THE J. PAUL GETTY TRUST

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

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 (the Trust) (a tax-exempt, private operating foundation), which comprise the statements of financial position as of June 30, 2013 and 2012, 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, 2013 and 2012, 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

November 12, 2013

THE J. PAUL GETTY TRUST

Statements of Financial Position

June 30, 2013 and 2012

(Amounts in thousands)

Assets		**2013**	**2012**
Cash	$	275	5,517
Receivables:			
Investments		198,919	121,726
Interest and dividends		1,805	53,298
Other		1,472	814
Investments		5,894,798	5,329,520
Investments whose use is limited		5,221	4,219
Property and equipment, net		1,140,894	1,180,027
Collections and other assets		2,096,179	2,073,504
	$	9,339,563	8,768,625
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	11,251	10,230
Payables on investment purchases		234,743	192,072
Accrued pension and other postretirement plans liabilities		137,875	191,148
Accrued and other liabilities		22,175	17,051
Interest rate swaps		120,495	194,526
Bonds payable		623,417	629,278
		1,149,956	1,234,305
Net assets:			
Unrestricted		8,184,517	7,530,276
Temporarily restricted		3,639	2,828
Permanently restricted		1,451	1,216
		8,189,607	7,534,320
	$	9,339,563	8,768,625

See accompanying notes to financial statements.

THE J. PAUL GETTY TRUST

Statements of Activities

Years ended June 30, 2013 and 2012

(Amounts in thousands)

		2013	2012
Change in unrestricted net assets:			
Revenues and other support:			
Sales and other income	$	29,544	26,046
Contributions		7,039	21,277
Investment income:			
Interest and dividend income, net		69,421	45,528
Net realized and unrealized gain (loss) on investments		697,316	(17,448)
Net investment income		766,737	28,080
Net realized and unrealized gain (loss) on interest rate swap agreements		74,030	(117,004)
Net assets released from restriction		1,118	2,848
Total revenues, other support, investment income (loss)		878,468	(38,753)
Expenses:			
Program Services:			
Museum		153,586	159,896
Research Institute		51,689	49,284
Conservation Institute		31,619	28,715
Foundation and Grants		29,117	31,396
Total program services		266,011	269,291
Supporting services:			
General and administrative		11,489	10,181
Total expenses		277,500	279,472
Pension and other postretirement plans gain (loss)		53,273	(60,831)
Change in unrestricted net assets		654,241	(379,056)
Change in temporarily restricted net assets:			
Contributions		1,929	1,291
Net assets released from restriction		(1,118)	(2,848)
Change in temporarily restricted net assets		811	(1,557)
Change in permanently restricted net assets:			
Contributions		235	246
Change in net assets		655,287	(380,367)
Net assets, beginning of year		7,534,320	7,914,687
Net assets, end of year	$	8,189,607	7,534,320

See accompanying notes to financial statements.

THE J. PAUL GETTY TRUST

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Amounts in thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	655,287	(380,367)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		46,866	46,570
Amortization of bond premium		(1,691)	(597)
Net realized and unrealized (gain) loss on investments		(697,316)	17,448
Net realized and unrealized (gain) loss on interest rate swap agreements		(74,030)	104,213
Noncash contributions of art		(3,523)	(18,528)
Loss on disposition of property and equipment		58	232
Loss on disposition of collection items		—	45
Pension-related changes		(53,273)	60,831
Contributions restricted for long-term investment		(235)	(246)
Changes in operating assets and liabilities			
Interest and dividends receivable		51,493	(49,640)
Other receivables		(658)	5,508
Other assets		1,157	(161)
Accounts payable		1,021	(2,084)
Accrued and other liabilities		5,123	(2,420)
Net cash used in operating activities		(69,721)	(219,196)
Cash flow from investing activities:			
Proceeds from sales of investments		7,991,507	7,096,872
Purchases of investments		(7,894,993)	(6,814,387)
Purchases of collection items		(20,308)	(52,992)
Proceeds from the sale of collection items		—	53
Purchases of property and equipment		(7,792)	(17,655)
Proceeds from sale of property and equipment		—	6
Net cash provided by investing activities		68,414	211,897
Cash flows from financing activities:			
Proceeds from issuance of bonds		162,955	536,049
Payments on bonds payable		(167,125)	(524,494)
Contributions restricted for long-term investment		235	246
Net cash (used in) provided by financing activities		(3,935)	11,801
Net (decrease) increase in cash		(5,242)	4,502
Cash, beginning of year		5,517	1,015
Cash, end of year	$	275	5,517
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	24,028	23,076

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 Measurements*, 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.

