KPMG

THE J. PAUL GETTY TRUST

Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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.

KPMG LLP

Los Angeles, California
December 6, 2018

THE J. PAUL GETTY TRUST

Statements of Financial Position

June 30, 2018 and 2017

(Amounts in thousands)

Assets		**2018**	**2017**
Cash	$	21,326	5,368
Receivables:			
Unsettled investment sales		35,008	12,264
Interest and dividends		2,844	789
Other		5,030	923
Investments		7,296,451	6,953,557
Investments whose use is limited		20,291	11,101
Property and equipment, net		962,648	994,285
Collections and other assets, net		2,648,264	2,413,036
	$	10,991,862	10,391,323
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	24,667	11,554
Accrued collection purchases		86,050	3,700
Investments sold short		21,986	20,007
Payables on investment purchases		10,817	11,093
Accrued pension and other postretirement plans liabilities		42,027	63,739
Accrued and other liabilities		19,428	20,429
Interest rate swaps		120,605	156,786
Bonds payable		590,030	596,695
		915,610	884,003
Net assets:			
Unrestricted		10,057,779	9,497,193
Temporarily restricted		12,867	8,621
Permanently restricted		5,606	1,506
		10,076,252	9,507,320
	$	10,991,862	10,391,323

See accompanying notes to financial statements.

THE J. PAUL GETTY TRUST

Statements of Activities

Years ended June 30, 2018 and 2017

(Amounts in thousands)

		2018	2017
Change in unrestricted net assets:			
Revenue and other support:			
Sales and other income	$	31,663	27,373
Contributions		6,667	22,329
Investment income:			
Interest and dividend income, net		79,473	84,986
Net realized and unrealized gain on investments		700,284	864,956
Net investment income		779,757	949,942
Net realized and unrealized gain on interest rate swap		36,181	62,858
Net assets released from restriction		2,852	3,158
Total revenue, other support, and investment income		857,120	1,065,660
Expenses:			
Program services:			
Museum		170,662	162,320
Research institute		68,630	62,471
Conservation institute		37,450	36,231
Foundation and grants		26,872	29,821
Total program services		303,614	290,843
Supporting services:			
General and administrative		14,632	14,857
Total expenses		318,246	305,700
Pension and other postretirement plans gain		21,712	64,136
Change in unrestricted net assets		560,586	824,096
Change in temporarily restricted net assets:			
Contributions		7,098	4,294
Net assets released from restriction		(2,852)	(3,158)
Change in temporarily restricted net assets		4,246	1,136
Change in permanently restricted net assets:			
Contributions		4,100	—
Change in net assets		568,932	825,232
Net assets, beginning of year		9,507,320	8,682,088
Net assets, end of year	$	10,076,252	9,507,320

See accompanying notes to financial statements.

THE J. PAUL GETTY TRUST

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Amounts in thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	568,932	825,232
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		47,379	47,016
Amortization of bond premium		(1,140)	(1,359)
Accrued pension and other postretirement plans liabilities		(21,712)	(121,636)
Net realized and unrealized gain on investments		(702,263)	(866,725)
Net realized and unrealized gain on interest rate swaps		(36,181)	(62,858)
Noncash contributions of art		(4,640)	(18,958)
(Gain) loss on disposition of property and equipment		(2)	4
Loss on disposition of collection items		—	500
Changes in operating assets and liabilities:			
Interest and dividends receivable		(2,055)	578
Other receivables		(4,107)	21,317
Other assets		(776)	652
Accounts payable		13,113	(871)
Accrued collection purchases		82,350	2,350
Accrued and other liabilities		(1,001)	1,307
Net cash used in operating activities		(62,103)	(173,451)
Cash flows from investing activities:			
Proceeds from sales of investments		2,859,175	3,375,291
Purchases of investments		(2,530,037)	(3,134,814)
Purchases of collection items		(229,812)	(47,210)
Purchases of property and equipment		(15,751)	(13,091)
Proceeds from sale of property and equipment		11	15
Net cash provided by investing activities		83,586	180,191
Cash flows from financing activities:			
Proceeds from issuance of bonds		178,140	207,600
Payments on bonds payable		(183,665)	(212,980)
Net cash used in financing activities		(5,525)	(5,380)
Net increase in cash		15,958	1,360
Cash, beginning of year		5,368	4,008
Cash, end of year	$	21,326	5,368
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	21,334	21,605

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. As such, the net assets of the Trust and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in carrying out the Trust's mission
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is reported as temporarily net assets until appropriated by management for general support of the Trust's programs and operations unless otherwise stipulated by the donor or law.

