KPMG

THE J. PAUL GETTY TRUST

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Trustees
The J. Paul Getty Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of The J. Paul Getty Trust (a tax-exempt, private operating foundation) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The J. Paul Getty Trust as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of matter

As discussed in note (2)(j) to the financial statements, beginning July 1, 2017, The J. Paul Getty Trust adopted new accounting guidance Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

KPMG LLP

Los Angeles, California
November 25, 2019

THE J. PAUL GETTY TRUST

Statements of Financial Position

June 30, 2019 and 2018

(Amounts in thousands)

Assets		**2019**	**2018**
Cash	$	3,181	21,326
Receivables:			
Unsettled investment sales		19,352	35,008
Interest and dividends		2,440	2,844
Other		3,968	5,030
Investments		7,306,954	7,296,451
Investments whose use is limited		18,522	20,291
Property and equipment, net		923,992	962,648
Collections and other assets, net		2,724,353	2,648,264
	$	11,002,762	10,991,862
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	12,452	24,667
Accrued collection purchases		43,400	86,050
Investments sold short		18,032	21,986
Payables on investment purchases		14,042	10,817
Accrued pension and other postretirement plans liabilities		67,673	42,027
Accrued and other liabilities		25,238	19,428
Interest rate swaps		163,191	120,605
Bonds payable		583,384	590,030
		927,412	915,610
Net assets:			
Without donor restrictions		10,058,761	10,057,779
With donor restrictions		16,589	18,473
		10,075,350	10,076,252
	$	11,002,762	10,991,862

See accompanying notes to financial statements.

THE J. PAUL GETTY TRUST

Statements of Activities

Years ended June 30, 2019 and 2018

(Amounts in thousands)

		2019	2018
Change in net assets without restrictions:			
Revenue and other support:			
Sales and other income	$	28,751	31,663
Contributions		6,518	6,667
Investment income:			
Interest and dividend income, net		100,754	73,866
Net realized and unrealized gain on investments		250,665	700,284
Net investment income		351,419	774,150
Net realized and unrealized (loss) gain on interest rate swaps		(42,586)	36,181
Net assets released from restriction		4,482	2,852
Total revenue, other support, and investment income		348,584	851,513
Expenses:			
Program services:			
Museum		174,141	170,662
Research institute		67,480	68,630
Conservation institute		38,908	37,450
Foundation and grants		30,766	26,872
Total program services		311,295	303,614
Supporting service:			
General and administrative		10,661	9,025
Total expenses		321,956	312,639
Pension and other postretirement plans (loss) gain		(25,646)	21,712
Change in net assets without restrictions		982	560,586
Change in net assets with restrictions:			
Contributions		2,598	11,198
Net assets released from restriction		(4,482)	(2,852)
Change in net assets with restrictions		(1,884)	8,346
Change in net assets		(902)	568,932
Net assets, beginning of year		10,076,252	9,507,320
Net assets, end of year	$	10,075,350	10,076,252

See accompanying notes to financial statements.

THE J. PAUL GETTY TRUST

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Amounts in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(902)	568,932
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		47,577	47,379
Amortization of bond premium		(921)	(1,140)
Accrued pension and other postretirement plans liabilities		25,646	(21,712)
Net realized and unrealized gain on investments		(246,710)	(702,263)
Net realized and unrealized (loss) gain on interest rate swaps		42,586	(36,181)
Noncash contributions of art		(4,358)	(4,640)
Gain on disposition of property and equipment		(1,470)	(2)
Changes in operating assets and liabilities:			
Interest and dividends receivable		404	(2,055)
Other receivables		1,062	(4,107)
Other assets		(22,189)	(776)
Accounts payable		(12,215)	13,113
Accrued collection purchases		(42,650)	82,350
Accrued and other liabilities		5,810	(1,001)
Net cash used in operating activities		(208,330)	(62,103)
Cash flow from investing activities:			
Proceeds from sales of investments		2,552,272	2,859,175
Purchases of investments		(2,299,369)	(2,530,037)
Purchases of collection items		(49,542)	(229,812)
Purchases of property and equipment		(10,275)	(15,751)
Proceeds from sale of property and equipment		2,824	11
Net cash provided by investing activities		195,910	83,586
Cash flows from financing activities:			
Proceeds from issuance of bonds		162,955	178,140
Payments on bonds payable		(168,680)	(183,665)
Net cash used in financing activities		(5,725)	(5,525)
Net (decrease) increase in cash		(18,145)	15,958
Cash, beginning of year		21,326	5,368
Cash, end of year	$	3,181	21,326
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	20,963	21,334

See accompanying notes to financial statements.

(1) Organization

The J. Paul Getty Trust (the Trust) is a tax-exempt, private operating foundation whose mission serves both general audiences and specialized professionals. The Trust is a cultural and educational institution that focuses on the visual arts in all of their dimensions and their capacity to strengthen and to inspire aesthetic and humanistic values. It is dedicated to the presentation, enjoyment, study, and conservation of the visual arts and humanities in order to offer the public opportunities to more fully understand, experience, value, and preserve the world's art and cultural heritage.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Trust recognizes contributions, including unconditional promises to give as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor imposed restrictions are those whose use by the Trust has been limited by donors to a specific time period, purpose, or is required to be maintained in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor imposed restrictions are reclassified as net asset without donor imposed restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as net assets without donor imposed restrictions.

