Academy of Motion Picture Arts and Sciences

Consolidated Financial Statements
June 30, 2018 and 2017

Page(s)

Report of Independent Auditors

To the Board of Governors 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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets 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.

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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, 2018 and 2017 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

October 25, 2018

Academy of Motion Picture Arts and Sciences
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 6,454,100	$ 5,412,300
Restricted cash	3,254,800	787,500
Accounts and other receivables, net	3,373,300	3,481,800
Investments	533,144,300	486,007,600
Restricted investments	16,762,500	15,521,900
Bond funds held by trustee	73,121,900	159,114,800
Pledges receivable, net	94,342,900	38,049,400
Prepaid expenses	853,600	950,000
Deferred rent expense, net	23,587,400	23,884,400
Property, equipment and building improvements, net	318,115,500	227,296,700
Academy collections, carried at no value	-	-
Other assets, net	972,700	1,024,700
Total assets	$ 1,073,983,000	$ 961,531,100
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 15,658,300	$ 15,842,600
Accrued salaries and benefits	17,876,800	21,490,400
Grants payable, less discount	2,912,100	3,352,700
Deferred income	22,195,100	24,161,000
Debt	353,236,700	353,810,600
Total liabilities	411,879,000	418,657,300
Net assets		
Unrestricted		
Board designated for Fairbanks Center	42,737,600	42,435,100
Board designated for Academy Museum Foundation	73,337,700	65,079,600
Undesignated	441,918,100	391,699,500
Total unrestricted	557,993,400	499,214,200
Temporarily restricted (Note 1)	83,111,500	22,666,100
Permanently restricted		
Restricted for Fairbanks Center (Note 10)	12,875,100	12,875,100
Restricted for Nicholl Fellowship Program (Note 10)	5,624,000	5,624,000
Restricted for Museum Education Programs (Note 10)	2,500,000	2,494,400
Total permanently restricted	20,999,100	20,993,500
Total net assets	662,104,000	542,873,800
Total liabilities and net assets	$ 1,073,983,000	$ 961,531,100

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

Academy of Motion Picture Arts and Sciences
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in unrestricted net assets		
Revenues and other support		
Academy Awards and related activities	$ 131,774,000	$ 122,887,500
Membership dues	2,440,500	2,276,200
Contributions, net	9,814,000	2,506,400
Research library and other educational and cultural activities	705,900	742,800
Theater rentals	509,300	523,100
Investment income, net	15,607,700	17,936,500
Other income	11,800	23,400
Satisfaction of program restrictions	1,009,700	690,400
Total revenues and other support	161,872,900	147,586,300
Expenses		
Academy Awards and related activities	41,254,800	40,825,300
Membership, theater, and other operations	6,341,300	5,803,400
Preservation operations	19,657,500	19,203,600
Science and Technology Council operations	2,519,200	2,425,900
Museum development	12,980,000	8,573,900
Educational and cultural programs	5,305,400	4,341,100
Grants, contributions, and awards	863,000	855,100
General and administrative expenses	15,343,400	16,733,900
Interest expense	2,293,000	2,157,400
Total expenses	106,557,600	100,919,600
Increase in unrestricted net assets from continuing operations	55,315,300	46,666,700
Purchases of non-capitalized collections	(922,100)	(1,149,500)
Pension and postretirement-related changes other than net periodic benefit cost	4,386,000	2,448,000
Increase in unrestricted net assets	58,779,200	47,965,200
Changes in temporarily restricted net assets		
Contributions received, net of discount	60,873,800	3,265,800
Net assets released from restrictions	(1,009,700)	(690,400)
Investment income from permanently restricted funds	581,300	516,900
Increase in temporarily restricted net assets	60,445,400	3,092,300
Changes in permanently restricted net assets		
Donor restricted contributions to Academy Museum Endowment	5,600	55,600
Increase in permanently restricted net assets	5,600	55,600
Total increase in net assets	119,230,200	51,113,100
Net assets		
Beginning of year	542,873,800	491,760,700
End of year	$ 662,104,000	$ 542,873,800

