



**THE J. PAUL GETTY TRUST**

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 700  
600 Anton Boulevard  
Costa Mesa, CA 92626-7651

## **Independent Auditors' Report**

The Board of Trustees  
The J. Paul Getty Trust:

We have audited the accompanying statements of financial position of The J. Paul Getty Trust (the Trust) (a tax-exempt, private operating foundation) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

October 30, 2008

# THE J. PAUL GETTY TRUST

## Statements of Financial Position

June 30, 2008 and 2007

(Amounts in thousands)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash	\$ 288	307
Receivables:		
Investments	44,189	37,993
Interest and dividends	5,947	5,536
Other	2,130	4,013
Investments	5,738,151	6,100,045
Investments loaned under securities lending agreement	240,738	316,701
Investments whose use is limited	1,783	1,024
Collateral held under securities lending agreement	249,690	337,457
Property and equipment, net	1,355,651	1,401,475
Collections and other assets	1,886,685	1,804,760
	<u>\$ 9,525,252</u>	<u>10,009,311</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 27,910	20,398
Payables on investment purchases	59,641	25,074
Accrued and other liabilities	130,946	134,534
Payable under securities lending agreement	249,690	337,457
Bonds payable, net of bond issue discount of \$0 and \$1,222 at June 30, 2008 and 2007	630,555	612,638
	<u>1,098,742</u>	<u>1,130,101</u>
Net assets:		
Unrestricted	8,425,044	8,878,208
Temporarily restricted	916	677
Permanently restricted	550	325
	<u>8,426,510</u>	<u>8,879,210</u>
	<u>\$ 9,525,252</u>	<u>10,009,311</u>

See accompanying notes to financial statements.

**THE J. PAUL GETTY TRUST**

Statements of Activities

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	<b>2008</b>	<b>2007</b>
Change in unrestricted net assets:		
Revenues and other support:		
Sales and other income	\$ 15,635	16,819
Contributions	3,849	2,197
Investment income (loss):		
Interest and dividend income, net	74,334	77,180
Net realized and unrealized gain (loss) on investments	(213,872)	1,062,456
Net investment income (loss)	(139,538)	1,139,636
Net realized and unrealized loss on interest rate swap agreements	(30,359)	(2,906)
Net assets released from restriction	393	693
Total revenues, support, and investment income (loss)	(150,020)	1,156,439
Expenses:		
Program services:		
Museum	134,713	126,740
Research and library	69,158	63,702
Conservation	50,555	46,618
Education	8,900	9,246
Grants	36,557	27,776
Total program services	299,883	274,082
Supporting services:		
General and administrative	39,111	33,621
Total expenses	338,994	307,703
Pension and other post retirement plans adjustments	53,168	—
Loss on debt extinguishment	(17,318)	—
Change in unrestricted net assets	(453,164)	848,736
Change in temporarily restricted net assets:		
Contributions	632	209
Net assets released from restriction	(393)	(693)
Change in temporarily restricted net assets	239	(484)
Change in permanently restricted net assets:		
Contributions	225	5
Change in net assets	(452,700)	848,257
Net assets, beginning of year	8,879,210	8,030,953
Net assets, end of year	\$ 8,426,510	8,879,210

See accompanying notes to financial statements.

