,000
Less donor restricted funds with time or purpose restrictions to be met within one year	(15,486,500)	(31,422,700)
Bond funds held by trustee	8,178,900	-
Board designated funds	62,064,500	117,683,500
	196,449,900	222,662,800
Financial assets available to meet general expenditures over the next twelve months	$ 577,142,700	$ 470,710,500

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 bond funds held by trustees, consist of the following at June 30:

	2020	2019
Cash and short-term investments	$ 153,877,700	$ 14,844,000
Fixed income		
Fixed income securities	37,704,700	36,678,800
Mutual fund–fixed income	154,256,000	252,702,700
Equities		
Mutual fund–equity	77,548,800	90,855,000
Real estate		
REIT investments	11,442,000	11,603,600
Real estate alternative investments	14,107,300	13,694,900
Alternative investments		
Mutual fund–alternative investments	92,876,100	50,977,000
Absolute return hedge fund	101,623,000	89,909,800
	$ 643,435,600	$ 561,265,800

The table above includes the bond funds held by trustees in cash and cash equivalents with fair value of $8,178,900 as of June 30, 2020.

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

	2020	2019
Interest and dividend income	$ 10,812,000	$ 13,652,300
Net realized gain on investments	1,991,700	6,693,300
Net unrealized (loss) gain on investments	(6,772,400)	5,553,400
Investment fees	(762,300)	(898,400)
Net of restricted bond investment income offset by capitalized interest costs	(21,500)	(463,800)
	$ 5,247,500	$ 24,536,800

Investment income, net is classified in the statement of activities as follows for the years ended June 30:

	2020	2019
Net assets with donor restrictions	$ 168,800	$ 1,093,600
Net assets without donor restrictions	5,078,700	23,443,200
	$ 5,247,500	$ 24,536,800

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, 2020:

	Assets (Liabilities)				
	Level I	Level II	Level III	NAV	Total
Assets					
Cash and short-term investments	$ 153,877,700	$ -	$ -	$ -	$ 153,877,700
Fixed income					
Fixed income securities	-	37,704,700	-	-	37,704,700
Mutual fund–fixed income	154,256,000	-	-	-	154,256,000
Equities					
Mutual fund–equity	77,548,800	-	-	-	77,548,800
Real estate					
REIT investments	11,442,000	-	-	-	11,442,000
Real estate alternative investments	-	-	-	14,107,300	14,107,300
Alternative investments					
Mutual fund–alternative investments	72,483,800	20,392,300	-	-	92,876,100
Absolute return hedge fund	-	-	-	101,623,000	101,623,000
	$ 469,608,300	$ 58,097,000	$ -	$ 115,730,300	$ 643,435,600

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, 2019:

	Assets (Liabilities)				
	Level I	Level II	Level III	NAV	Total
Assets					
Cash and short-term investments	$ 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

Valuation Methodologies

Cash and Short-Term Investments

Certain cash balances and highly liquid short-term investments 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, 2020, 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	$ 5,202,900	None	Monthly	14 Days
Absolute return hedge fund 2	96,420,100	None	Quarterly	90 Days
Real estate alternative investments				
US	13,727,300	None	Semi-annual	60 Days
European	20,000	None	Semi-annual	60 Days
US Real Estate Investment	360,000	5,640,000	Not applicable	Not applicable
	$ 115,730,300			

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
	$ 103,604,700			

The European real estate alternative investment is in liquidation. Distributions are made from the fund as assets are sold. Final liquidation is expected in 2021.

In the US Real Estate Investment Fund, proceeds will be distributed as the underlying portfolio investments are liquidated. Therefore, there is no redemption frequency or notification period applicable to this fund. The Fund has targeted a 4-year investment period followed by an 8-year harvest period, by which time the fund managers expect that all investments within the fund will be liquidated and the proceeds distributed to the limited partners. However, there are provisions to extend these periods if the fund managers deem it necessary.