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

Academy of Motion Picture Arts and Sciences
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets	$ 119,230,200	$ 51,113,100
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	8,211,400	8,757,900
Debt premium accretion	(1,076,100)	(1,076,100)
Permanently restricted contributions and income	(5,600)	(55,600)
Purhases of non-capitalized collections	922,100	1,149,500
Contributions related to long-lived assets	(67,625,000)	-
Bad debt expense (recovery) related to pledges receivable	(2,224,400)	4,054,500
Present value adjustment to pledges receivable	7,170,100	(706,800)
Present value adjustment to grants payable	59,400	68,600
Net realized and unrealized gain on investments	(5,682,200)	(9,525,000)
Changes in assets and liabilities		
Accounts and other receivables	108,500	(771,700)
Pledges receivable	4,145,200	1,832,600
Prepaid expenses	96,400	147,400
Deferred rent expense	-	(500,000)
Other assets	(115,500)	(95,700)
Accounts payable and accrued expenses	170,200	967,700
Accrued salaries and benefits	(3,613,600)	(2,902,000)
Grants payable	(500,000)	(500,000)
Deferred income	(1,965,900)	23,013,700
Net cash provided by operating activities	57,305,200	74,972,100
Cash flows from investing activities		
Sales and maturities of investments	1,882,332,700	1,375,962,400
Purchases of investments	(1,839,034,900)	(1,389,658,000)
Purchases of non-capitalize collections	(922,100)	(1,149,500)
Additions to property, equipment and building improvements	(98,418,000)	(62,324,200)
Net cash used in investing activities	(56,042,300)	(77,169,300)
Cash flows from financing activities		
Contributions for long-lived assets	1,240,600	4,096,900
Permanently restricted contributions	1,005,600	555,600
Net cash provided by financing activities	2,246,200	4,652,500
Net increase in cash, cash equivalents and restricted cash	3,509,100	2,455,300
Cash, cash equivalents and restricted cash		
Beginning of year	6,199,800	3,744,500
End of year	$ 9,708,900	$ 6,199,800
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amounts capitalized)	$ 2,403,600	$ 2,267,900
Supplemental schedule of noncash activities		
Property, equipment and building improvements included in accounts payable and accrued expenses	$ (354,500)	$ 6,226,500

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 not-for-profit corporations. All inter-entity transactions eliminate in consolidation. The purpose of forming the Foundation is for promoting and supporting educational and cultural activities related to the motion picture industry. The purpose of forming Vine Street is for owning and operating the Mary Pickford Center for Motion Picture Study ("Pickford Center"). The purpose of forming the Museum, previously known as Homewood Foundation, is for developing a museum devoted to exploring and curating the history and future of the moving image. The purpose of forming the Archival is for operating 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 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

Minimum guarantees of domestic and foreign revenues from the annual awards program are recognized upon broadcast. Additional revenues in excess of the minimum guarantees are recognized upon receipt of the additional monies from the broadcast rights holders. Any advance payments received under the contract are recorded as deferred income and recognized annually over the duration of the contract. The unrecognized portion of the payments is reflected as deferred income in the accompanying consolidated statement of financial position (Note 8). 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. The revenues and expenses categorized as Academy Awards and related activities in the accompanying consolidated statements of activities and changes in net assets include the Academy Awards program, Governors' Ball, nominations screenings, nominees' luncheon, and copyright/trademark protection.

Membership dues are paid on a calendar year basis and are recognized as income proportionately 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 8).

Contributions received are recognized as revenue in the period in which they are received. Funds subsequently transferred from temporarily restricted net assets to unrestricted net assets, in amounts equal to such expenditures, have been reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions and satisfaction of program restrictions, respectively. Expenditures made for the purpose specified by the grantor are paid from unrestricted funds when incurred. When the restriction is satisfied in the year the contribution is received, then the contribution is recorded in unrestricted net assets. Cash received from donors for the express purpose of the construction of long-lived assets is reflected as temporarily restricted net assets, 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 4). These promises to give are recognized when the donor condition 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.