For 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. 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, 2013 and 2012. 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 net asset values for the alternative investments necessarily involve 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. 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 $46,866,000 and $46,570,000 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, there were no events or circumstances that gave rise to an impairment loss.

(e) 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, 2013 and 2012, the Trust's collection totaled $2,082,788,000 and $2,058,956,000, 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 $4,697,000 and $5,143,000 at June 30, 2013 and 2012, 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, 2013 and 2012, the Trust's reserve totaled $4,961,000 and $3,976,000, respectively.

(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

(Continued)

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 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 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.

The Trust follows the provisions of FASB ASC Topic 740, *Income Taxes*, related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position would more likely than not be sustained upon examination, including resolution of any related appeals or litigation processes, based on technical merits of the position. The Trust has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain tax positions that would require tax assets or liabilities to be accrued or disclosed.

(k) New Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, an amendment to the Accounting Standards Codification (ASC) 820: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRS. This update clarified the application of existing fair value measurement requirements and changed certain requirements relating to fair value disclosures for certain entities for assets, which are categorized within Level III of the fair value hierarchy. The Trust adopted this guidance for the year ended June 30, 2013. This adoption resulted in additional disclosure, which did not have a significant impact on the Trust's financial statements.

(l) Reclassifications

Certain reclassifications have been made to the 2012 financial data to conform to the 2013 presentation.

(3) Investments

The fair value of each asset and liability in the table below was measured using FASB ASC 820 input guidance and valuation techniques. The following table sets forth estimated fair values of assets and liabilities measured and recorded on a recurring basis at June 30, 2013 and 2012 (in thousands):

	June 30, 2013			
	Level I	Level II	Level III	Total
	(Amounts in thousands)			
Assets:				
Cash and cash equivalents	$ 86,639	187,264	—	273,903
U.S. Treasury and agency securities	—	174,199	—	174,199
Corporate bonds	—	142,877	636	143,513
Alternative investments:				
Venture capital	—	—	325,602	325,602
Buyout funds	—	—	636,652	636,652
Hedge funds:				
Equity long short	—	—	415,659	415,659
Relative value	—	—	661,214	661,214
Distressed debt	—	—	484,300	484,300
Fixed income	—	—	142,472	142,472
Real assets	—	—	1,000,480	1,000,480
Common stocks	224,006	3,485	1,968	229,459
Commingled funds:				
Domestic equity	—	175,327	490,226	665,553
International equity	—	366,982	380,031	747,013
Total assets	$ 310,645	1,050,134	4,539,240	5,900,019

		June 30, 2012			
		Level I	**Level II**	**Level III**	**Total**
			(Amounts in thousands)		
Assets:					
Cash and cash equivalents	$	47,399	225,786	—	273,185
U.S. Treasury and agency securities		—	215,066	—	215,066
Corporate bonds		—	133,030	1,902	134,932
Alternative investments:					
Venture capital		—	—	321,936	321,936
Buyout funds		—	—	610,414	610,414
Hedge funds:					
Equity long short		—	—	284,852	284,852
Relative value		—	—	555,079	555,079
Distressed debt		—	—	516,458	516,458
Fixed income		—	—	69,726	69,726
Real assets		—	—	893,267	893,267
Common stocks		266,327	1,408	2,118	269,853
Commingled funds:					
Domestic equity		1,009	213,241	398,771	613,021
International equity		—	399,028	176,922	575,950
Total assets	$	314,735	1,187,559	3,831,445	5,333,739

At June 30, 2013 and 2012, approximately 41% and 44%, respectively, of total fund assets 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 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 2013 and 2012, respectively, the Trust funded $358 million and $333 million of new investments and received $546 million and $526 million of distributions from these private-market limited partnerships. New commitments and distributions are dependent on market conditions and timing is unpredictable.

As of June 30, 2013 and 2012, the Trust had $976 million and $884 million, respectively, of unfunded commitments to these limited partnerships. As of June 30, 2013, the $976 million of unfunded commitments included $302 million to venture capital and buyout funds, $440 million to real assets, $127 million to distressed debt and $107 million to commingled and other categories.