**THE J. PAUL GETTY TRUST**

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (452,700)	848,257
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	48,230	47,780
Amortization of bond discount	1,222	47
Net realized and unrealized (gain) loss on investments	213,872	(1,062,456)
Net realized and unrealized loss on interest rate swap agreements	30,359	2,906
Noncash contributions of art	(2,903)	(965)
Loss on disposition of property and equipment	5,998	1,668
Gain on disposition of collection items	(66)	(2,533)
Pension related changes	(22,907)	—
Contributions restricted for long-term investment	(225)	(5)
Changes in operating assets and liabilities:		
Interest and dividends receivable	(411)	306
Other receivables	1,883	(1,701)
Other assets	1,453	(2,530)
Accounts payable	7,512	(5,417)
Accrued and other liabilities	(6,869)	15,662
Net cash used in operating activities	<u>(175,552)</u>	<u>(158,981)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	4,835,136	4,293,603
Purchases of investments	(4,583,539)	(4,089,739)
Purchases of collection items	(81,351)	(27,266)
Proceeds from the sale of collection items	66	3,388
Purchases of property and equipment	(8,454)	(17,425)
Proceeds from sale of property and equipment	35	103
Net cash provided by investing activities	<u>161,893</u>	<u>162,664</u>
Cash flows from financing activities:		
Proceeds from bonds payable	540,950	—
Payments on bonds payable	(524,255)	(3,645)
Payment on termination of swap agreement	(3,280)	—
Contributions restricted for long-term investment	225	5
Net cash provided by (used in) financing activities	<u>13,640</u>	<u>(3,640)</u>
Net (decrease) increase in cash	(19)	43
Cash, beginning of year	<u>307</u>	<u>264</u>
Cash, end of year	\$ <u>288</u>	\$ <u>307</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 21,887	29,598

See accompanying notes to financial statements.

# THE J. PAUL GETTY TRUST

## Notes to Financial Statements

June 30, 2008 and 2007

### (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. As of June 30, 2008 and 2007, unrestricted net assets totaled \$8,425,044,000 and \$8,878,208,000, respectively.
- *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. As of June 30, 2008 and 2007, temporarily restricted net assets totaled \$916,000 and \$677,000, respectively.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of the Trust's programs and operations unless otherwise stipulated by the donor. As of June 30, 2008 and 2007, permanently restricted net assets totaled \$550,000 and \$325,000, respectively.

#### (b) *Investments*

Investments in equity securities with readily determinable market values and all debt securities are stated at fair value at June 30, 2008 and 2007. Fair value is determined based on quoted market prices. To increase expected returns and provide further diversification to the investment portfolio, the Trust has been increasing its allocation to alternative investments where no readily determinable market value exists. A significant portion of the Trust's alternative investments is made up of limited partnerships, which include private equity, venture capital, hedge funds, distressed debt, and real assets. Limited partnerships invest in both publicly traded and private securities and are reported at estimated fair value. Unrealized gain or loss on investments is recorded in the statements of activities. Investment purchases and sales are recorded on a trade-date basis. Dividend income is

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## Notes to Financial Statements

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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 on investments in the accompanying statements of activities.

(c) ***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, equipment, and exhibits	4 to 25 years

The Trust reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of property, buildings, furniture, and equipment may not be recoverable. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No events occurred giving rise to any material impairment loss during the fiscal years ended June 30, 2008 and 2007.

(d) ***Collections and Other Assets***

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, 2008 and 2007, the Trust's collection totaled \$1,873,802,000 and \$1,789,637,000, 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 \$6,122,000 and \$6,219,000 at June 30, 2008 and 2007, 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. The Trust established an antiquities reserve of \$45,685,000 during the year ended June 30, 2005, increasing it to \$50,265,000 as of June 30, 2006 as a result of additional information provided to the Trust. The reserve decreased slightly as of June 30, 2007 due to the return of two items to the government of Greece. During the year ended June 30, 2008,

## THE J. PAUL GETTY TRUST

### Notes to Financial Statements

June 30, 2008 and 2007

thirty-nine items were returned to the government of Italy. One additional item remains on loan to the Trust until 2010. This reduced the reserve to \$6,037,000 as of June 30, 2008.

**(e) Grant Expenditures**

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

**(f) 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.

**(g) 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.

**(h) Fair Value of Financial Instruments**

The carrying value of the Trust's financial instruments, not otherwise disclosed herein, is comparable to the fair value due to the short-term nature of these financial instruments. Additionally, bonds payable also approximate fair value.

**(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 revenues 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 23701(d) 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.

**(k) Reclassifications**

Certain reclassifications have been made to the 2007 financial data to conform to the 2008 presentation. In addition, purchases and sales of collection items in 2007 have been reclassified in the statement of cash flows to investing activities to conform to the 2008 presentation.