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.

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 price that would be received for an asset, or paid to transfer a liability, in the most advantageous market for the asset or liability in an arms-length transaction between willing market participants at 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, 2018 and 2017, the fair value of all such investments in investment funds has been determined by using NAV as a practical expedient.

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 and changes in net assets. 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.

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 2.

Bond Funds Held By Trustee
Bond funds held by Trustee represent the unused proceeds of the October 22, 2015 bond issuance (Note 9) 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 4). The Academy has recorded an allowance for doubtful accounts to reduce the receivable balance to the estimated collectible balance (Note 4).

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 6).

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 and changes in net assets.

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 in accordance with Generally Accepted Accounting Principles ("GAAP"). 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 and changes in net assets. The debt premium is included in the Debt balance on the consolidated statement of financial position (Note 9).

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 statement of activities and changes in net assets. 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 9).

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 unrestricted, temporarily restricted, and permanently restricted net assets and changes in net assets in the accompanying consolidated financial statements. The amounts in each category are determined based on the source of the assets and donor-imposed restrictions.

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 permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization.

The Foundation classifies donor-restricted contributions for educational and cultural activities not yet used to fund program expenses as temporarily restricted. Temporarily restricted net assets relate to donor-restricted contributions for film restoration projects and the Academy Museum. 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 unrestricted net assets.

All Fairbanks Center endowment fund contributions are classified as permanently restricted and the related income is classified as temporarily 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 permanently restricted and the related income is classified in accordance with the grant document as permanently restricted and temporarily 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 permanently restricted net assets represent a promise to give a permanently restricted endowment. All board-designated contributions to the endowment and the related endowment investment income are included in unrestricted net assets (Note 10).

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

	2018	2017
Academy Museum	$ 80,480,000	$ 21,090,500
Fairbanks Center endowment	563,800	490,300
Nicholl endowment	3,500	30,100
Museum endowment	17,600	-
Other education and restoration projects	2,046,600	1,055,200
	$ 83,111,500	$ 22,666,100

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 79% of revenues and other support in 2018 and 2017.

Advertising
Advertising costs are charged to expense in the period incurred. Advertising expense was $1,956,800 and $1,830,500 for the years ended June 30, 2018 and 2017, respectively, and is included in (i) Academy Awards and related activities; (ii) educational and cultural expenses and (iii) museum development in the accompanying consolidated statements of activities and changes in net assets. 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 and 2017 in the accompanying consolidated statements of activities and changes in net assets.

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. Fundraising expense was $2,577,300 and $1,311,100 for the years ended June 30, 2018 and 2017, respectively, and is included in museum development in the accompanying consolidated statements of activities and changes in net assets.

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 2017 financial statements to conform to the 2018 presentation. There was no impact on net assets as a result of these reclassifications.

New Accounting Pronouncements

Accounting Standards Update ("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 is impacted by the amendment which requires entities which have investments in certain entities that calculate net asset value to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. The Academy does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

ASU No. 2018-08, *Not-for-profit entities (Topic 958)—Clarifying the scope and the accounting guidance for contributions received and contributions made* was promulgated in June 2018. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods beginning the following year. Early adoption is permitted. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The Academy is currently evaluating the effect of adoption to the financial statements.

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. 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 an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities and changes in net assets separately from the service cost component and outside of a subtotal of changes in unrestricted net assets. In addition, only the service cost component will be eligible for capitalization as applicable. The Academy is currently evaluating the effect of adoption to the financial statements.

ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* was promulgated in August 2016. This ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted but only for an annual fiscal period or for the first interim period within the year of adoption. This guidance streamlines and clarifies the net assets, provides flexibility regarding the definition of reported operating subtotals, and imposes new financial reporting requirements related to expenses. Balance sheet changes will include (i) the combination of permanently restricted and temporarily restricted net assets into a single category "net assets with donor restrictions" and (ii) new disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Statement of activities changes will include (i) several new requirements related to reporting expenses, (ii) limiting investment expenses, which are presented in investment return, and (iii) providing additional disclosures related to internal transfers made by the governing board. The Academy expects that the adoption of this guidance will require material balance sheet reclassifications and additional disclosures in the financial statements. The adoption of this standard is expected to streamline and rename the net assets presentation, net the investment return and expenses in the endowment disclosure, provide qualitative and quantitative information on liquidity and availability of resources, and expand the functional and natural expenses disclosure.

ASU No. 2016-02, *Leases (Topic 842)* was promulgated in February 2016. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods beginning the following year. 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 does not expect the adoption of this guidance to have a material impact on 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 is currently evaluating the effect of adoption to the financial statements.

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 and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are in the scope of other US GAAP requirements, such as the leasing literature). The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. Between April 2016 and November 2017, the FASB issued ASU No. 2016-11, 2016-12, 2016-20, 2017-13, and 2017-14, which provide narrow scope improvements, practical expedients, and other adjustments to ASU 2014-09. The effective date was amended by the promulgation of ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606) in August 2015. For the Academy, the effective date is for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Academy does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

2. Investments

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

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 52,857,200	$ 52,871,700	$ 13,133,500	$ 13,133,500
Fixed income				
Fixed income securities	83,065,700	82,019,200	175,588,200	174,747,900
Mutual fund–fixed income	220,753,900	215,548,600	231,202,800	228,946,400
Equities				
Mutual fund–equity	93,085,900	101,838,600	79,567,200	88,740,400
Real estate				
REIT investments	11,976,500	12,135,800	10,601,100	10,609,800
Real estate alternative investments	17,096,600	13,328,700	16,777,400	12,624,800
Alternative investments				
Mutual fund–alternative investments	63,020,700	61,427,100	55,274,800	54,145,000
Absolute return hedge fund	74,140,000	83,859,000	73,576,900	77,696,500
	$ 615,996,500	$ 623,028,700	$ 655,721,900	$ 660,644,300

The table above includes the bond funds held by trustees in fixed income securities with cost of $73,418,900 and fair value of $73,121,900 as of June 30, 2018 and cost of $159,193,100 and fair value of $159,114,800 as of June 30, 2017.

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

	2018	2017
Interest and dividend income	$ 13,339,800	$ 12,846,900
Net realized gain on investments	3,572,200	2,420,600
Net unrealized gain on investments	2,110,000	7,104,400
Investment fees	(1,083,400)	(1,194,100)
Net of restricted bond investment income offset by capitalized interest costs	(1,749,600)	(2,724,400)
	$ 16,189,000	$ 18,453,400

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

	2018	2017
Temporarily restricted net assets	$ 581,300	$ 516,900
Unrestricted net assets	15,607,700	17,936,500
	$ 16,189,000	$ 18,453,400

3. Fair Value Measurements

The following table summarizes by level, within the fair value hierarchy, the Academy's assets and liabilities measured at fair value as of June 30, 2018:

	Assets (Liabilities)				
	Level I	**Level II**	**Level III**	**NAV (a)**	**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
Liabilities					
Debt	$ -	$ (361,450,400)	$ -	$ -	$ (361,450,400)

(a) Investments that are measured at fair value using the net asset value per share that have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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, 2017:

	Assets (Liabilities)				
	Level I	**Level II**	**Level III**	**NAV (a)**	**Total**
Assets					
Cash and cash equivalents	$ 13,133,500	$ -	$ -	$ -	$ 13,133,500
Fixed income					
Fixed income securities	-	174,747,900	-	-	174,747,900
Mutual fund–fixed income	228,946,400	-	-	-	228,946,400
Equities					
Mutual fund–equity	88,740,400	-	-	-	88,740,400
Real estate					
REIT investments	10,609,800	-	-	-	10,609,800
Real estate alternative investments	-	-	-	12,624,800	12,624,800
Alternative investments					
Mutual fund–alternative investments	34,017,000	20,128,000	-	-	54,145,000
Absolute return hedge fund	-	-	-	77,696,500	77,696,500
	$ 375,447,100	$ 194,875,900	$ -	$ 90,321,300	$ 660,644,300
Liabilities					
Debt	$ -	$ (366,703,600)	$ -	$ -	$ (366,703,600)

(a) Investments that are measured at fair value using the net asset value per share that have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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.