5. Pledges Receivable, Net

Pledges receivable have been discounted using a range of discount rates between 0.11% to 4.31% for the years ended June 30, 2020 and 2019 and have the following schedule of collections:

	2020	2019
Less than 1 year	$ 30,094,000	$ 28,422,700
Greater than 1 year to 5 years	62,958,900	67,535,500
Greater than 5 years to 10 years	25,950,500	30,541,700
Greater than 10 years	8,450,000	10,000,000
	127,453,400	136,499,900
Less: Allowance for doubtful accounts	(373,200)	(1,000,200)
Less: Discount	(12,406,100)	(14,861,200)
	$ 114,674,100	$ 120,638,500

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, and totaled $46,430,000 and $46,590,000 at June 30, 2020 and 2019, respectively.

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:

	2020	2019
Land	$ 21,117,000	$ 21,117,000
Building	9,601,000	9,601,000
Building improvements	49,031,200	48,688,000
Furniture, fixtures and equipment	46,143,200	40,660,700
Construction in progress	487,385,500	404,023,300
	613,277,900	524,090,000
Less: Accumulated depreciation	(68,942,500)	(62,772,500)
	$ 544,335,400	$ 461,317,500

Depreciation expense totaled $6,570,000 and $6,648,200 for the years ended June 30, 2020 and 2019, 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:

	2020	2019
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	(2,705,800)	(2,388,700)
	$ 22,931,500	$ 23,248,600

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

2021	$ 307,100
2022	307,100
2023	307,100
2024	307,100
2025	307,100
2026 and thereafter	21,396,000
	$ 22,931,500

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:

	2020	2019
Postretirement medical plan	$ 2,964,400	$ 3,121,500
Accrued pension benefits	20,051,000	15,714,400
Other accrued benefit expenses	451,400	386,000
Accrued salaries and vacation	3,782,000	2,422,800
Deferred compensation plan	58,900	62,200
	$ 27,307,700	$ 21,706,900

9. Deferred Income

Deferred income comprises the following at June 30:

	2020	2019
Academy Awards	$ 17,121,200	$ 18,750,000
Membership dues	2,326,900	2,046,800
Events	537,300	45,000
	$ 19,985,400	$ 20,841,800

During the years ended June 30, 2020 and 2019, $2,083,333 was annually recognized into revenue for Academy Awards.

10. Debt

Debt comprises the following at June 30:

	2020	2019
Variable rate debt		
Museum variable rate bonds	$ 128,000,000	$ 128,000,000
Fixed rate debt		
Museum fixed rate bonds	312,960,000	212,960,000
Fixed rate bond premium, net	50,986,000	14,593,000
	363,946,000	227,553,000
	491,946,000	355,553,000
Less: Unamortized debt issuance costs	(3,706,100)	(2,890,200)
	$ 488,239,900	$ 352,662,800

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 was 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, 2020 and 2019 is 1.08% and 2.63%, respectively.

On March 10, 2020, the California I-Bank issued a series of Revenue Bonds with a par value of $100,000,000. The series generated an issue premium of $38,578,000. These bonds bear interest at 5% and mature on November 1, 2030. Taking into account the bond premium, the effective interest rate is 1.14%. The bonds were issued to finance a portion of the costs of construction, renovation, retrofitting and equipping of the Academy Museum of Motion Pictures, including reimbursement of various capital expenditures previously incurred relating to the museum.

The three series of 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, 2020.

Aggregate principal payments, which does not include the impact of the Bond issuance disclosed in Note 16, are summarized in the following amortization schedule:

2021	$ 132,220,000
2022	4,425,000
2023	4,640,000
2024	4,870,000
2025	5,115,000
2026 and thereafter	289,690,000
	$ 440,960,000

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

	2020	2019
Bond premium	$ 57,143,400	$ 18,565,400
Less: Accumulated amortization	(6,157,400)	(3,972,400)
	$ 50,986,000	$ 14,593,000

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

	2020	2019
Bond issuance costs	$ 6,088,300	$ 4,731,400
Less: Accumulated amortization	(2,382,200)	(1,841,200)
	$ 3,706,100	$ 2,890,200

