Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Pew Charitable Trusts

June 30, 2018 and 2017

Contents

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Report of Independent Certified Public Accountants

Board of Directors
The Pew Charitable Trusts

Report on the financial statements
We have audited the accompanying consolidated financial statements of The Pew Charitable Trusts and its subsidiary, the Pew Research Center, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Pew Charitable Trusts and its subsidiary as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

November 16, 2018

The Pew Charitable Trusts

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,

ASSETS	2018	2017
Cash and cash equivalents	$ 7,870,027	$ 10,430,834
Accounts receivable	309,799	259,205
Prepaid expenses	3,788,495	3,493,043
Contributions receivable, net	25,727,501	34,396,675
Investments	1,018,642,927	1,013,130,890
Property and equipment, net	207,264,798	214,352,359
Beneficial interest in supporting charitable trusts	5,493,229,412	5,346,015,359
Retirement plan assets	6,129,681	5,666,790
Other assets	592,493	207,883
Total assets	$ 6,763,555,133	$ 6,627,953,038
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued expenses	$ 9,944,760	$ 13,285,739
Accrued vacation	6,213,476	5,891,683
Grants payable, net	90,833,250	69,114,433
Deferred rent	12,693,173	13,290,977
Accrued pension and postretirement obligation	31,003,961	42,797,476
Bonds payable, net	153,536,448	158,754,743
Interest rate swaps	21,685,913	30,425,891
Other liabilities	449,780	17,233
Total liabilities	326,360,761	333,578,175
NET ASSETS		
Unrestricted	886,570,950	875,329,012
Temporarily restricted	57,394,010	73,030,492
Permanently restricted	5,493,229,412	5,346,015,359
Total net assets	6,437,194,372	6,294,374,863
Total liabilities and net assets	$ 6,763,555,133	$ 6,627,953,038

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

The Pew Charitable Trusts

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Distributions from supporting charitable trusts	$ 225,555,293	$ 48,438,618	$ -	$ 273,993,911
Contributions	10,116,547	9,477,777	-	19,594,324
Investment gains, net	38,432,682	93,745	-	38,526,427
Other income	1,161,393	-	-	1,161,393
Change in fair value of beneficial interest in trusts	-	-	147,214,053	147,214,053
Net assets released from restrictions	73,646,622	(73,646,622)	-	-
Total revenues	348,912,537	(15,636,482)	147,214,053	480,490,108
Operating expenses				
Grants	117,055,828	-	-	117,055,828
Program	217,047,763	-	-	217,047,763
General and administration	17,522,036	-	-	17,522,036
Fundraising	4,988,847	-	-	4,988,847
Total operating expenses	356,614,474	-	-	356,614,474
Change in net assets from operating activities	(7,701,937)	(15,636,482)	147,214,053	123,875,634
Non-operating (income) expenses				
Change in retirement plan benefit obligation	(15,655,792)	-	-	(15,655,792)
Bond and swap interest expense	5,451,895	-	-	5,451,895
Change in fair value of interest rate swaps	(8,739,978)	-	-	(8,739,978)
Total non-operating income	(18,943,875)	-	-	(18,943,875)
Change in net assets	11,241,938	(15,636,482)	147,214,053	142,819,509
Net assets - beginning of the year	875,329,012	73,030,492	5,346,015,359	6,294,374,863
Net assets - end of the year	$ 886,570,950	$ 57,394,010	$ 5,493,229,412	$ 6,437,194,372

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Distributions from supporting charitable trusts	$ 220,311,751	$ 47,316,705	$ -	$ 267,628,456
Contributions	22,904,348	18,687,535	-	41,591,883
Investment gains, net	57,326,745	-	-	57,326,745
Other income	2,215,841	-	-	2,215,841
Change in fair value of beneficial interest in trusts	-	-	338,836,556	338,836,556
Net assets released from restrictions	80,391,543	(80,391,543)	-	-
Total revenues	383,150,228	(14,387,303)	338,836,556	707,599,481
Operating expenses				
Grants	71,182,095	-	-	71,182,095
Program	221,000,268	-	-	221,000,268
General and administration	16,975,168	-	-	16,975,168
Fundraising	6,618,595	-	-	6,618,595
Total operating expenses	315,776,126	-	-	315,776,126
Change in net assets from operating activities	67,374,102	(14,387,303)	338,836,556	391,823,355
Non-operating (income) expenses				
Fixed asset write-off	59,497	-	-	59,497
Change in retirement plan benefit obligation	(7,897,546)	-	-	(7,897,546)
Bond and swap interest expense	5,825,176	-	-	5,825,176
Change in fair value of interest rate swaps	(13,990,597)	-	-	(13,990,597)
Total non-operating income	(16,003,470)	-	-	(16,003,470)
Change in net assets	83,377,572	(14,387,303)	338,836,556	407,826,825
Net assets - beginning of the year	791,951,440	87,417,795	5,007,178,803	5,886,548,038
Net assets - end of the year	$ 875,329,012	$ 73,030,492	$ 5,346,015,359	$ 6,294,374,863