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Notes to Financial Statements

June 30, 2008 and 2007

**(3) Investments**

At June 30, 2008 and 2007, the Trust's investments, at fair value, consist of the following:

	<b>2008</b>	<b>2007</b>
	(Amounts in thousands)	
Short-term investments	\$ 289,489	181,313
U.S. Treasury and agency securities	220,760	231,710
Corporate bonds	295,188	309,365
Alternative investments	3,711,139	3,423,121
Common stocks	725,407	1,055,660
Mutual funds	738,689	1,216,601
	<b>\$ 5,980,672</b>	<b>6,417,770</b>
Investments	\$ 5,738,151	6,100,045
Investments loaned under secured lending agreement	240,738	316,701
Investments whose use is limited	1,783	1,024
	<b>\$ 5,980,672</b>	<b>6,417,770</b>

***Investments Whose Use Is Limited***

Investments whose use is limited consist of unspent bond proceeds whose uses are limited by terms of their respective agreements. Also included are amounts that are temporarily restricted by donors as well as those restricted by donors for investment in perpetuity. As of June 30, 2008 and 2007, investments whose use is limited totaled \$1,783,000 and \$1,024,000, respectively.

**(4) Derivative Financial Instruments**

In the normal course of business, the Trust uses various financial instruments, including derivative financial instruments, in an effort to manage the Trust's exposure to certain risks.

The Trust primarily uses a combination of forward contracts and futures to manage price, currency, and interest rate exposures associated with specific activities. Under these instruments, the Trust agrees to the future delivery of a currency or security, on an agreed-upon date and at an agreed-upon price. These contracts are entered into with the intention to minimize the Trust's economic exposure to adverse fluctuations in financial or currency markets and to reduce interest rate risk.

The Trust also enters into derivative instruments as an alternative to ownership of the underlying asset. Specifically, forward contracts are used as an alternative to ownership.

All of the Trust's derivative instrument positions are marked to fair value as a component of investment income. These amounts are included in investments in U.S. Treasury and agency securities and alternative investments as presented in note 3.

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Notes to Financial Statements

June 30, 2008 and 2007

The notional units and fair values of forward contracts and futures as of June 30, 2008 and 2007 are as follows (amounts in thousands):

	2008		2007	
	Notional units	Fair value	Notional units	Fair value
Net forward contracts to sell	(219,993)	\$ 19,633	(326,982)	\$ (11,263)
Futures	174,150	2,026	876,450	(93)
		\$ 21,659		\$ (11,356)

The Trust's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the statements of financial position, arising either from potential changes in market prices or the possible inability of counterparties to meet the terms of their contracts. The Trust's investment advisors closely monitor the financial condition of the firms used for these contracts in order to minimize the risk of loss. Management believes the Trust's use of derivatives does not result in credit or market risk that would materially affect the Trust's financial position.

**(5) Securities Lending**

The Trust participates in securities lending transactions with a third-party investment company whereby the Trust lends investments in exchange for a premium. Under the terms of its securities lending agreement, the Trust requires collateral of a value at least equal to 102% of the then fair value of the loaned investments (105% for loaned securities not denominated in U.S. dollars). The Trust maintains effective control of the loaned investments during the term of the agreement, in that they may be redeemed by the Trust prior to the agreement's maturity. Upon the maturity of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The risks to the Trust of securities lending transactions are that the borrower may not provide additional collateral when required or may not return the investments when due. Investments loaned under securities lending transactions totaled \$240,738,000 and \$316,701,000 as of June 30, 2008 and 2007, respectively. Cash and noncash financial instruments received as collateral totaled \$216,735,000 and \$32,955,000 as of June 30, 2008, respectively, and \$317,292,000 and \$20,165,000 as of June 30, 2007, respectively. Amounts received as collateral are separately disclosed as a payable under securities lending agreement in the accompanying statements of financial position as of June 30, 2008 and 2007.