(b) Fair Value of Financial Instruments

The Trust follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In accordance with ASC Topic 820, fair value is defined as the price that the Trust would receive upon selling an investment in an orderly transaction to a market participant in the principal or most advantageous market of the investment. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date.
- Level II inputs are inputs other than quoted prices included within Level I that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data.

- Level III inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The Trust follows the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*, which removed the requirement to categorize investments within the fair value hierarchy for which fair value is measured using net asset value as a practical expedient for determining fair value.

The Trust maintains certain investments in funds that do not have readily determinable fair values, including private equity, venture capital, hedge funds, distressed debt, real assets, and other funds. The Trust, as a practical expedient, estimates the fair value using net asset value per share or its equivalent. Accordingly, these investments are not reported in the fair value hierarchy. Under this approach, certain attributes of the investment, such as restrictions on redemption and transaction prices from principal-to-principal or brokered transactions, are not considered in measuring the fair value of an investment.

Due to the short-term nature of receivables, other assets, and accounts payable, fair value approximates carrying value.

(c) Investments

Investments are stated at fair value at June 30, 2019 and 2018. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year. The estimated fair value for alternative investments are based on net asset values provided by the external investment managers. The determination of net asset values for the alternative investments necessarily involves estimates, appraisals, assumptions, and methods, which are reviewed by the Trust’s Investment Office. The Trust uses an independent pricing service to value fixed-income securities (government bonds, municipal bonds, and corporate bonds) using recently executed transaction prices and market price quotations.

Realized and unrealized gains or losses on investments are recorded in the statements of activities. Realized gains and losses on security transactions are determined on a specific-identification basis. Investment purchases and sales are recorded on a trade-date basis. Dividend income is recorded based upon the ex-dividend date, and interest income is recorded as earned on an accrual basis.

Futures, forwards, and options contracts are marked-to-market with the change reflected in net realized and unrealized gains and losses on investments in the accompanying statements of activities.

(d) Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets or amortized over the terms of the respective leases, whichever is shorter, as follows:

Buildings	25 to 50 years
Building improvements	Up to 25 years
Leasehold improvements	Lesser of life of asset or lease term
Furniture and equipment	4 to 25 years

Depreciation and amortization totaled $47,577,000 and $47,379,000 for the years ended June 30, 2019 and 2018, respectively.

The Trust reviews for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the years ended June 30, 2019 and 2018, there were no events or circumstances that gave rise to an impairment loss.

(e) Collections

Included in collections and other assets are the Trust's collections, which comprise art objects, artifacts of historical significance, and the research and photographic libraries that are held for exhibition and educational, research, and curatorial purposes. Collection items are recorded at cost if purchased or, if contributed, at appraised value at the date of contribution. As of June 30, 2019 and 2018, the Trust's collection, net of reserves totaled $2,693,479,000 and $2,639,580,000, respectively.

Objects in the Trust's collection may be subject to decreases in value due to changes in attribution. In addition, objects in the Trust's collection may be subject to forfeiture or other claims made by individuals, for example, objects appropriated during the Nazi era, or by countries related to the return of cultural property. The Trust closely monitors these risks, and when it is determined that the value of an item may be impaired and the loss can be estimated, the Trust adjusts the value of the assets by establishing a reserve. As of June 30, 2019 and 2018, the Trust's reserve totaled $3,994,000.

(f) Grant Expenditures

Grant expenditures are recognized as expense in the period the grant is approved, provided the grant is not subject to future conditions, including grants that are expected to be paid in future years.

(g) Contributed Services

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Trust receives a significant amount of contributed time from unpaid volunteers that does not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(i) Income Taxes

The Trust has been classified as a tax-exempt, private operating foundation under Sections 501(c)(3) and 4942(j)(3) of the Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code. The Trust also qualifies as an exempt operating foundation, as described in IRC 4940(d)(2), and, as such, is not subject to federal excise taxes on its net investment income under IRC Section 4940. However, the Trust is subject to income taxes on any net income that is derived from trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. An income tax provision has been recorded due to net income from an unrelated trade or business. However, it is not material to the financial statements taken as a whole.

(j) New Accounting Standards

The Trust follows the provision of ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in ASC Topic 958, *Not-for-Profit Entities*. Provisions of this update include the reduction in the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; the requirement to present expenses by their functional and their natural classifications in one location in the financial statements; the requirement to present quantitative and qualitative information about management of liquid recourses and availability of financial assets to meet cash needs within one year of the balance sheet date; and the retention of the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. This update is effective for the Trust for the fiscal year ended June 30, 2019.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will impact how an entity evaluates whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions and determining whether a contribution is conditional. This update is effective for the Trust regarding contributions received for the fiscal year ended June 30, 2019. There was no material impact to the Trust due to this change for contributions received. The adoption of this update regarding contributions made is effective for fiscal year ending June 30, 2020. The Trust is currently evaluating the effects of the adoption of this update regarding contributions made will have on the financial statements.

(k) Reclassifications

Certain reclassifications have been made to the 2018 financial data to conform to the 2019 presentation.