(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) 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, 2018 and 2017. 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 is 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.

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 $47,379,000 and $47,016,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, the Trust's collection totaled $2,639,580,000 and $2,405,127,000, 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, 2018 and 2017, the Trust's reserve totaled $3,994,000 and $3,976,000, respectively.

The publication inventory, also carried as a component of collections and other assets, is carried at the lower of cost or estimated net realizable value, totaling $2,682,000 and $2,005,000 at June 30, 2018 and 2017, respectively.

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(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) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

(i) 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.

(j) 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. No income tax provision has been recorded as the net income, if any from unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(k) New Accounting Standards

In August 2016, FASB issued 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 ending June 30, 2019. The Trust is currently evaluating the effects the adoption of the statement will have on the financial statements.

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 for the fiscal year ending June 30, 2019. The Trust is currently evaluating the effects the adoption the statement will have on the financial statements.

(l) Reclassifications

Certain reclassifications have been made to the 2017 financial data to conform to the 2018 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, 2018 and 2017:

		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

	June 30, 2018				
	Level I	**Level II**	**Level III**	**Investments measured at net asset value**	**Total**
	(Amounts in thousands)				
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

	June 30, 2017				
	Level I	**Level II**	**Level III**	**Investments measured at net asset value**	**Total**
	(Amounts in thousands)				
Assets:					
Cash and cash equivalents	$ 152,003	—	—	—	152,003
Mutual funds	61,215	—	—	—	61,215
U.S. Treasury and agency securities	—	174	—	—	174
Corporate bonds	—	53,076	—	—	53,076
Common stocks	368,193	—	—	—	368,193
Preferred stocks	—	3,000	—	—	3,000
Subtotal	581,411	56,250	—	—	637,661

	June 30, 2017					
		Level I	Level II	Level III	Investments measured at net asset value	Total
		(Amounts in thousands)				
Instruments measured at net asset value:						
Venture capital	$	—	—	—	492,647	492,647
Buyout funds		—	—	—	584,616	584,616
Hedge funds		—	—	—	1,088,698	1,088,698
Distressed debt		—	—	—	525,187	525,187
Real assets		—	—	—	1,070,219	1,070,219
Equity commingled fund		—	—	—	1,988,597	1,988,597
Fixed income commingled funds		—	—	—	577,033	577,033
Subtotal		—	—	—	6,326,997	6,326,997
Total assets	$	581,411	56,250	—	6,326,997	6,964,658
Liabilities:						
Corporate bonds	$	—	3,553	—	—	3,553
Common stocks		16,454	—	—	—	16,454
Subtotal		16,454	3,553	—	—	20,007
Interest Rate Swaps		—	156,786	—	—	156,786
Total liabilities	$	16,454	160,339	—	—	176,793

At June 30, 2018 and 2017, approximately 40% and 38%, 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 2018 and 2017, the Trust funded $487 million and $481 million of new investments and received $675 million and $649 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, 2018, the Trust had $1.2 billion of unfunded commitments to these limited partnerships, including $456 million to venture capital and buyout funds, $418 million to real assets, $213 million to distressed debt, and $86 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 $3.6 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 that are temporarily restricted by donors as well as those restricted by donors for investment in perpetuity and amounts related to interest due to bondholders. As of June 30, 2018 and 2017, investments whose use is limited totaled $20,291,000 and $11,101,000, respectively.

(4) Property and Equipment

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

		2018	2017
		(Amounts in thousands)	
Buildings	$	1,631,594	1,615,251
Leasehold improvements		10,789	10,789
Land and improvements		83,948	83,383
Furniture and equipment		90,200	87,398
Work in progress		11,426	15,669
		1,827,957	1,812,490
Less accumulated depreciation and amortization		(865,309)	(818,205)
	$	962,648	994,285

(5) Bonds Payable

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

Series	Maturity dates		Principal 2018	Principal 2017
2011A Variable rate refunding revenue bonds	4/1/2038	$	276,800	276,800
2012A Refunding revenue bonds	Various through 2023		38,155	43,680
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
		$	586,850	592,375

The above principal amount does not include the bond premium of $3,180,000 and $4,320,000 for the years ended June 2018 and 2017, 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

(Continued)

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 3-Month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.37%. The rate determination date of the monthly 3-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 1-Month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.20%. The rate determination date of the monthly 1-Month LIBOR index rate will be the second London Business Day immediately preceding the first Business Day of each month.