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Notes to Financial Statements

June 30, 2008 and 2007

**(6) Property and Equipment**

At June 30, 2008 and 2007, property and equipment consist of the following:

	<b>2008</b>	<b>2007</b>
	(Amounts in thousands)	
Land and improvements	\$ 82,662	78,545
Buildings	1,603,450	1,606,188
Leasehold improvements	825	825
Furniture and equipment	93,465	104,519
Work in progress	7,153	9,169
	1,787,555	1,799,246
Less accumulated depreciation and amortization	(431,904)	(397,771)
	<b>\$ 1,355,651</b>	<b>1,401,475</b>

**(7) Bonds Payable**

Outstanding bonds payable consists of the following issues:

**(a) 2003 Variable Rate Revenue Bonds**

On May 12, 2003, the Trust issued \$275,000,000 in variable rate revenue bonds issued by the California Infrastructure and Economic Development Bank, which mature on April 1, 2033. Proceeds were used to finance a portion of the Getty Villa renovation and the bond issuance costs. Interest rates are adjusted when the bonds are remarketed. During the remarketing period from February 2, 2005 until February 1, 2006, interest accrued at a rate of 2.25%. On February 2, 2006, the bonds were remarketed in two tranches. The first tranche of \$140,000,000 was remarketed at an interest rate of 3.17%, and was remarketed again on August 2, 2006 at an interest rate of 3.90% for a term through December 1, 2011. The second tranche of \$135,000,000 was remarketed at an interest rate of 3.25% and was again remarketed on February 2, 2007 with interest rates adjusted daily based on the rates available to investors in the tax-exempt municipal bond market, which was 1.45% and 3.82% at June 30, 2008 and 2007, respectively. The redemption period for the bonds begins April 1, 2012 and ends April 1, 2033. Accrued interest on the bonds as of June 30, 2008 and 2007 was \$1,477,000 and \$1,889,000, respectively.

**(b) 2003 Taxable Bonds and 2007A Bonds**

On October 1, 2003, the Trust issued \$250,000,000 Series 2003 Taxable Bonds. The bonds, maturing on October 1, 2033, were issued with a coupon interest rate of 5.875%, which is payable semiannually on April 1 and October 1. The proceeds are being used to finance or refinance capital projects of the Trust, including but not limited to the acquisition of objects of art. A portion of such proceeds was also used to retire the Trust's outstanding commercial paper liability. The bonds were issued with an original issue discount that totaled \$1,392,000 and is being amortized for 30 years over the 30-year life of the bonds.

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### Notes to Financial Statements

June 30, 2008 and 2007

On October 3, 2007, The Trust commenced a tender offer for the 2003 Taxable Bonds. The Series 2007A Bonds were issued by the California Infrastructure and Economic Development Bank at par value of \$270,475,000 and mature on October 1, 2047. The funds were used to repurchase the 2003 Taxable Bonds tendered by the owners, and to contribute any funds required to complete the legal defeasance of such 2003 Taxable Bonds not tendered. An amount at June 30, 2008 of \$695,000, consisting of U.S. government securities, is held in trust solely for satisfying the interest and principal payments of these untendered bonds. The amount held in trust and the related bonds has been removed from the accompanying financial statements. Up until they were remarketed at a fixed interest rate in March 2008, the Series 2007A Bonds bear interest based on generally successive seven-day Auction Period Rates. The remaining unamortized discount related to the Series 2003 Taxable Bonds of \$1,210,000 was recorded to interest expense. In addition, the extinguishment of debt resulted in a loss of \$17,318,000.

In March 2008, the Series 2007A Bonds were remarketed at a fixed interest rate of 1.70%, with a mandatory tender on April 1, 2009. Accrued interest on the bonds as of June 30, 2008 was \$1,219,000.

(c) **2004A and 2004B Variable Rate Revenue Bonds**

On September 1, 2004, the Trust issued \$96,000,000 in variable rate revenue bonds. The bonds mature on October 1, 2023. Proceeds were used to refund \$95,645,000 of the outstanding principal amount of the Trust's 1994 Revenue Bonds. The bonds were remarketed in two tranches on February 2, 2006. The first tranche of \$46,255,000 was remarketed at an interest rate of 3.17% and was again remarketed on August 2, 2006 at an interest rate of 4.00% for a term through December 1, 2011. The second tranche of \$46,250,000 was remarketed at an interest rate of 3.25% and was again remarketed on February 2, 2007 with interest rates adjusted daily based on the rates available to investors in the tax-exempt municipal bond market, which was 1.45% and 3.81% at June 30, 2008 and 2007, respectively. The Trust remitted a principal pay-down of \$3,780,000, resulting in an outstanding balance of \$85,080,000 as of June 30, 2008. Accrued interest on the bonds as of June 30, 2008 and 2007 was \$1,032,000 and \$602,000, respectively.