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

2021	$ 391,000
2022	269,500
2023	266,400
2024	263,100
2025	259,600
2026 and thereafter	2,256,500
	$ 3,706,100

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

	2020	2019
Bond and debt interest expense	$ 13,958,700	$ 13,198,500
Amortization of bond premium	(2,185,000)	(1,076,100)
Amortization of bond and debt issuance costs	541,100	502,100
	$ 12,314,800	$ 12,624,500

Interest expenditures are classified as follows at June 30:

	2020	2019
Consolidated statements of activities		
Interest expense	$ 2,281,000	$ 2,431,500
Consolidated statements of financial position		
Capitalized interest as part of construction in progress in Property, equipment and building improvements	10,033,800	10,193,000
	$ 12,314,800	$ 12,624,500

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, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
At June 30, 2020			
Donor–restricted funds	$ -	$ 23,857,200	$ 23,857,200
Board–designated funds	43,798,600	-	43,798,600
Total endowment funds	$ 43,798,600	$ 23,857,200	$ 67,655,800
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

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions
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
Investment income, net	1,205,900	545,300
Net depreciation of investments	(1,134,600)	(376,600)
Contributions	-	125,600
Uses of net assets	(618,500)	(1,497,200)
Endowment net assets at June 30, 2020	$ 43,798,600	$ 23,857,200

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, 2020 and 2019 consists of the following:

	2020	2019
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	4,877,200	4,751,600
Total endowment assets classified as perpetual in nature	$ 23,376,300	$ 23,250,700

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, 2020 and 2019 consists of the following:

	2020	2019
Restricted for Fairbanks Center	$ 20,700	$ 1,296,600
Restricted for Nicholl Fellowship Program	220,500	286,500
Restricted for Museum Education Programs	239,700	226,300

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 restrictions. The Academy recorded no deficits for the years ended June 30, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019, the Academy has made QACA contributions totaling $781,000 and $684,000, 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	
	2020	2019	2020	2019
Employer's contribution	$ 2,850,000	$ 2,600,000	$ 80,300	$ 88,300
Plan participants' contributions	-	-	19,400	21,900
Benefit payments	1,152,500	3,818,600	99,600	110,200
Funded status	(20,051,000)	(15,714,400)	(2,964,400)	(3,121,500)
Accrued benefit cost	(20,051,000)	(15,714,400)	(2,964,400)	(3,121,500)
Net periodic benefit costs/(income)	2,105,500	3,008,000	(35,200)	(65,600)
Accumulated plan benefit obligation	45,936,900	40,037,000	-	-
Fair value of plan assets	26,960,200	25,268,900	-	-
Projected plan benefit obligation	47,011,200	40,983,200	3,121,500	3,121,500
Unrecognized transition obligation	-	-	-	-
Unrecognized prior service benefit	1,751,500	2,218,500	-	-
Unrecognized net actuarial loss (gain)	18,924,300	14,310,300	(626,400)	(584,700)

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

	Pension Benefits		Postretirement Health Plan	
	2020	2019	2020	2019
Benefit obligation at end of prior year	$ 40,983,200	$ 38,262,400	$ 3,121,500	$ 3,044,600
Service cost	1,805,400	1,532,000	25,900	29,700
Interest cost	1,340,800	1,559,200	105,700	130,200
Plan participants' contributions	-	-	19,400	21,900
Amendments	-	-	-	-
Actuarial loss (gain)	4,034,300	3,448,200	(208,500)	5,200
Benefit payments	(1,152,500)	(3,818,600)	(99,600)	(110,100)
Benefit obligation at end of year	$ 47,011,200	$ 40,983,200	$ 2,964,400	$ 3,121,500

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

	Pension Benefits		Postretirement Health Plan	
	2020	2019	2020	2019
Value of assets at end of prior year	$ 25,268,800	$ 25,457,000	$ -	$ -
Actual return on plan assets	43,300	1,093,200	-	-
Employer contributions	2,850,000	2,600,000	80,200	88,300
Plan participants' contributions	-	-	19,400	21,900
Benefit payments	(1,152,500)	(3,818,600)	(99,600)	(110,200)
Expenses	(49,400)	(62,800)	-	-
Value of plan assets at end of year	$ 26,960,200	$ 25,268,800	$ -	$ -