At June 30, 2018, the 1-Month and 3-Month LIBOR rates were 1.98%, and 2.30%, respectively. The 1-Month LIBOR Index Tender Interest Rate for Series 2011A-1 bonds was 1.59%. The 3-Month LIBOR Index Tender Rate for Series 2011A-2, 2011A-3, and 2011A-4 bonds was 1.98%. 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, 2018 and 2017 was $442,000 and $287,000, 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, 2018, the remaining unamortized bond premium was $3,180,000 and is included as a component of bonds payable in the accompanying financial statements. Amortization of the bond premium totaled $1,139,000 for the year ended June 30, 2018.

The Series 2012A-2 taxable bonds were paid off on June 30, 2014. Interest rates for each are fixed, and range from 0.19% to 0.64%. 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, 2018 and 2017 was $423,000 and $493,000, 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 1-Month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.20%. The rate determination date of the monthly 1-Month LIBOR index rate will be the second London Business Day immediately preceding the first Business Day of each month.

At June 30, 2018, the 1-Month LIBOR rate was 1.98% and the 1-Month LIBOR Index Tender Interest rate for Series 2012B was 1.59%. 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, 2018 and 2017 was $147,000 and $303,000, 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 1-Month LIBOR index rate plus an Initial LIBOR Index Tender Mode Spread of 0.50%.

At June 30, 2018, the SIFMA rate was 1.51% and the SIFMA-Based Interest rate was 1.91%. The 1-Month LIBOR rate was 2.09% and the LIBOR-Based Interest Rate was 1.96%. 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, 2018 and 2017 was $250,000 and $180,000, 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:		
2019	$	5,725
2020		6,080
2021		6,190
2022		8,500
2023		10,655
Thereafter		549,700
	$	586,850

(6) Interest Rate Swap Agreements

In conjunction with the issuance of variable rate bonds, as discussed in note 6, 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 $244,770,000. 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 $120,605,000 and $156,786,000 as of June 30, 2018 and 2017, respectively, and are classified as Level II in the fair value hierarchy.

Net realized and unrealized gain/(loss) on interest rate swap agreements are included in the accompanying statements of activities amounting to $36,181,000 and $62,858,000 for the years ended June 30, 2018 and 2017, 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 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. The result of this transaction was a onetime curtailment gain of $36,247,000 for the year ended June 30, 2017.

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.

The Trust also provides postretirement healthcare benefits to certain eligible employees. Beginning January 1, 2015, the postretirement healthcare benefits are offered through UnitedHealthcare Medicare Solutions. This gives retirees age 65 or older the flexibility to choose a plan that will fit their own needs. The Trust subsidizes the Medicare Solutions Plan with 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 remain on one of the Trust's active health plans, paying a portion of the premium equal to active employees. 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.

(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, 2018 and 2017:

		Defined-benefit plans		Postretirement medical	
		2018	**2017**	**2018**	**2017**
		(Amounts in thousands)			
Projected benefit obligation	$	(280,051)	(288,825)	(22,272)	(23,559)
Fair value of plan assets		260,296	248,645	—	—
Net benefit obligation	$	(19,755)	(40,180)	(22,272)	(23,559)

The net periodic pension (credit) cost in the amount of ($2,283,000) and $15,472,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 are as follows:

	Defined-benefit plans	
	2018	**2017**
Discount rate used to determine:		
Net periodic pension cost	3.90 %	3.75 %
Benefit obligations	4.20	3.90
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	—	3.50
Measurement date	June 30, 2018	June 30, 2017

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

	Postretirement medical	
	2018	**2017**
Healthcare cost trend assumed for the next year	6.30 %	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	4.10 %	3.75 %
Measurement date	June 30, 2018	June 30, 2017

(c) Pension Plan Investments

The asset allocations for the pension plans as of June 30, 2018 and 2017 are as follows:

	Defined-benefit plans			
	2018		**2017**	
	Actual	**Target**	**Actual**	**Target**
Asset allocations:				
Equity securities	42.00 %	50.00 %	41.00 %	50.00 %
Debt securities	43.00	30.00	44.00	30.00
Hedge funds	15.00	20.00	15.00	20.00
	100.00 %	100.00 %	100.00 %	100.00 %

The investment policy of the defined-benefit plans is intended to maximize total return consistent with the income needs and risk tolerance for the plans. 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. Domestic equity assets are invested in an index fund that replicates the Wilshire 5000 index, and international equity assets are invested in an index fund that replicates the MSCI All-Country World index. Fixed-income assets are invested in an intermediate bond fund account that is actively managed by PIMCO and is benchmarked against the Barclays Aggregate index and several focused income-producing funds. There are two hedge fund investments, one fund-of-funds focused on long/short equity, and another multistrategy fund with limited directional market exposure.