Debt

The fair value of debt is priced based on inputs obtained through pricing agencies and developed pricing models. Debt is classified as Level II in the valuation hierarchy.

Investments Calculated at Net Asset Value

As of June 30, 2018, 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	$ 5,581,200	None	Monthly	14 Days
Absolute return hedge fund 2	78,277,800	None	Quarterly	90 Days
Real estate alternative investments				
US	13,238,900	None	Semi-annual	60 Days
European	89,800	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.

4. 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, 2018 and 2017 and have the following schedule of collections:

	2018	2017
Less than 1 year	$ 12,669,800	$ 12,566,600
Greater than 1 year to 5 years	56,278,100	15,702,600
Greater than 5 years to 10 years	31,218,400	9,378,000
Greater than 10 years	9,050,000	10,350,000
	109,216,300	47,997,200
Less: Allowance for doubtful accounts	(940,400)	(3,184,800)
Less: Discount	(13,933,000)	(6,763,000)
	$ 94,342,900	$ 38,049,400

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:

	2018	2017
Less than 1 year	$ 1,575,000	$ 11,560,000
Greater than 1 year to 5 years	12,510,000	22,570,000
Greater than 5 years to 10 years	1,000,000	1,000,000
Greater than 10 years	32,030,000	20,000,000
	$ 47,115,000	$ 55,130,000

In addition, the Foundation has promises to receive in-kind donations for the Academy's proposed museum, which are not reflected in the consolidated financial statements until received, as follows:

	2018	2017
Less than 1 year	$ -	$ -
Greater than 1 year to 5 years	8,200,000	8,200,000
Greater than 5 years to 10 years	-	-
Greater than 10 years	-	-
	$ 8,200,000	$ 8,200,000

5. Property, Equipment and Building Improvements, Net

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

	2018	2017
Land	$ 21,117,000	$ 21,117,000
Building	9,601,000	9,601,000
Building improvements	48,727,500	48,727,500
Furniture, fixtures and equipment	44,808,700	40,379,600
Construction in progress	259,652,600	166,018,300
	383,906,800	285,843,400
Less: Accumulated depreciation	(65,791,300)	(58,546,700)
	$ 318,115,500	$ 227,296,700

Depreciation expense totaled $7,244,700 and $7,754,800 for the years ended June 30, 2018 and 2017, respectively. Depreciation expense is allocated to program expenses in the accompanying consolidated statements of activities and changes in net assets.

6. Deferred Rent Expense

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

	2018	2017
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	(2,049,900)	(1,752,900)
	$ 23,587,400	$ 23,884,400

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

2019	$ 338,700
2020	317,100
2021	307,100
2022	307,100
2023	307,100
2024 and thereafter	22,010,300
	$ 23,587,400

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.

7. Accrued Salaries and Benefits

Accrued salaries and benefits comprises the following at June 30:

	2018	2017
Postretirement medical plan	$ 3,044,600	$ 3,902,200
Accrued pension benefits	12,805,400	15,400,400
Other accrued benefit expenses	447,400	604,000
Accrued salaries and vacation	1,519,800	1,527,500
Deferred compensation plan	59,600	56,300
	$ 17,876,800	$ 21,490,400

8. Deferred Income

Deferred income comprises the following at June 30:

	2018	2017
Academy Awards	$ 20,858,300	$ 22,916,600
Membership dues	1,311,800	1,208,400
Theater rentals	25,000	36,000
	$ 22,195,100	$ 24,161,000

9. Debt

Debt comprises the following at June 30:

	2018	2017
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	15,669,100	16,745,100
	228,629,100	229,705,100
	356,629,100	357,705,100
Less: Unamortized debt issuance costs	(3,392,400)	(3,894,500)
	$ 353,236,700	$ 353,810,600

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, 2018 and 2017 is 2.42% and 1.81%, 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, 2018.