(3) Investments

The fair value of each asset and liability in the table below was measured using ASC Topic 820 input guidance and valuation techniques. The following tables set forth estimated fair values of assets and liabilities measured and recorded on a recurring basis at June 30, 2019 and 2018:

	June 30, 2019				
	Level I	Level II	Level III	Investments measured at net asset value	Total
	(Amounts in thousands)				
Assets:					
Cash and cash equivalents	$ 102,706	—	—	—	102,706
Mutual funds	89,505	—	—	—	89,505
U.S. Treasury and agency securities	—	64,939	—	—	64,939
Corporate bonds	—	99,697	—	—	99,697
Common stocks	322,744	—	—	—	322,744
Preferred stocks	—	52,762	—	—	52,762
Subtotal	514,955	217,398	—	—	732,353
Instruments measured at net asset value:					
Venture capital	—	—	—	722,237	722,237
Buyout funds	—	—	—	569,394	569,394
Hedge funds	—	—	—	1,128,046	1,128,046
Distressed debt	—	—	—	454,179	454,179
Real assets	—	—	—	1,099,081	1,099,081
Equity commingled funds	—	—	—	2,201,402	2,201,402
Fixed-income commingled funds	—	—	—	418,784	418,784
Subtotal	—	—	—	6,593,123	6,593,123
Total assets	$ 514,955	217,398	—	6,593,123	7,325,476
Liabilities:					
Corporate bonds	$ —	1,862	—	—	1,862
Common stocks	16,170	—	—	—	16,170
Subtotal	16,170	1,862	—	—	18,032
Interest rate swaps	—	163,191	—	—	163,191
Total liabilities	$ 16,170	165,053	—	—	181,223

(Continued)

	June 30, 2018					
		Level I	Level II	Level III	Investments measured at net asset value	Total
		(Amounts in thousands)				
Assets:						
Cash and cash equivalents	$	206,868	—	—	—	206,868
Mutual funds		136,356	—	—	—	136,356
U.S. Treasury and agency securities		—	174	—	—	174
Corporate bonds		—	94,742	—	—	94,742
Common stocks		371,369	—	—	—	371,369
Preferred stocks		—	40,740	—	—	40,740
Subtotal		714,593	135,656	—	—	850,249
Instruments measured at net asset value:						
Venture capital		—	—	—	627,034	627,034
Buyout funds		—	—	—	573,579	573,579
Hedge funds		—	—	—	1,080,349	1,080,349
Distressed debt		—	—	—	527,961	527,961
Real assets		—	—	—	1,153,873	1,153,873
Equity commingled funds		—	—	—	2,078,889	2,078,889
Fixed-income commingled funds		—	—	—	424,808	424,808
Subtotal		—	—	—	6,466,493	6,466,493
Total assets	$	714,593	135,656	—	6,466,493	7,316,742
Liabilities:						
Corporate bonds	$	—	2,843	—	—	2,843
Common stocks		19,143	—	—	—	19,143
Subtotal		19,143	2,843	—	—	21,986
Interest rate swaps		—	120,605	—	—	120,605
Total liabilities	$	19,143	123,448	—	—	142,591

At June 30, 2019 and 2018, approximately 39% and 40%, respectively, of investments were invested in private-market limited partnerships for venture capital, buyout funds, distressed debt, and real assets. Investments in these limited partnerships represent long-term commitments of typically five to ten years. Capital is drawn for investments in the first few years of the life of the partnership, and distributions are made to investors as investments are sold over the last several years of the life of the partnership. During the years ended 2019 and 2018, the Trust funded $455 million and $487 million of new investments and received $632 million and $675 million of distributions from these private-market limited partnerships, respectively. New commitments and distributions are dependent on market conditions and timing is unpredictable.

As of June 30, 2019, the Trust had $1.4 billion of unfunded commitments to these limited partnerships, including $435 million to venture capital and buyout funds, $543 million to real assets, $293 million to distressed debt, and $100 million to commingled and other categories.

The balance of the investments measured at net asset value is invested in funds that permit periodic redemptions. Hedge funds, distressed debt, fixed income, and commingled equity funds generally have redemption periods that range from one month to two years and require 30- to 90-day advance notice. Sometimes, these redemptions are limited in size such as up to 25% of assets may be redeemed per quarter. Approximately $3.7 billion of total investments measured at net asset value as a practical expedient can be converted to cash within one year or less.

Investments Whose Use is Limited

Investments whose use is limited consist of amounts with donor imposed restrictions and amounts related to interest due to bondholders. As of June 30, 2019 and 2018, investments whose use is limited totaled $18,522,000 and $20,291,000, respectively.