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, 2018 and 2017:

	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

	June 30, 2017				
	Level I	Level II	Level III	Investments measured at net asset value	Total
	(Amounts in thousands)				
Cash and cash equivalents	$ 13,824	—	—	—	13,824
Mutual funds – debt securities	20,100	—	—	—	20,100
Equity funds and partnerships	—	—	—	190,638	190,638
Fixed income funds and partnerships	—	—	—	24,083	24,083
Total	$ 33,924	—	—	214,721	248,645

(e) Benefit Payments and Contributions

	Defined-benefit plans		Postretirement medical	
	2018	2017	2018	2017
	(Amounts in thousands)			
Employer contributions	$ 5,424	58,457	1,288	1,120
Benefits paid	(8,768)	(7,997)	(1,288)	(1,120)

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 years ending June 30:		
2019	$ 10,119	1,382
2020	10,726	1,413
2021	11,215	1,432
2022	11,797	1,455
2023–2026	80,242	8,208
	$ 124,099	13,890

The Trust voluntarily provided a $57.5 million contribution, reported as a component of pension and other postretirement plan gains, to its defined-benefit retirement plan during the year ended June 30, 2017. The intent and result of this contribution eliminated the variable rate Pension Benefit Guarantee Corporation premium due each year (in excess of $1.0 million), as well as the minimum required contribution for the next few years. The Board retains the right to decide to make a contribution, but it will not be a regulatory requirement at this time.

Expected contributions to be made to the supplemental retirement plan during the fiscal year ending June 30, 2019 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 $3,796,000 and $3,672,000 at June 30, 2018 and 2017, 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 $189,000 and $176,000 at June 30, 2018 and 2017, respectively.

(8) 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, 2018:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(Amounts in thousands)		
Donor-restricted endowments	$	—	1,725	1,506	3,231
Board-designated endowments		7,311,616	—	—	7,311,616
Total	$	7,311,616	1,725	1,506	7,314,847

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(Amounts in thousands)		
Endowment net assets, beginning of the year	$	6,942,881	1,435	1,506	6,945,822
Investment return:					
Investment income		79,473	347	—	79,820
Net appreciation		700,284	—	—	700,284
Total investment income		779,757	347	—	780,104
Contributions		—	—	—	—
Appropriation of endowment assets for expenditure		(411,022)	(57)	—	(411,079)
Endowment net assets, end of the year	$	7,311,616	1,725	1,506	7,314,847

Endowment net asset composition by type of fund as of June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(Amounts in thousands)		
Donor-restricted endowments	$	—	1,435	1,506	2,941
Board-designated endowments		6,942,881	—	—	6,942,881
Total	$	6,942,881	1,435	1,506	6,945,822

Changes in endowment net assets for the fiscal year ended June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(Amounts in thousands)		
Endowment net assets, beginning of the year	$	6,317,023	1,045	1,506	6,319,574
Investment return:					
Investment income		84,986	438	—	85,424
Net appreciation		864,956	—	—	864,956
Total investment income		949,942	438	—	950,380
Contributions		—		—	—
Appropriation of endowment assets for expenditure		(324,084)	(48)	—	(324,132)
Endowment net assets, end of the year	$	6,942,881	1,435	1,506	6,945,822

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets is as follows (in thousands):

		2018	2017
Permanently restricted net assets:			
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation	$	1,506	1,506
Endowment receivables		4,100	—
Total permanently restricted net assets	$	5,606	1,506
Temporarily restricted net assets:			
The portion of endowment funds subject to donor-imposed stipulation	$	1,725	1,435
Contributions restricted for specific purpose or timing of use		11,142	7,186
Total temporarily restricted net assets	$	12,867	8,621

(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; and

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.

(9) 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.

(10) Subsequent Events

Subsequent events have been evaluated through December 6, 2018, which is the date the financial statements were issued.

On September 25, 2018, the Trust offered 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 or continue to wait to receive an annuity at a future date. This offer was available from October 1 to November 30, 2018. As of November 30, 2018, of the 625 eligible participants, 189 elected the lump-sum payment, totaling $8,474,510, and 11 elected to begin receiving the life annuities. All payments will be made – or annuities begun – by the end of December 2018.