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

2019	$ -
2020	-
2021	132,220,000
2022	4,425,000
2023	4,640,000
	$ 141,285,000

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

	2018	2017
Bond premium	$ 18,565,400	$ 18,565,400
Less: Accumulated amortization	(2,896,300)	(1,820,300)
	$ 15,669,100	$ 16,745,100

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

	2018	2017
Bond issuance costs	$ 4,731,400	$ 4,731,400
Less: Accumulated amortization	(1,339,000)	(836,900)
	$ 3,392,400	$ 3,894,500

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

2019	$ 502,200
2020	502,200
2021	263,400
2022	142,000
2023	138,800
2024 and thereafter	1,843,800
	$ 3,392,400

Interest Expenditure

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

	2018	2017
Bond and debt interest expense	$ 12,479,700	$ 11,775,600
Amortization of bond premium	(1,076,100)	(1,076,100)
Amortization of bond and debt issuance costs	502,100	502,100
	$ 11,905,700	$ 11,201,600

Interest expenditures are classified as follows at June 30:

	2018	2017
Consolidated statements of activities and changes in net assets		
Interest expense	$ 2,293,000	$ 2,157,400
Consolidated statements of financial position		
Capitalized interest as part of construction in progress in Property, equipment and building improvements	9,612,700	9,044,200
	$ 11,905,700	$ 11,201,600

10. 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 permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the 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, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
At June 30, 2018				
Donor–restricted funds	$ -	$ 584,600	$ 19,999,100	$ 20,583,700
Board–designated funds	42,737,600	-	-	42,737,600
Total endowment funds	$ 42,737,600	$ 584,600	$ 19,999,100	$ 63,321,300
At June 30, 2017				
Donor–restricted funds	$ -	$ 520,300	$ 18,999,100	$ 19,519,400
Board–designated funds	42,435,100	-	-	42,435,100
Total endowment funds	$ 42,435,100	$ 520,300	$ 18,999,100	$ 61,954,500

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets at June 30, 2016	$ 41,949,200	$ 541,800	$ 18,499,100
Investment income	812,700	422,000	-
Net appreciation of investments	743,800	94,900	-
Contributions	-	-	500,000
Uses of net assets	(1,070,600)	(538,400)	-
Endowment net assets at June 30, 2017	42,435,100	520,300	18,999,100
Investment income	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	$ 584,600	$ 19,999,100

The portion of permanently restricted endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA at June 30, 2018 and 2017 consists of the following:

	2018	2017
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	1,500,000	500,000
Total endowment assets classified as permanently restricted	$ 19,999,100	$ 18,999,100

The portion of temporarily restricted endowment funds that is required to be retained temporarily either by explicit donor stipulation or by UPMIFA at June 30, 2018 and 2017 consists of the following:

	2018	2017
Restricted for Fairbanks Center	$ 563,800	$ 490,300
Restricted for Nicholl Fellowship Program	3,400	30,100
Restricted for Museum Education Programs	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 unrestricted net assets. The Academy recorded no deficits for the years ended June 30, 2018 and 2017.

11. 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, 2018 and 2017, 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, 2018 and 2017, the Academy has made QACA contributions totaling $662,400 and $618,400, 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 provided through fully insured arrangements with health care providers. 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. The impact of the plan change on benefit obligations for the defined benefit pension plan was first reflected as of June 30, 2013.