(4) Property and Equipment

At June 30, property and equipment consist of the following:

		2019	2018
		(Amounts in thousands)	
Buildings	$	1,632,887	1,631,594
Leasehold improvements		10,789	10,789
Land and improvements		83,002	83,948
Furniture and equipment		92,175	90,200
Work in progress		17,854	11,426
		1,836,707	1,827,957
Less accumulated depreciation and amortization		(912,715)	(865,309)
	$	923,992	962,648

(5) Bonds Payable

As of June 30, bonds payable and the associated maturities are as follows (amounts in thousands):

Series	Maturity dates		Principal 2019	Principal 2018
2011A Variable rate refunding revenue bonds	4/1/2038	$	276,800	276,800
2012A Refunding revenue bonds	Various through 2023		32,430	38,155
2012B Variable rate refunding revenue bonds	10/1/2047		108,940	108,940
2013A Variable rate refunding revenue bonds	10/1/2047		162,955	162,955
		$	581,125	586,850

The above principal amount does not include the bond premium of $2,259,000 and $3,180,000 for the years ended June 2019 and 2018, respectively, which is a component of bonds payable in the accompanying financial statements. The fair value of bonds payable approximates carrying value due to the variable interest rates that most of the bonds carry and, in accordance with ASC Topic 820, are considered Level II in the fair value hierarchy. The fair value of the bonds is determined based on a combination of quoted prices of similar securities as they are not actively traded.

(a) 2011A Variable Rate Refunding Revenue Bonds

On December 1, 2011, the Trust issued $276,800,000 in Series 2011A variable rate refunding revenue bonds (Series 2011A) issued by the California Infrastructure and Economic Development Bank, which mature on April 1, 2038. Proceeds were used to refund the Series 2003 bonds and to pay costs of issuance. The bonds were issued with an Initial Tender Date of April 1, 2014 and a Secondary Tender Date of April 1, 2015. Interest rates from issuance to the Initial Tender Date are based on weekly SIFMA Index rates plus a SIFMA Index Tender spread of 0.50%.

On the Initial Tender Date of April 1, 2014, the bonds were remarketed. Series 2011A-1 was issued in Index-Based Mode with a Mandatory Tender Date of April 1, 2015. Interest rates from issuance to the Mandatory Tender Date are based on weekly SIFMA Index rates minus a SIFMA Index Mode Spread of 0.01%. Series 2011A-2, 2011A-3, and 2011A-4 were issued in SIFMA Index Tender Mode, with an Initial SIFMA Index Tender Date of April 3, 2017 and a Secondary SIFMA Index Tender Date of April 3, 2018. Interest rates from issuance to Initial Tender Date are based on weekly SIFMA index rates plus a SIFMA Index Tender spread of 0.28%.

On February 2, 2015, the Series 2011A-1 bonds were remarketed in SIFMA Index Tender Mode, with an Initial SIFMA Index Tender Date of April 2, 2018. Interest rates from the remarketing date to the Initial SIFMA Index Tender Date are based on the weekly SIFMA Index rate plus an Initial SIFMA Index Tender Mode Spread of 0.28%.

On March 23, 2017, the Series 2011A-2, 2011A-3, and 2011A-4 bonds were remarketed in LIBOR Index Tender Mode with an Initial LIBOR Index Tender Date of April 1, 2020. Interest rates from the remarketing date to the Initial LIBOR Index Tender Date are based on 70% of the monthly three-month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.37%. The rate determination date of the monthly three-month LIBOR index rate will be the second London business day immediately preceding the first business day of each month.

On March 22, 2018, the Series 2011A-1 bonds were remarketed in LIBOR Index Tender Mode, with an Initial LIBOR Index Tender Date of April 1, 2021. Interest rates from the remarketing date to the Initial LIBOR Index Tender Date are based on 70% of the monthly one-month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.20%. The rate determination date of the monthly one-month LIBOR index rate will be the second London business day immediately preceding the first business day of each month.

At June 30, 2019, the one-month and three-month LIBOR were 2.44%, and 2.52%, respectively. The one-month LIBOR Index Tender Interest Rate for Series 2011A-1 bonds was 1.91%. The three-month LIBOR Index Tender Rate for Series 2011A-2, 2011A-3, and 2011A-4 bonds was 2.13%. The redemption period for the Series 2011A bonds begins April 1, 2022 and ends April 1, 2038.

Accrued interest on the bonds as of June 30, 2019 and 2018 was $441,000 and $442,000, respectively.

(b) 2012A Tax-Exempt Refunding Revenue Bonds and 2012A Taxable Refunding Revenue Bonds

On February 22, 2012, the Trust issued $68,930,000 Series 2012A fixed-rate bonds issued by the California Infrastructure and Economic Development Bank. Series 2012A-1 Tax-Exempt Refunding Revenue Bonds were offered at interest rates, which resulted in the receipt of a bond premium of $12,929,000. Proceeds of the Series 2012A-1 bonds were used to refund Series 2004A and 2004B bonds and to pay costs of issuance. Proceeds of the Series 2012A-2 Taxable Refunding Revenue Bonds were also used to pay swap termination payments to Morgan Stanley and to JP Morgan totaling $12,792,000 to terminate swaps associated with the Series 2004 bonds and to pay costs of issuance. At June 30, 2019, the remaining unamortized bond premium was $2,259,000 and is included as a component of bonds payable in the accompanying financial statements. Amortization of the bond premium totaled $921,000 for the year ended June 30, 2019.

The Series 2012A-2 taxable bonds were paid off on June 30, 2014. The Series 2012A-1 tax-exempt bonds were issued in 11 tranches, with maturities beginning October 1, 2014 and ending October 1, 2023. Interest rates for each are fixed and range from 2.00% to 5.00%.

Accrued interest on the bonds as of June 30, 2019 and 2018 was $352,000 and $423,000, respectively.