The balance of the alternative investments 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 2 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 $3.1 billion of total investments can be converted to cash within one year or less.

There were no transfers between Level I and Level II of the fair value hierarchy for the years ended June 30, 2013 and 2012.

The following table is a reconciliation of the change in investments for which Level III inputs were used to determine fair value as of June 30, 2013:

(Amounts in thousands)		Venture capital, buyout funds, distressed debt and real assets	Hedge funds, commingled fixed income funds and commingled equity funds	Common stock and corporate bonds	Total
Balance as of July 1, 2012	$	2,342,076	1,485,349	4,020	3,831,445
Change in Unrealized Gain (Loss)		69,357	146,044	229	215,630
Realized Gain (Loss)		150,380	104,136	439	254,955
Purchases		804,422	1,290,292	105	2,094,819
Sales		(919,200)	(936,220)	(2,189)	(1,857,609)
Balance as of June 30, 2013	$	2,447,035	2,089,601	2,604	4,539,240

The following table is a reconciliation of the change in investments for which Level III inputs were used to determine fair value as of June 30, 2012:

		June 30, 2012 (Amounts in thousands)
Beginning balance, July 1	$	3,879,460
Net sales		(148,278)
Total realized and unrealized gains, net		101,022
Transfers out		(759)
Ending balance, June 30	$	3,831,445

Total gains and losses of $164,505,000 and ($25,720,000), net for the years ended June 30, 2013 and 2012, respectively, were included in income attributable to the change in unrealized gains and losses related to assets and liabilities held at June 30, 2013 and 2012.

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, 2013 and 2012, investments whose use is limited totaled $5,221,000 and $4,219,000, 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 positions are marked to fair value as a component of investment income in the accompanying statement of activities. These amounts are included in investments in U.S. Treasury and agency securities presented in note 3.

The notional units and fair values of forward contracts and futures as of June 30, 2013 and 2012 are as follows (amounts in thousands):

	2013		2012	
	Notional units	**Fair value**	**Notional units**	**Fair value**
Net forward contracts to sell (purchase)	(27,286)	$ (264)	(11,908)	$ 46
Futures	78,700	(388)	52,350	(67)
		$ (652)		$ (21)

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 from either potential changes in market prices or the possible inability of counterparties to meet the terms of their contracts. The Trust's investment advisors and management 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. In accordance with ASC Topic 820, the derivative instruments are classified as Level II in the fair value hierarchy. The fair value of the derivative financial instruments is determined based on a combination of quoted prices of similar securities, as they are not actively traded.

(5) Property and Equipment

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

		2013	2012
		(Amounts in thousands)	
Buildings	$	1,607,685	1,603,959
Leasehold improvements		10,673	—
Land and improvements		73,506	72,145
Furniture and equipment		71,557	67,595
Work in progress		8,338	20,407
		1,771,759	1,764,106
Less accumulated depreciation and amortization		(630,865)	(584,079)
	$	1,140,894	1,180,027

(6) Bonds Payable

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

Series	Maturity dates		Principal 2013	Principal 2012
2007A Refunding Revenue Bonds	10/1/2047	$	—	162,275
2011A Variable Rate Refunding Revenue Bonds	4/1/2038		276,800	276,800
2012A Refunding Revenue Bonds	Various		64,080	68,930
2012B Variable Rate Refunding Revenue Bonds	10/1/2047		108,940	108,940
2013A Variable Rate Refunding Revenue Bonds	10/1/2047		162,955	—
		$	612,775	616,945

The above principal amount does not include the bond premium of $10,642,000 and $12,333,000, for the years ended June 2013 and 2012, 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 are considered Level II in the fair value hierarchy. The fair value of the bonds is determined based on a combination of quoted prices of similar securities, as they are not actively traded.

(a) 2011A Variable Rate Refunding Revenue Bonds

On December 1, 2011, the Trust issued $276,800,000 in Series 2011A variable rate refunding revenue bonds (Series 2011A) issued by the California Infrastructure and Economic Development Bank, which mature on April 1, 2038. Proceeds were used to refund the Series 2003 bonds and to pay costs of issuance. The bonds were issued with an Initial Tender Date of April 1, 2014 and a Secondary Tender Date of April 1, 2015. Interest rates from issuance to the Initial Tender Date are based on weekly SIFMA index rates plus a SIFMA Index Tender spread of 0.50%. At June 30, 2013, the SIFMA rate was 0.06% and the SIFMA Index Tender Interest Rate was 0.56%.