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

	<b>Principal amount</b>
Year ending June 30:	
2009	\$ 274,400
2010	4,075
2011	4,235
2012	8,730
2013	9,090
Thereafter	330,025
	<u>\$ 630,555</u>

## THE J. PAUL GETTY TRUST

### Notes to Financial Statements

June 30, 2008 and 2007

#### (8) Interest Rate Swap Agreements

In conjunction with the issuance of variable rate bonds, the Trust entered into interest rate swap agreements with two counterparties. The swap agreements for each variable rate bond are as follows:

##### (a) 2003 Variable Rate Revenue Bonds Swap Agreement

In connection with the issuance of \$275,000,000 in variable rate revenue bonds (Series 2003A-D) discussed in note 7(a), the Trust entered into interest rate swap agreements with two counterparties in May 2003, which became effective May 13, 2004 and will terminate April 1, 2033. The swap agreements for each counterparty are against a notional amount of \$137,500,000, for a total notional amount of \$275,000,000. The Trust receives payments from the counterparties based on 70.00% of one-month LIBOR and pays the swap counterparties 3.67% in return.

In connection with the remarketing of the 2003 variable rate revenue bonds on February 2, 2006, the Trust entered into additional interest rate swap transactions with the two original counterparties involved in the initial swap transaction. The notional amount of the swap agreements totaled \$275,000,000. Under these additional interest rate swaps, the Trust received payments calculated by reference to a fixed interest rate of 3.305% and made payments calculated by reference to the weekly BMA Municipal Swap Index. These agreements terminated in two tranches. The notional amount of \$140,000,000 terminated on August 1, 2006, while the notional amount of \$135,000,000 terminated on February 1, 2007. On August 2, 2006, in connection with the remarketing of the 2003 variable rate revenue bonds, swap agreements were entered into with the two original counterparties for a total notional amount of \$140,000,000. The Trust receives payments of 3.779% and makes payments calculated by reference to the weekly BMA Municipal Swap Index. These agreements expire on December 1, 2011.

During the years ended June 30, 2008 and 2007, the valuation of the swap agreements resulted in a net unrealized loss of \$16,327,000 and a net unrealized gain of \$108,000, respectively.

##### (b) 2003 Taxable Bonds Swap Agreement

In October 2004, the Trust entered into a fixed-to-floating swap agreement with two counterparties in conjunction with the \$250,000,000 taxable bond transaction that the Trust had completed in October 2003 (Series 2003) discussed in note 7(b). The Trust receives a fixed rate payment of 5.325% on the notional amount of \$250,000,000, through the planned termination date of October 1, 2033, and makes a fixed payment of 3.931% until October 1, 2013, at which time the Trust will pay a variable rate based on one-month LIBOR. The counterparties have an option to terminate the swap agreement on October 1, 2013, and semiannually thereafter.

In October 2007, in connection with the tender offer for the 2003 Taxable Bonds, the swap agreements with the two counterparties were terminated. A termination payment of \$3,280,000 was made by the Trust resulting in a gain of \$3,536,000. In addition, in October 2007, in connection with the issuance of Series 2007A Bonds, swap agreements were entered into with two counterparties. The notional amount of the swap agreements totaled \$270,475,000. The Trust receives payments based on 62.500% of one-month LIBOR and makes payments at a fixed interest rate of 3.384%.

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June 30, 2008 and 2007

During the year ended June 30, 2008, the valuation of the swap agreements resulted in a net unrealized loss of \$14,561,000.

**(c) 2004 Variable Rate Revenue Bonds Swap Agreement**

In connection with the issuance of \$96,000,000 in variable rate revenue bonds (Series 2004A-B) discussed in note 7(c), the Trust entered into interest rate swap agreements with two counterparties in October 2004. The notional amounts of the swaps for the years ended June 30, 2008 and 2007 are \$82,915,000 and \$86,310,000, respectively. The Trust receives payments from the counterparties based on 67.00% of one-month LIBOR less 0.20% and pays the swap counterparties 3.75% in return. During the years ended June 30, 2008 and 2007, the valuation of these agreements resulted in a net unrealized loss of \$4,127,000 and \$241,000, respectively.