(c) 2012B Variable Rate Refunding Revenue Bonds

On April 2, 2012, the Trust issued $108,940,000 Series 2012B variable rate refunding revenue bonds (Series 2012B) issued by the California Infrastructure and Economic Development Bank. Proceeds were used to refund Series 2007A-3 and 2007A-4 bonds and to pay costs of issuance. The bonds were issued with a SIFMA Scheduled Mandatory Purchase Date of April 1, 2015. Interest is paid semiannually, and rates paid to the mandatory purchase date are based on the monthly averages during the period of the SIFMA Index plus a spread of 0.30%.

On February 2, 2015, the Series 2012B bonds were remarketed in SIFMA Mode with an Initial SIFMA Scheduled Mandatory Purchase Date of April 2, 2018. Interest is paid semiannually, and rates paid to the mandatory purchase date are based on the monthly averages during the period of the SIFMA Index plus a spread of 0.28%.

On March 22, 2018, the Series 2012B bonds were remarketed in LIBOR Index Tender Mode with an Initial LIBOR Index Tender Date of April 1, 2021. Interest rates from the remarketing date to the Initial LIBOR Index Tender Date are based on 70% of the monthly one-month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.20%. The rate determination date of the monthly one-month LIBOR index rate will be the second London business day immediately preceding the first business day of each month.

At June 30, 2019, the one-month LIBOR was 2.44%, and the one-month LIBOR Index Tender Interest rate for Series 2012B was 1.91%. The redemption period for the 2012B bonds begins October 1, 2043 and ends October 1, 2047.

Accrued interest on the Series 2012B bonds as of June 30, 2019 and 2018 was $159,000 and $147,000, respectively.

(d) 2013A Variable Rate Refunding Revenue Bonds

On April 1, 2013, the Trust issued $162,955,000 Series 2013A variable rate refunding revenue bonds (Series 2013A) issued by the California Infrastructure and Economic Development Bank. Proceeds were used to refund Series 2007A-1 and 2007A-2 bonds and to pay costs of issuance. The bonds were issued with a SIFMA Scheduled Mandatory Purchase Date of April 1, 2016. Interest is paid semiannually, and rates paid to the mandatory purchase date are based on the monthly averages during the period of the SIFMA Index plus a spread of 0.28%.

On December 17, 2015, the Series 2013 A-1 bonds were remarketed early in SIFMA Index Tender Mode, with an Initial SIFMA Index Tender Date of April 1, 2019. The new mode resulted in a change from semiannual to monthly interest payments. Interest rates from the remarketing date to the Initial SIFMA Index Tender Date are based on the weekly SIFMA Index rate plus an Initial Index Tender Spread of 0.40%.

On April 1, 2016, the Series 2013 A-2 bonds were remarketed in LIBOR Index Tender Mode, with an Initial LIBOR Index Tender Date of April 1, 2019. The new mode resulted in a change from semiannual to monthly interest payments. Interest rates from the remarketing date to the Initial LIBOR Index Tender Date are based on 70% of the weekly Thursday one-month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.50%.

On February 21, 2019, the Series 2013A bonds were remarketed in LIBOR Index Tender Mode with an Initial LIBOR Index Tender Date of April 1, 2022. Interest rates from the remarketing date to the Initial LIBOR Index Tender Date are based on 70% of the monthly one-month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.33%. The rate determination date of the monthly one-month LIBOR index rate will be the second London business day immediately preceding the first business day of each month.

At June 30, 2019, the one-month LIBOR was 2.44%, and the one-month LIBOR Index Tender Interest rate for Series 2013A was 2.04%. The redemption period for the 2013A bonds begins October 1, 2043 and ends October 1, 2047.

Accrued interest on the Series 2013A bonds as of June 30, 2019 and 2018 was $255,000 and $250,000, respectively.

The following is a schedule by year of future maturities for the outstanding bond obligations as of June 30 (amounts in thousands):

		Principal amount
Year ending June 30:		
2020	$	6,080
2021		6,190
2022		8,500
2023		10,655
2024		11,005
Thereafter		538,695
	$	581,125

(6) Interest Rate Swap Agreements

In conjunction with the issuance of variable rate bonds, as discussed in note 5, the Trust has interest rate swap agreements with the following two counterparties: Bank of New York Mellon and JP Morgan Chase Bank. The swap agreements hedge the Trust’s floating rate exposure on outstanding debt through the exchange of floating rates for fixed rates. The fixed rates paid by the Trust range from 3.42% to 3.74%. The Trust expects that the floating rates it receives under the swap agreements will closely correlate with the floating rates on its variable rate bonds. The floating rates received on the swaps are based on percentages of three-month LIBOR designed to approximate the anticipated floating rate payments of the Trust’s tax-exempt bonds, though there is no guarantee that the two rates will not diverge. Management believes that such potential divergence does not create a financial risk that would materially affect the Trust’s financial position. The swaps, which are used to hedge the Series 2011A Variable Rate Bonds, mature on April 1, 2033 and currently stand at a total notional amount of $240,435,000. They were originally entered into at a total notional amount at $275,000,000. The swaps, which are used to hedge the Series 2012B and 2013A Variable Rate Bonds, mature on October 1, 2047 and remain at the original notional amount of $270,475,000.