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, 2013 was $123,000.

(b) 2007A Bonds, 2012B and 2013A Variable Rate Refunding Revenue Bonds

On October 3, 2007, the Trust issued $270,475,000 Series 2007A Bonds (Series 2007A) issued by the California Infrastructure and Economic Development Bank that mature on October 1, 2047. The funds were used to repurchase bonds previously issued for the finance or refinance of capital projects of the Trust, including, but not limited to the acquisition of objects of art, tendered by the owners and to contribute any funds required to complete the legal defeasance of such 2003 Taxable Bonds not tendered. An amount of $639,000 and $659,000 at June 30, 2013 and 2012, respectively, 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 have been removed from the accompanying financial statements.

In March 2009, the Series 2007A bonds were remarketed in four tranches with put dates from April 1, 2010 through April 1, 2013 with fixed interest rates ranging from 0.50% to 2.50%. On April 1, 2010, $81,125,000 were remarketed to convert to daily interest rate mode, which was 0.12% at June 30, 2012. On April 1, 2011, $54,100,000 were remarketed to convert to daily interest rate mode. 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 certain Series 2007A 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%. During June 2013, the SIFMA rate averaged 0.08% and the SIFMA-Based Interest Rate was 0.38%. The redemption period for the 2012B bonds begins October 1, 2043 and ends October 1, 2047.

Accrued interest on the bonds as of June 30, 2013 and 2012 was $120,000 and $655,000, respectively.

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 certain Series 2007A 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%. During June 2013, the SIFMA rate averaged 0.08% and the SIFMA-Based Interest Rate was 0.36%. The redemption period for the 2013A bonds begins October 1, 2043 and ends October 1, 2047.

Accrued interest on the bonds as of June 30, 2013 was $171,000.

(c) 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, 2013, the remaining unamortized bond premium was $10,642,000 and is included as a component of bonds payable in the accompanying financial statements. Amortization of the bond premium totaled $1,691,000 for the year ended June 30, 2013.

The Series 2012A-2 taxable bonds were issued in three tranches with maturities beginning October 1, 2012 and ending October 1, 2014. Interest rates for each are fixed, and range from 0.190% to 0.644%. 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 3.00% to 5.00%.

Accrued interest on the bonds as of June 30, 2013 and 2012 was $636,000 and $638,000, 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:		
2014	$	4,890
2015		4,980
2016		5,150
2017		5,380
2018		5,525
Thereafter		586,850
	$	612,775

(7) Interest Rate Swap Agreements

In conjunction with the issuance of variable rate bonds, as discussed in note 6 above, the Trust has entered into interest rate swap agreements with the following two counterparties: Morgan Stanley and JPMorgan Chase Bank. The swap agreements hedge the Trust's floating rate exposure through the exchange of floating rates for fixed rates. The fixed rates paid by the Trust range from 3.4265% to 3.7440%. 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. On February 22, 2012, in conjunction with the issuance of taxable fixed rate bond Series 2012A-2, the agreements related to the refunded Series 2004 bonds were terminated with cash payments to the two counterparties reflecting the current valuations, including accrued interest totaling $866,000.

In accordance with ASC Topic 820, the interest rate swaps liabilities are reported at fair value totaling ($120,495,000) and ($194,526,000) as of June 30, 2013 and 2012, respectively, and are classified as Level II in the fair value hierarchy.

In addition, in connection with certain bonds that were remarketed in short-term fixed put mode as described in note 6 above, the Trust entered into swap agreements that convert the short-term fixed rate on the bonds to a floating rate. These swaps matched the corresponding put bonds in size and maturity. On December 1, 2011, these fixed to floating agreements reached their scheduled Termination Date and were not replaced or extended. Net realized and unrealized loss or gain on interest rate swap agreements are included in the accompanying statement of activities amounting to $74,030,000 and ($117,004,000) for the years ended June 30, 2013 and 2012, respectively.

On June 27, 2012, the swaps for which Morgan Stanley was the counterparty were novated to Bank of New York Mellon. The terms of the swap agreements were not changed.