In connection with the remarketing of the 2004 variable rate revenue bonds on February 2, 2006, the Trust entered into additional interest rate swap transactions with the two original counterparties involved in the initial swap transaction. The notional amount of the swap agreements totaled \$89,560,000. Under these additional interest rate swaps, the Trust received payments calculated by reference to a fixed interest rate of 3.305% and made payments calculated by reference to the weekly BMA Municipal Swap Index. These agreements terminated in two tranches of \$44,780,000, the first terminating on August 1, 2006, and the second on February 1, 2007.

On August 2, 2006, in connection with the remarketing of the 2004 variable rate revenue bonds, swap agreements with a total notional amount of \$44,780,000 were entered into with the same two counterparties, expiring on December 1, 2011. The notional balances of the swaps for the years ended June 30, 2008 and 2007 are \$41,455,000 and \$43,155,000, respectively. The Trust receives payments of 3.769% and makes payments calculated by reference to the weekly BMA Municipal Swap Index. During the year ended June 30, 2008 and 2007, the valuation of these swap agreements resulted in a net unrealized gain of \$1,120,000 and \$223,000, respectively.

**(9) Retirement Plans and Postretirement Medical Benefits**

The Trust has a defined benefit retirement plan covering substantially all of its employees. The benefits are based on years of service and the employee's highest consecutive five years of compensation during the last ten years of employment. In addition, the Trust provides supplemental retirement defined benefits for certain former executives as outlined in their respective employment contracts.

The Trust also provides postretirement health care benefits to eligible employees. The cost of providing these benefits is substantially borne by the Trust. During the year ended June 30, 2008, the Trust modified this plan. All employees who have attained age 50 with at least five years of service as of January 1, 2009, are eligible for the existing retiree medical benefits currently provided to retirees. All other active employees will be entitled to a \$100 monthly contribution upon retirement towards a group healthcare plan upon reaching age 55, with 10 years of service. No change was made to the medical benefits received by current retirees.

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Notes to Financial Statements

June 30, 2008 and 2007

**(a) Funded Status**

The following table sets forth the plans' benefit obligations, fair value of plan assets, and funded status as of June 30, 2008 and 2007:

	<b>Defined benefit plans</b>		<b>Postretirement medical</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	(Amounts in thousands)			
Benefit obligation	\$ (113,777)	(115,603)	(69,196)	(105,067)
Fair value of plan assets	96,749	98,633	—	—
Funded status	<u>(17,028)</u>	<u>(16,970)</u>	<u>(69,196)</u>	<u>(105,067)</u>
Accrued benefit cost recognized in the statement of financial position	\$ <u>(17,028)</u>	<u>(16,970)</u>	<u>(69,196)</u>	<u>(105,067)</u>

The accumulated benefit obligation for the pension plans was \$87,837,000 and \$87,788,000 as of June 30, 2008 and 2007, respectively.

**(b) Assumptions**

The weighted average assumptions used to determine the net pension cost and pension obligations at June 30, 2008 and 2007 are as follows:

	<b>Defined benefit plans</b>	
	<b>2008</b>	<b>2007</b>
	(Amounts in thousands)	
Discount rate used to determine:		
Net periodic pension cost	6.40%	6.40%
Benefit obligations	7.15	6.40
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00
Measurement date	June 30, 2008	June 30, 2007

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

	<b>Postretirement medical</b>	
	<b>2008</b>	<b>2007</b>
Healthcare cost trend assumed for the next year	9.50%	9.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00	5.00
Year that the rate reaches the ultimate trend rate	2016	2016
Discount rate	7.15%	6.40%
Measurement date	June 30, 2008	June 30, 2007

(c) **Pension Plan Investments**

The asset allocations for the pension plans as of June 30, 2008 and 2007 are as follows:

	<b>Defined benefit plans</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Actual</b>	<b>Target</b>	<b>Actual</b>	<b>Target</b>
Asset allocations:				
Equity securities	75.00%	75.00%	81.00%	75.00%
Debt securities	16.00	25.00	19.00	25.00
All others	9.00	—	—	—
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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 Retirement Plan Committee. The asset allocation targets are reviewed periodically by the Retirement Plan Committee to ensure that the targets are consistent with the plan policy and strategic objectives. 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 EAFE index. Fixed-income assets are invested in an intermediate bond fund account that is actively managed by PIMCO and is benchmarked against the Lehman Aggregate index.