In accordance with ASC Topic 820, the interest rate swaps liabilities are reported at fair value totaling $163,191,000 and $120,605,000 as of June 30, 2019 and 2018, respectively, and are classified as Level II in the fair value hierarchy.

Net realized and unrealized (loss) gain on interest rate swap agreements are included in the accompanying statements of activities amounting to $(42,586,000) and $36,181,000 for the years ended June 30, 2019 and 2018, respectively.

(7) Retirement Plans and Postretirement Medical Benefits

The Trust has a defined benefit retirement plan covering its employees hired prior to January 1, 2009. The benefits are based on years of service and the employee's highest consecutive 5 years of compensation during the last 10 years of employment.

On September 25, 2016, the Board of Trustees approved the freezing of the Trust's defined benefit retirement plan effective December 31, 2016. This freeze discontinued the accrual of service credits for participants after December 31, 2016. All benefits that a participant earned prior to the freeze are guaranteed under the Employee Retirement Income Security Act (ERISA) and will be available for payout upon the participant's retirement. On September 25, 2018, the Plan was amended to offer vested terminated participants of the defined benefit retirement plan a onetime opportunity to receive a payout of their accumulated retirement benefits. Participants had the option to receive an immediate lump sum, begin their annuity payment early, or continue to wait to receive an annuity at normal retirement age. This offer was available from October 1 to November 30, 2018. As of November 30, 2018, of the 625 eligible participants, 192 elected the lump-sum payment, totaling $8,009,306, and 120 elected to begin receiving the life annuities. All lump-sum payments were made and annuities initiated by the end of December 2018.

In addition, the Trust provides supplemental retirement defined benefits for certain former executives, as outlined in their respective employment contracts.

Employees hired on or after January 1, 2009 participate in a defined contribution retirement program (DCRP) in which the Trust contributes 6% of the employee's base salary up to the Social Security Taxable Wage Base and 10% of an employee's salary between the Social Security Taxable Wage Base and the IRS Compensation Limit. Effective January 1, 2017, all employees receive these contributions to the DCRP. Contributions to the plan totaled $5,053,000 and $4,700,000 at June 30, 2019 and 2018, respectively.

The Trust also provides postretirement healthcare benefits to certain eligible employees. Beginning January 1, 2015, the postretirement healthcare benefits gives retirees age 65 or older the flexibility to choose a plan that will fit their own needs. The Trust provides a Retiree Reimbursement Account (RRA), a nontaxable account that participants can use to help cover healthcare expenses, including plan premiums and out-of-pocket expenses, such as co-pays and deductibles. For eligible retirees, the Trust contributes $3,000 per year for each retiree and his/her covered spouse/domestic partner.

Employees who are eligible and elect to retire before age 65 may choose to remain on one of the Trust's active health plans, paying a portion of the premium, or begin receiving the RRA benefit. At age 65, the individual converts to the health plan noted above.

Employees who do not qualify for the plan noted above, but leave the Trust with at least 10 years of service and attaining age 55, are eligible to receive a $1,200 annual contribution toward an RRA. The contributions in the RRA may be used to help cover healthcare expenses.

(Continued)

(a) Funded Status

The following table sets forth the plans' projected benefit obligation (a measure of a pension plan's liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future), fair value of plan assets, and funded status as of June 30, 2019 and 2018:

	Defined-benefit plans		Postretirement medical	
	2019	**2018**	**2019**	**2018**
	(Amounts in thousands)			
Projected benefit obligation	$ (301,481)	(280,051)	(24,088)	(22,272)
Fair value of plan assets	257,896	260,296	—	—
Net benefit obligation	$ (43,585)	(19,755)	(24,088)	(22,272)

The net periodic pension credits in the amount of $3,125,000 and $2,283,000 for the years ended June 30, 2019 and 2018, respectively, are included as a component of pension and other postretirement plans in the accompanying statements of activities.

(b) Assumptions

The weighted average assumptions used to determine the net pension cost and pension obligations at June 30, 2019 and 2018 are as follows:

	Defined-benefit plans	
	2019	**2018**
Discount rate used to determine:		
Net periodic pension cost	4.20 %	3.90 %
Benefit obligations	3.50	4.20
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	—	—
Measurement date	June 30, 2019	June 30, 2018

The following are the assumed healthcare trend rates and discount rates related to the postretirement healthcare benefits:

	Postretirement medical	
	2019	2018
Healthcare cost trend assumed for the next year	6.50 %	6.30 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50	4.50
Year that the rate reaches the ultimate trend rate	2037	2037
Discount rate	3.40 %	4.10 %
Measurement date	June 30, 2019	June 30, 2018

(c) Pension Plan Investments

The asset allocations for the pension plans as of June 30, 2019 and 2018 are as follows:

	Defined-benefit plans			
	2019		2018	
	Actual	Target	Actual	Target
Asset allocations:				
Equity securities	42.00 %	50.00 %	42.00 %	50.00 %
Debt securities	45.00	30.00	43.00	30.00
Hedge funds	13.00	20.00	15.00	20.00
	100.00 %	100.00 %	100.00 %	100.00 %

The investment policy of the defined benefit retirement plan is intended to maximize total return consistent with the income needs and risk tolerance for the plans. Currently, the plans have a long-term investment horizon consistent with the long-term nature of the retirement obligations. The policy and risk tolerance for the plans are reflected in the asset allocation target approved by the Investment Committee. The asset allocation targets are reviewed periodically by the Investment Committee of the Board of Trustees to ensure that the targets are consistent with the plan policy and strategic objectives. The Investment Committee of the Board of Trustees approved the new target allocations reflected above in September 2014. The actual asset allocation is rebalanced as appropriate to match the target weights.