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

	Pension Benefits		Postretirement Health Plan	
	2018	2017	2018	2017
Employer's contribution	$ 2,700,000	$ 3,500,000	$ 75,300	$ 73,200
Plan participants' contributions	-	-	18,600	16,000
Benefit payments	4,615,500	1,000,600	93,900	89,200
Funded status	(12,805,400)	(15,400,400)	(2,923,300)	(3,902,200)
Accrued benefit cost	(12,805,400)	(15,400,400)	(2,923,300)	(3,902,200)
Net periodic benefit costs	3,512,300	2,476,300	196,400	240,300
Accumulated plan benefit obligation	37,362,800	41,125,400	-	-
Fair value of plan assets	25,457,000	26,706,700	-	-
Projected plan benefit obligation	38,262,400	42,107,100	3,044,600	3,902,200

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

	Pension Benefits		Postretirement Health Plan	
	2018	2017	2018	2017
Benefit obligation at end of prior year	$ 42,107,100	$ 40,784,200	$ 3,902,200	$ 4,753,900
Service cost	1,635,400	1,688,500	46,400	78,000
Interest cost	1,496,800	1,330,900	150,100	174,300
Plan participants' contributions	-	-	18,600	16,000
Amendments	-	-	(978,700)	(1,030,800)
Actuarial gain	(2,361,400)	(695,900)	(94,000)	(89,200)
Benefit payments	(4,615,500)	(1,000,600)		-
Benefit obligation at end of year	$ 38,262,400	$ 42,107,100	$ 3,044,600	$ 3,902,200

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

	Pension Benefits		Postretirement Health Plan	
	2018	2017	2018	2017
Value of assets at end of prior year	$ 26,706,700	$ 22,931,000	$ -	$ -
Actual return on plan assets	733,600	1,338,000	-	-
Employer contributions	2,700,000	3,500,000	75,300	73,200
Plan participants' contributions	-	-	18,600	16,000
Benefit payments	(4,615,400)	(1,000,700)	(93,900)	(89,200)
Expenses	(67,900)	(61,600)	-	-
Value of plan assets at end of year	$ 25,457,000	$ 26,706,700	$ -	$ -

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

	Pension Benefits		Postretirement Health Plan	
	2018	2017	2018	2017
Service cost	$ 1,635,400	$ 1,688,500	$ 46,400	$ 78,000
Interest cost	1,496,800	1,330,900	150,000	174,300
Expected return on plan assets	(1,452,700)	(1,281,600)	-	-
Recognition of prior service cost	(467,100)	(467,100)	-	(527,800)
Recognition of net loss	1,019,800	1,205,600	-	515,800
Net loss recognized due to settlement	1,280,100	-	-	-
Total net benefit cost	$ 3,512,300	$ 2,476,300	$ 196,400	$ 240,300

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

	Pension Benefits		Postretirement Health Plan	
	2018	**2017**	**2018**	**2017**
Accrued salaries and benefits	$ (12,805,400)	$ (15,400,400)	$ (3,044,600)	$ (3,902,200)

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

	Pension Benefits		Postretirement Health Plan	
	2018	**2017**	**2018**	**2017**
Discount rate	4.30 %	3.75 %	4.40 %	4.00 %
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	
	2018	**2017**	**2018**	**2017**
Discount rate	3.75 %	3.45 %	4.00 %	3.70 %
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:

	2018	**2017**
Health care cost trend rate assumed for next year	6.25 %	6.50 %
Ultimate trend rate	4.00	5.00
Year that the rates reach the ultimate trend rate	9	6

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 2018 service cost and interest cost components	$ 29,900	$ (24,800)
Effect on postretirement benefit obligation at June 30, 2018	382,600	(323,500)

The Academy expects to contribute $2,600,000 to its pension plan and $121,000 to its postretirement health plan in 2019.