The plans have an expected long-term rate of return assumption of 8%. This assumption reflects the asset allocation targets and both the historical and projected long-term return assumptions for each asset class in the portfolio.



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June 30, 2008 and 2007

**(d) Benefit Payments and Contributions**

	<u>Defined benefit plans</u>		<u>Postretirement medical</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(Amounts in thousands)			
Employer contributions	\$ 6,967	6,970	478	579
Benefits paid	(3,039)	(2,863)	(478)	(579)

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

	<u>Defined benefit plans</u>	<u>Postretirement medical</u>
	(Amounts in thousands)	
Fiscal year ending June 30:		
2009	\$ 4,030	1,516
2010	4,347	1,869
2011	4,742	2,272
2012	5,259	2,747
2013	5,871	3,329
2014-2018	<u>39,837</u>	<u>28,082</u>
	\$ <u>64,086</u>	<u>39,815</u>

Expected contributions to be made to the defined benefit plan and the supplemental retirement plan during the fiscal year ending June 30, 2009 total \$6,967,000. Expected contributions to be made toward supplemental healthcare benefits during the fiscal year ending June 30, 2009 total \$1,516,000.

**(e) Defined Benefit Plan Amendment**

Employees hired on or after January 1, 2009 will participate in a revised retirement program in which the Trust will contribute 6% of the employee's base salary up to the Social Security Taxable Wage Base, and 10% of an employee's salary above this level. The trust employees hired prior to January 1, 2009 will continue to participate in the existing defined benefit retirement plan.

**(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. 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, following six months of employment. 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. The Trust contributed \$1,194,000 and \$1,993,000 to this plan in 2008 and 2007, respectively.

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### Notes to Financial Statements

June 30, 2008 and 2007

#### (10) Lines of Credit

The Trust has two revolving unsecured lines of credit for \$5,000,000 with Bank of America. Both expire on June 1, 2010. The first line of credit facilitates the issuance of commercial and standby letters of credit with maximum maturities of 180 and 365 days, respectively. Amounts used for financing commercial and standby letters of credit may extend 180 and 365 days, respectively, beyond the line of credit's expiration date. In addition, standby letters of credit may include a provision providing for automatic annual extensions of its maturity date. The second line of credit provides for cash advances. Both bear interest at the bank's prime rate minus 1.0%. The Trust also has the option to elect LIBOR plus 0.50% during interest periods agreed to by the bank and the Trust. There were no amounts outstanding at June 30, 2008 or 2007 under these agreements.

In addition, in January 2003, the Trust entered into an irrevocable letter of credit agreement with a bank for \$1,000,000, which increased to \$2,000,000 in August 2005. The agreement designates the Los Angeles City Department of Transportation as the beneficiary related to required transportation improvements near the Getty Villa. The letter of credit is automatically renewed annually each January unless the bank notifies the Trust of its intent to not to renew the letter 30 days prior to its expiration.

#### (11) Commitments and Contingencies

##### (a) *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.

##### (b) *Other Commitments*

The Trust has investments in private equity partnerships. The future commitments to fund these partnerships totaled approximately \$1,338,042,000 and \$1,018,221,000 as of June 30, 2008 and 2007, respectively.

#### (12) Subsequent Events

Since June 30, 2008, major U.S. and foreign stock indices, including the DJ Wilshire 5000, the S&P 500, and the MSCI International Indices, have experienced significant declines. Management is monitoring the investment market conditions and the impact such declines are having on the Trust's investment portfolio. Because of the volatility of the U.S. and world financial markets as of the date of this report, there is uncertainty regarding the impact the current declines will have on the Trust's investment portfolio. While the Trust's investment portfolio is well diversified, it too has experienced meaningful declines in value since the end of the fiscal year.