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

	Pension Benefits		Postretirement Health Plan	
	2020	2019	2020	2019
Service cost	$ 1,805,400	$ 1,532,000	$ 25,900	$ 29,700
Interest cost	1,340,800	1,559,200	105,700	130,200
Expected return on plan assets	(1,388,000)	(1,394,700)	-	-
Recognition of prior service cost	(467,100)	(467,100)	-	-
Recognition of net loss (gain)	814,400	673,300	(166,800)	(225,500)
Net loss recognized due to settlement	-	1,105,300		-
Total net benefit cost	$ 2,105,500	$ 3,008,000	$ (35,200)	$ (65,600)

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

	Pension Benefits		Postretirement Health Plan	
	2020	2019	2020	2019
Accrued salaries and benefits	$ (20,051,000)	$ (15,714,400)	$ (2,964,400)	$ (3,121,500)

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

	Pension Benefits		Postretirement Health Plan	
	2020	**2019**	**2020**	**2019**
Discount rate	2.50 %	3.40 %	2.65 %	3.50 %
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	
	2020	**2019**	**2020**	**2019**
Discount rate	3.40 %	4.30 %	3.50 %	4.40 %
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:

	2020	**2019**
Health care cost trend rate assumed for next year	5.75 %	6.00 %
Ultimate trend rate	4.00	4.00
Year that the rates reach the ultimate trend rate	7	8

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 2020 service cost and interest cost components	$ 18,200	$ (15,300)
Effect on postretirement benefit obligation at June 30, 2020	377,000	(318,700)

The Academy expects to contribute $3,665,000 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	
	2020	**2019**	**2020**	**2019**
Prior service cost	$ (1,751,500)	$ (2,218,500)	$ -	$ -
Net loss	18,924,300	14,310,300	(626,400)	(584,700)
	$ 17,172,800	$ 12,091,800	$ (626,400)	$ (584,700)

Amounts expected to be recognized as components of net periodic benefit cost during fiscal 2021:

	Pension Benefits	**Postretirement Health**
Prior service cost	$ (467,100)	$ -
Net loss/(gain)	1,141,500	(230,700)
	$ 674,400	$ (230,700)

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	
	2020	**2019**	**2020**	**2019**
Net loss (gain)	$ 5,428,300	$ 3,812,500	$ (208,500)	$ 5,200
Amortization of net loss	(814,400)	(673,200)	166,800	225,500
Net loss due to settlement accounting	-	(1,105,300)	-	-
Prior service credit	-	-	-	-
Amortization of prior service costs	467,100	467,100	-	-
	$ 5,081,000	$ 2,501,100	$ (41,700)	$ 230,700

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

	Pension Benefits	Postretirement Health Plan
2021	$ 3,745,000	$ 112,000
2022	4,957,000	126,000
2023	3,270,000	143,000
2024	3,101,000	153,000
2025	3,251,000	160,000
2026-2030	15,557,000	835,000

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	
	2020	2019	2020	2019
Equity assets	20.0 %	25.0 %	20.1 %	23.1 %
Fixed income assets	30.0	30.0	28.5	26.8
Alternative investment assets	45.0	40.0	44.1	41.5
Real estate assets	5.0	5.0	6.3	6.7
Cash and short-term investments	0.0	0.0	1.0	1.9

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, 2020:

	Assets				
	Level I	Level II	Level III	NAV	Total
Cash and short-term investments	$ 294,500	$ -	$ -	$ -	$ 294,500
Fixed income					
Mutual fund - fixed income	7,678,700	-	-	-	7,678,700
Equity					
Mutual fund - equity	5,405,100	-	-	-	5,405,100
Real estate					
Real estate fund	-	-	-	1,704,300	1,704,300
Alternative investments					
Mutual fund - alternative investments	4,251,100	1,561,500	-	-	5,812,600
Absolute return hedge fund	-	-	-	6,065,000	6,065,000
	$ 17,629,400	$ 1,561,500	$ -	$ 7,769,300	$ 26,960,200

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 short-term investments	$ 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

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, 2020, 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	$ 357,700	None	Monthly	14 Days
Absolute return hedge fund 2	5,707,300	None	Quarterly	90 Days
Real estate fund	1,704,300	None	Quarterly	45 Days
	$ 7,769,300			

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
	$ 7,116,300			

There have been no transfers into or out of Level III investments in 2020 and 2019.