The plans have an expected future long-term rate of return assumption of 7%. This assumption reflects the asset allocation targets and both the historical and projected long-term return assumptions for each asset class in the portfolio.

(d) Fair Value of Pension Plan Investments

The following tables present pension plan investments that are measured at fair value at June 30, 2019 and 2018:

	June 30, 2019				
	Level I	Level II	Level III	Investments measured at net asset value	Total
	(Amounts in thousands)				
Cash and cash equivalents	$ 15,131	—	—	—	15,131
Mutual funds – debt securities	17,340	—	—	—	17,340
Equity funds and partnerships	—	—	—	182,945	182,945
Fixed-income funds and partnerships	—	—	—	42,480	42,480
Total	$ 32,471	—	—	225,425	257,896

	June 30, 2018				
	Level I	Level II	Level III	Investments measured at net asset value	Total
	(Amounts in thousands)				
Cash and cash equivalents	$ 18,534	—	—	—	18,534
Mutual funds – debt securities	20,075	—	—	—	20,075
Equity funds and partnerships	—	—	—	188,826	188,826
Fixed-income funds and partnerships	—	—	—	32,861	32,861
Total	$ 38,609	—	—	221,687	260,296

(e) Benefit Payments and Contributions

	Defined-benefit plans		Postretirement medical	
	2019	2018	2019	2018
	(Amounts in thousands)			
Employer contributions	$ 5,747	5,424	1,468	1,288
Benefits paid	(17,085)	(8,768)	(1,468)	(1,288)

The following is a schedule based on actuarial calculations of expected future benefit payments over the next 10 fiscal years:

		Defined-benefit plans	Postretirement medical
		(Amounts in thousands)	
Fiscal year(s) ending June 30:			
2020	$	10,876	1,442
2021		11,310	1,441
2022		11,842	1,450
2023		12,443	1,436
2024–2029		86,413	8,234
	$	132,884	14,003

Expected contributions to be made to the supplemental retirement plan during the fiscal year ending June 30, 2020 total $689,000.

(f) Employee Investment Plan

The Trust maintains a qualified 403(b) Employee Investment Plan, which permits eligible employees to make voluntary contributions on a pretax basis or, as of January 1, 2014, on a posttax (Roth) basis. This plan allows participants to invest in a variety of investments. This plan was enhanced in 1995 to include an employer match to employees contributing to the plan. The match is held in a 401(a) plan. The 401(a) plan provides for uniform employer contributions of one dollar for every dollar contributed by a participant up to 4% of the participant's compensation plus overtime earnings (not to exceed IRS limits). Contributions to the 401(a) plan totaled $4,105,000 and $3,796,000 at June 30, 2019 and 2018, respectively.

(g) Supplemental Savings Plan

On January 1, 2009, the Trust established a nonqualified 457(b) Supplemental Savings Plan, which permits eligible employees to make voluntary contributions on a pretax basis. This plan allows participants to invest in a variety of investments. Employee contributions to the plan totaled $257,000 and $189,000 at June 30, 2019 and 2018, respectively.

(Continued)

(8) Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more program functions of the Trust. Trust expenses that are directly attributed to a functional expense category on an invoice by invoice basis are directly reported to the appropriate functional expense category. Trust expenses that are not directly related to a functional expense category require allocation on a reasonable basis that is consistently applied. The Trust has applied an allocation basis to costs included in the salaries, benefits and taxes, grants to other organizations, operating and employee business expenses, service and professional fees, repair and maintenance and occupancy, depreciation, and interest categories. The allocation is primarily based on a direct functional cost basis and square-footage. The following table presents expenses by both nature and function for the fiscal years ended June 30, 2019 and 2018:

	2019							
	Program services							
	Museum	Research institute	Conservation institute	Foundation and grants	Total program services	General and administrative	Total	2018 Total
Salaries, benefits, and taxes	$ 78,723	36,775	19,159	4,606	139,263	5,399	144,662	139,634
Grants to other organizations	2,456	915	751	14,456	18,578	—	18,578	11,179
Operating and employee business expenses	24,850	6,703	4,080	2,045	37,678	656	38,334	41,461
Services and professional fees	12,308	5,048	5,484	1,392	24,232	1,653	25,885	26,884
Repair and maintenance and occupancy	13,698	9,233	2,307	385	25,623	48	25,671	24,645
Depreciation	21,919	8,169	6,702	7,882	44,672	2,905	47,577	47,379
Interest	20,187	637	425	—	21,249	—	21,249	21,457
Total expenses	$ 174,141	67,480	38,908	30,766	311,295	10,661	321,956	312,639

(9) Endowment

The Trust's endowment consists of four individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of June 30, 2019:

	Without donor restriction	With donor restriction	Total
	(Amounts in thousands)		
Donor-restricted endowments	$ —	3,491	3,491
Board-designated endowments	7,305,163	—	7,305,163
Total	$ 7,305,163	3,491	7,308,654

Changes in endowment net assets for the fiscal year ended June 30, 2019 are as follows:

		Without donor restriction	With donor restriction	Total
		(Amounts in thousands)		
Endowment net assets, beginning of the year	$	7,311,616	3,231	7,314,847
Investment return:				
Investment income		100,754	376	101,130
Net appreciation		250,665	—	250,665
Total investment income		351,419	376	351,795
Contributions		—	—	—
Appropriation of endowment assets for expenditure		(357,872)	(116)	(357,988)
Endowment net assets, end of the year	$	7,305,163	3,491	7,308,654

Endowment net asset composition by type of fund as of June 30, 2018 is as presented below:

		Without donor restriction	With donor restriction	Total
		(Amounts in thousands)		
Donor-restricted endowments	$	—	3,231	3,231
Board-designated endowments		7,311,616	—	7,311,616
Total	$	7,311,616	3,231	7,314,847

(Continued)

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

		Without donor restriction	With donor restriction	Total
			(Amounts in thousands)	
Endowment net assets, beginning of the year	$	6,942,881	2,941	6,945,822
Investment return:				
Investment income		73,866	347	74,213
Net appreciation		700,284	—	700,284
Total investment income		774,150	347	774,497
Contributions		—	—	—
Appropriation of endowment assets for expenditure		(405,415)	(57)	(405,472)
Endowment net assets, end of the year	$	7,311,616	3,231	7,314,847

Description of amounts classified as net assets with donor restrictions is as follows (in thousands):

		2019	2018
Net assets with donor restrictions:			
The portion of endowment funds that is required to be retained either by explicit or subject to donor-imposed stipulations	$	3,491	3,231
Contributions restricted for specific purpose or timing of use		8,998	11,142
Endowment receivables		4,100	4,100
Total net assets with donor restrictions	$	16,589	18,473

(a) Return Objectives and Risk Parameters

The Trust has adopted investment and prudent spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. This policy shall provide for safety of principal through diversification in a portfolio of common stocks, bonds, mutual funds, cash equivalents, and other investments, including international equities and alternative investments, which may reflect varying rates of return. The overall rate of return objective for the portfolio (net of fees) is 5% plus inflation, which is consistent with the risk levels established by the Board of Trustees. This is consistent with the Trust’s objective to maintain purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

(b) Investment Strategy

Consistent with the investment and prudent spending policies stated above, the investment strategy is as follows:

1. Preservation of capital: To seek to minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market
2. Maintain adequate portfolio liquidity to support operational activities, fund all investment commitments, and provide a safety net in case of severe market disruptions
3. Preservation of purchasing power: To seek long-term growth of capital in excess of the rate of spending and inflation over the long-term investment horizon of the portfolio.

(c) Spending Policy

The Trust, with the approval of the Board of Trustees, currently appropriates for distribution (on a cash basis) each year 5% of its endowment fund's value determined either by (1) averaging the fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned or (2) using the fair value of the endowment at calendar year-end preceding the fiscal year in which the distribution is planned. In establishing these appropriations, the Trust considers the long-term expected return on its endowment. Accordingly, over the long term, the Trust expects the current spending policy to allow its endowment to grow with inflation. This is consistent with the Trust's objective to maintain the purchasing power of the endowment assets held in perpetuity.

(10) Commitments and Contingencies

Legal Matters

In the ordinary course of business, the Trust is subject to certain lawsuits and other potential legal actions. In the opinion of management, such matters will not have a material effect on the financial position of the Trust.

(11) Liquidity and Availability

The Trust has the following financial assets available as of the statements of financial position dates to meet cash needs for general expenditures within the following year (amounts in thousands):

		2019	2018
Cash	$	3,181	21,326
Interest and dividends receivables		2,440	2,844
Other receivables		3,968	5,030
Investments		3,690,000	3,649,000
Total	$	3,699,589	3,678,200

As part of the Trust's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Trust manages its liquidity primarily through ongoing assessments of the nature, redemption period and concentration of the investments within the portfolio. The assessment includes an analysis of how much of the investment portfolio could be converted to cash within one year. At June 30, 2019 and 2018, the Trust has determined that $3,690,000,000 and $3,649,000,000 of investments, respectively, could be converted to cash within one year.

As described in note 9, substantially all the Trusts investments are considered to be a board-designed endowment. The portions of the board-designated endowment that cannot be converted to cash within one year and the donor-restricted endowment are not available for general expenditures and accordingly not considered in the above determination of financial assets available. The board-designated endowment has an approved spending rate of 5% and $325,000,000 and $319,000,000 has been designed for general expenditures at June 30, 2019 and 2018, respectively. The Trust does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriate process. However, amounts from its board-designated endowments could be made available through board action, if necessary. Accordingly, the portion of the board-designated endowment that could be converted to cash within one year has been reported as a financial asset available for general use.

(12) Subsequent Events

Subsequent events have been evaluated through November 25, 2019, which is the date the financial statements were issued.