(8) 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 5 years of compensation during the last 10 years of employment. 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 revised retirement program 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 above this level. The Trust employees hired prior to January 1, 2009 continue to participate in the existing defined-benefit retirement plan. The Trust offered vested terminated participants of the defined-benefit retirement plan a one-time opportunity to receive a lump-sum payout of their retirement benefits. This offer was available from October 15 to November 30, 2012. Participants had the option to receive an immediate lump sum or continue to wait to receive an annuity at a future retirement date. Out of the 934 eligible participants, 299 elected the lump-sum payments totaling $10,450,000 and 13 selected new life annuities.

The Trust also provides postretirement healthcare benefits to eligible employees. The cost of providing these benefits is substantially borne by the Trust. Employees hired on or after January 1, 2009 participate in a revised plan that provides a $100 monthly contribution upon retirement towards a group healthcare plan upon reaching age 55, with 10 years of service.

(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, 2013 and 2012:

		Defined-benefit plans		Postretirement medical	
		2013	**2012**	**2013**	**2012**
		(Amounts in thousands)			
Projected benefit obligation	$	(211,788)	(228,162)	(57,888)	(84,340)
Fair value of plan assets		131,801	121,354	—	—
Net benefit obligation	$	(79,987)	(106,808)	(57,888)	(84,340)

The net periodic pension costs in the amount of $15,270,000 and $8,595,000 for the years ended June 30, 2013 and 2012, respectively, are included as a component of pension and other postretirement plans in the accompanying statements of activities. The accumulated benefit obligation (a measure of a pension plan's liability in the event of a termination at the date the calculation is performed) for the pension plans was $189,498,000 and $203,804,000 as of June 30, 2013 and 2012, respectively.

The accumulated postretirement benefit obligation is impacted by increases and decreases in expected retiree health claims. The current obligation was determined assuming significantly lower expected claims than were estimated in the prior year.

(b) Assumptions

The weighted average assumptions used to determine the net pension cost and pension obligations at June 30, 2013 and 2012 are as follows:

	Defined-benefit plans	
	2013	**2012**
Discount rate used to determine:		
Net periodic pension cost	4.15%	5.60%
Benefit obligations	4.70	4.15
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	3.50	3.50
Measurement date	June 30, 2013	June 30, 2012

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

	Postretirement medical	
	2013	2012
Healthcare cost trend assumed for the next year	7.30%	7.40%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.80	4.70
Year that the rate reaches the ultimate trend rate	2049	2045
Discount rate	4.65%	4.05%
Measurement date	June 30, 2013	June 30, 2012

(c) *Pension Plan Investments*

The asset allocations for the pension plans as of June 30, 2013 and 2012 are as follows:

	Defined-benefit plans			
	2013		2012	
	Actual	Target	Actual	Target
Asset allocations:				
Equity securities	63.00%	64.00%	62.00%	64.00%
Debt securities	21.00	20.00	22.00	20.00
Hedge funds	16.00	16.00	16.00	16.00
	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 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.

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.

(d) Fair Value of Pension Plan Investments

The following tables present pension plan investments that are measured at fair value at June 30, 2013 and 2012:

	June 30, 2013				
		Level I	Level II	Level III	Total
		(Amounts in thousands)			
Cash and cash equivalents	$	2,857	—	—	2,857
Mutual funds:					
Domestic equity		—	49,494	—	49,494
International equity		—	34,173	—	34,173
Debt securities		—	24,401	—	24,401
Hedge funds		—	—	20,876	20,876
Total	$	2,857	108,068	20,876	131,801

	June 30, 2012				
		Level I	Level II	Level III	Total
		(Amounts in thousands)			
Cash and cash equivalents	$	2,639	—	—	2,639
Mutual funds:					
Domestic equity		—	43,578	—	43,578
International equity		—	31,814	—	31,814
Debt securities		—	24,111	—	24,111
Hedge funds		—	—	19,212	19,212
Total	$	2,639	99,503	19,212	121,354

The following table is a reconciliation of the change in retirement investments for which Level III inputs were used to determine fair value as of June 30, 2013:

	June 30		
		2013	2012
		(Amounts in thousands)	
Beginning balance, July 1	$	19,212	15,513
Net purchases		—	4,000
Total realized and unrealized loss (gain), net		1,664	(301)
Ending balance, June 30	$	20,876	19,212