Amounts not yet recognized as components of net periodic benefit cost:

	Pension Benefits		Postretirement Health Plan	
	2018	**2017**	**2018**	**2017**
Prior service cost	$ (2,685,600)	$ (3,152,600)	$ -	$ -
Net loss	12,276,400	16,150,600	(815,400)	163,300
	$ 9,590,800	$ 12,998,000	$ (815,400)	$ 163,300

Amounts expected to be recognized as components of net periodic benefit cost during fiscal 2019:

	Pension Benefits
Prior service cost	$ (467,100)
Net loss	693,800
	$ 226,700

There is no expected prior service cost or net loss expected to be recognized for the Postretirement Health Plan during fiscal 2019.

Other changes in plan assets and benefit obligations included in the change in the reduction to unrestricted net assets at June 30:

	Pension Benefits		Postretirement Health Plan	
	2018	**2017**	**2018**	**2017**
Net loss	$ (1,574,500)	$ (690,600)	$ (978,700)	$ (1,030,800)
Amortization of net loss	(1,019,700)	(1,205,600)	-	(515,800)
Net loss due to settlement accounting	(1,280,100)	-	-	-
Prior service credit	-	-	-	-
Amortization of prior service costs	467,100	467,100	-	527,800
	$ (3,407,200)	$ (1,429,100)	$ (978,700)	$ (1,018,800)

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

	Pension Benefits	Postretirement Health Plan
2019	$ 3,881,000	$ 121,000
2020	3,509,000	131,000
2021	2,599,000	147,000
2022	3,055,000	163,000
2023	2,935,000	180,000
2024-2028	14,891,000	1,025,000

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	
	2018	2017	2018	2017
Equity assets	20.0 %	20.0 %	21.9 %	19.7 %
Fixed income assets	35.0	40.0	31.4	39.3
Alternative investment assets	40.0	35.0	39.8	35.1
Real estate assets	5.0	5.0	6.3	5.7
Cash and cash equivalents	0.0	0.0	0.6	0.2

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, 2018:

	Assets				
	Level I	Level II	Level III	NAV (a)	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

(a) Certain investments that are measured at fair value using the net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table sets forth the fair value of the Academy's pension plan assets, by asset type, at June 30, 2017:

	Assets				
	Level I	Level II	Level III	NAV (a)	Total
Cash and cash equivalents	$ 68,200	$ -	$ -	$ -	$ 68,200
Fixed income					
Mutual fund - fixed income	10,500,100	-	-	-	10,500,100
Equity					
Mutual fund - equity	5,263,600	-	-	-	5,263,600
Real estate					
Real estate fund	-	-	-	1,510,600	1,510,600
Alternative investments					
Mutual fund - alternative investments	2,228,600	2,283,100	-	-	4,511,700
Absolute return hedge fund	-	-	-	4,852,500	4,852,500
	$ 18,060,500	$ 2,283,100	$ -	$ 6,363,100	$ 26,706,700

(a) Certain investments that are measured at fair value using the net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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, 2018, 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	$ 588,600	None	Monthly	14 Days
Absolute return hedge fund 2	4,645,900	None	Quarterly	90 Days
Real estate fund	1,614,100	None	Quarterly	45 Days

There have been no transfers into or out of Level III investments in 2018 and 2017.

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.

12. Commitments and Contingencies

The Academy leases certain storage space and equipment under noncancelable operating leases, which expired at various dates through 2037. Rental expense for operating leases was $2,923,900 and $2,396,000 for the years ended June 30, 2018 and 2017, respectively. The following is a schedule of future minimum lease payments (net of noncancelable sublease rentals) under noncancelable leases:

2019	$ 1,814,300
2020	2,180,400
2021	2,150,100
2022	1,997,300
2023	1,440,600
2024 and thereafter	7,041,100
	$ 16,623,800

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, 2018 and 2017, there were $9,599,800 and $9,147,300 in museum development related contracts that management considered significant (either individually or in aggregate) to the Academy's 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.

13. 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 2018, the Academy paid two governors a total of $54,000 and in 2017, paid a governor $25,000 for services related to the Governors Awards. The Academy paid a governor $25,000 for services related to the museum project in 2017.

14. Subsequent Events

The Academy has evaluated subsequent events through October 25, 2018, which is the date of the financial statements issuance.