Long-Term Rate of Return

The expected long-term rate of return on assets assumption is 5.0%. 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:

	2020	2019
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	4,877,200	4,751,600
Purpose restricted		
Academy Museum	104,965,700	99,024,800
Other education and restoration projects	4,181,900	4,294,500
Time related		
Academy Museum	8,688,200	8,022,600
Fairbanks Center endowment	20,700	1,296,600
Nicholl fellowship program	220,500	286,500
Museum education programs	239,700	226,300
	$ 141,693,000	$ 136,402,000
Without donor restrictions		
Board designated		
Fairbanks Center	$ 43,798,600	$ 44,345,800
Academy Museum	18,265,900	73,337,700
Undesignated	585,446,100	502,455,100
	$ 647,510,600	$ 620,138,600

14. Natural Classification of Expenses

The following presents the natural classifications by program and support area for the year ended June 30, 2020 and June 30, 2019 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, 2020:

	Academy Awards and related activities	Membership, Theater, and other operations	Preservation operations	Science and Technology Council operations	Museum development	Public Outreach Programs	Fundraising	General and Administrative expenses	Total
Salaries	$ 9,628,000	$ 3,634,800	$ 8,904,100	$ 1,400,300	$ 7,613,200	$ 3,085,900	$ 1,699,500	$ 6,464,100	$ 42,429,900
Benefits	2,115,300	1,059,700	3,551,700	437,100	1,981,000	716,600	413,100	1,426,500	11,701,000
Grants to third parties	-	-	-	-	-	6,773,100	-	33,100	6,806,200
Program expenses	28,852,100	1,743,800	4,046,300	383,900	6,068,600	1,481,500	698,200	4,737,700	48,012,100
Information technology	1,382,500	596,500	1,130,900	141,100	895,600	425,600	101,500	2,072,800	6,746,500
Depreciation	61,500	669,200	3,337,700	73,000	718,900	234,500	81,200	1,399,000	6,575,000
Interest expense	-	-	1,358,600	-	922,400	-	-	-	2,281,000
	$ 42,039,400	$ 7,704,000	$ 22,329,300	$ 2,435,400	$ 18,199,700	$ 12,717,200	$ 2,993,500	$ 16,133,200	$ 124,551,700

For the year ended June 30, 2019:

	Academy Awards and related activities	Membership, Theater, and other operations	Preservation operations	Science and Technology Council operations	Museum development	Public Outreach Programs	Fundraising	General and Administrative expenses	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

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 $3,953,800 and $3,608,000 for the years ended June 30, 2020 and 2019, respectively. The following is a schedule of future minimum lease payments (net of noncancelable sublease rentals) under noncancelable leases:

2021	$ 2,158,000
2022	2,005,200
2023	1,335,600
2024	839,900
2025	689,500
2026 and thereafter	5,149,000
	$ 12,177,200

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, 2020 and 2019, there were $21,508,900 and $20,309,900 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. Subsequent Events

On July 8, 2020, the California I-Bank issued a series of Revenue Bonds with a par value of $98,800,000. The series generated an issue premium of $30,372,100. These bonds bear interest at 5% and mature on November 1, 2029. Taking into account the bond premium, the effective interest rate is 1.38%. The bonds were issued to (i) refund all of the principal amount of the outstanding Series 2015B bonds and (ii) pay costs of issuance of the bonds.

The Academy has evaluated subsequent events through November 20, 2020, which is the date of issuance of these financial statements.