(e) Benefit Payments and Contributions

		Defined-benefit plans		Postretirement medical	
		2013	**2012**	**2013**	**2012**
			(Amounts in thousands)		
Employer contributions	$	11,467	8,504	1,194	496
Benefits paid		(16,186)	(5,140)	(1,194)	(496)

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:			
2014	$	6,695	1,452
2015		7,148	1,738
2016		7,707	2,022
2017		8,317	2,288
2018		9,013	2,618
2019 – 2023		55,674	16,816
	$	94,554	26,934

Expected contributions to be made to the defined-benefit plan and the supplemental retirement plan during the fiscal year ending June 30, 2014, total $11,464,000. Expected contributions to be made toward supplemental healthcare benefits during the fiscal year ending June 30, 2014, total $1,452,000.

(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. 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. Contributions to the 401(a) plan totaled $2,518,000 and $2,431,000 in 2013 and 2012, 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. Contributions to the plan totaled $303,000 and $175,000 in 2013 and 2012, respectively.

(9) Endowment

The Trust's endowment consists of three 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, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(Amounts in thousands)		
Donor-restricted endowments	$	—	590	1,451	2,041
Board-designated endowments		5,864,824	—	—	5,864,824
Total	$	5,864,824	590	1,451	5,866,865

Changes in endowment net assets for the fiscal year ended June 30, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(Amounts in thousands)		
Endowment net assets, beginning of the year	$	5,320,992	356	1,216	5,322,564
Investment return:					
Investment income		69,421	—	—	69,421
Net appreciation		697,316	234	—	697,550
Total investment return		766,737	234	—	766,971
Contributions		—	—	235	235
Appropriation of endowment assets for expenditure		(222,905)	—	—	(222,905)
Endowment net assets, end of the year	$	5,864,824	590	1,451	5,866,865

(Continued)

Endowment net asset composition by type of fund as of June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
		(Amounts in thousands)			
Donor-restricted endowments	$	—	356	1,216	1,572
Board-designated endowments		5,320,992	—	—	5,320,992
Total	$	5,320,992	356	1,216	5,322,564

Changes in endowment net assets for the fiscal year ended June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
		(Amounts in thousands)			
Endowment net assets, beginning of the year	$	5,567,029	325	970	5,568,324
Investment return:					
Investment income		45,528	—	—	45,528
Net appreciation (depreciation)		(17,448)	31	—	(17,417)
Total investment return		28,080	31	—	28,111
Contributions		—	—	246	246
Appropriation of endowment assets for expenditure		(274,117)	—	—	(274,117)
Endowment net assets, end of the year	$	5,320,992	356	1,216	5,322,564

(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 8%, which is consistent with the risk levels established by the Board of Trustees. This is consistent with the Trust’s objective to maintain purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

(b) Investment Strategy

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

1. Preservation of Capital: to seek to minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market

2. Maintain adequate portfolio liquidity to support operational activities, fund all investment commitments, and provide a safety net in case of severe market disruptions

3. Preservation of Purchasing Power: to seek long-term growth of capital in excess of the rate of spending and inflation over the long-term investment horizon of the portfolio

(c) Spending Policy

The Trust, with the approval of the Board of Trustees, currently appropriates for distribution (on a cash basis) each year 5% of its endowment fund's value determined either by (1) averaging the fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned or (2) using the fair value of the endowment at calendar year-end preceding the fiscal year in which the distribution is planned. In establishing these appropriations, the Trust considers the long-term expected return on its endowment. Accordingly, over the long term, the Trust expects the current spending policy to allow its endowment to grow at an average of 3.5% annually. This is consistent with the Trust's objective to maintain the purchasing power of the endowment assets held in perpetuity.

(10) Line of Credit

The Trust had a $40 million bank line of credit with JPMorgan Chase. This line, in combination with the $100 million of daily liquidity provided by the Trust's Investment Office, met the liquidity requirements for the Trust's debt strategy. The line expired on March 25, 2013 and was not renewed. There were no amounts outstanding at June 30, 2013 and 2012.

(11) 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.

(12) Subsequent Events

Subsequent events have been evaluated through November 12, 2013, which is the date the financial statements were issued.