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

The Pew Charitable Trusts

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 142,819,509	$ 407,826,825
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	10,298,981	10,650,993
Loss on disposal of fixed assets	-	59,497
Non-cash contributions made	910,417	-
Net unrealized and realized gains on investments	(9,966,858)	(36,414,534)
Net change in beneficial interest in supporting charitable trusts	(421,207,964)	(606,465,012)
Change in fair value of interest rate swaps	(8,739,978)	(13,990,597)
Changes in assets and liabilities		
Accounts receivable	(50,594)	(140,903)
Prepaid expenses	(295,452)	490,285
Contributions receivable	8,669,174	58,144,110
Distributions from supporting charitable trusts	273,993,911	267,628,456
Accounts payable and other accrued expenses	(3,340,979)	189,195
Accrued vacation	321,793	558,962
Grants payable	21,718,817	(3,974,932)
Accrued pension and postretirement obligation	(12,256,406)	(3,474,584)
Other assets and liabilities	(549,867)	(359,323)
Net cash provided by operating activities	2,324,504	80,728,438
Cash flows from investing activities		
Purchase of investments	(1,177,056,858)	(1,077,922,701)
Sale of investments	1,181,511,679	1,004,297,128
Purchase of property and equipment	(4,060,132)	(8,456,206)
Net cash provided by (used in) investing activities	394,689	(82,081,779)
Cash flows from financing activities		
Payment of bond principal	(5,280,000)	(5,100,000)
Net cash used in financing activities	(5,280,000)	(5,100,000)
Net decrease in cash and cash equivalents	(2,560,807)	(6,453,341)
Cash and cash equivalents at beginning of year	10,430,834	16,884,175
Cash and cash equivalents at end of year	$ 7,870,027	$ 10,430,834

Total interest paid was $5,499,644 and $5,818,157 for the years ended June 30, 2018 and 2017, respectively.

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

NOTE A - ORGANIZATION

The accompanying financial statements present the consolidated financial position, consolidated activities, and consolidated cash flows of The Pew Charitable Trusts (Pew) and its subsidiary, the Pew Research Center (the Center), (collectively, the Organization). All significant intra-organization accounts and transactions have been eliminated in consolidation.

With primary offices in Philadelphia, Pennsylvania and Washington, D.C., and other locations throughout the world, Pew serves the public interest by improving public policy, informing the public, and invigorating civic life.

Based in Washington, D.C., the Center is a nonpartisan "fact tank" that informs the public about the issues, attitudes, and trends shaping America and the world. In addition to funding, Pew provides administrative support services, including fundraising, accounting, human resources, facilities management, and technology services to the Center.

Pew and the Center are Pennsylvania nonprofit corporations, recognized as exempt from federal income tax as publicly-supported charitable organizations described under Section 501(c)(3) of the Internal Revenue Code of 1986.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared and are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

U.S. GAAP requires that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted - Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that are maintained permanently by the Organization.

Expirations of temporary restrictions on net assets are reported as releases from temporarily restricted net assets to unrestricted net assets, with the exception of contributions and interest received and expended in the same accounting period, which are recorded as unrestricted net assets.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Cash and Cash Equivalents

Cash and cash equivalents represent cash, short-term securities purchased with an original maturity of three months or less, and money market mutual funds. The Organization's cash and cash equivalents may be held in accounts that are not covered by federal deposit insurance or have balances in excess of federally insured limits. The Organization has not experienced losses on these accounts and believes that it is not exposed to significant credit risk.

3. Beneficial Interest in Supporting Charitable Trusts

Pew is the sole beneficiary of seven individual supporting charitable trusts. Distributions from the trusts are based on a formula which in part is determined by their underlying fair value. Pew's beneficial interest in the trusts is recorded at the fair value of the assets underlying the trusts, and is classified in permanently restricted net assets.

The underlying investments of the beneficial interest in the supporting charitable trusts consist of cash and cash equivalents, government obligations, corporate obligations, mutual funds, equity securities, and tangible asset-backed securities, as well as various alternative assets including hedge, real estate, and private equity funds.

Alternative investments are recorded at their estimated net asset value per share. In the absence of readily determinable fair value, fair value of each investment is determined based on a review of the audited financial statements of the underlying funds, when available, and other information from third parties, including information provided by the fund managers, the general partners, and research performed by The Glenmede Trust Company, NA (Glenmede). At June 30, 2018 and 2017, alternative investments of $4,295,087,715 and $4,249,934,364, respectively, were included in Pew's beneficial interest in supporting charitable trusts. Alternative investments carry certain risks, including lack of regulatory oversight, interest rate risk, and market risk. It is reasonably possible that changes in risk factors in the near term would materially affect the amounts reported as alternative investments in the consolidated statements of financial position.

4. Retirement Plan Assets

Retirement plan assets are invested in money market mutual funds, mutual funds, and exchange-traded funds with readily determinable fair values based on quoted market prices.

5. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. The most significant management estimates relate to the determination of useful lives of fixed assets, actuarial estimates for the Organization's postretirement plans, value of beneficial interests in supporting charitable trusts, value of interest rate swaps, functional expense allocation, and reported fair values of certain of the Organization's assets and liabilities. Actual results could differ from those estimates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Fair Value of Financial Instruments

Financial instruments consist of cash, contributions receivable, investments, beneficial interests in trusts, retirement plan assets, grants payable, bonds payable, and interest rate swaps. The carrying amounts of financial instruments reported in the consolidated statements of financial position approximate fair value.

7. Recently Issued Accounting Pronouncements

Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet, and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments and a right-to-use asset representing its right to use the underlying asset for the lease term. This ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Management has determined that the Organization has leases that are within the scope of this ASU which will require the reporting of a lease liability and a related right-of-use asset in accordance with the new guidance. Changes made under the new pronouncement are not expected to have a material impact on the Organization's net assets.

ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, requires changes to the current reporting requirements for not-for-profit entities including: (1) the presentation of two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) disclosure of expenses using both their natural and functional classification; (3) disclosure of the methods used to allocate costs among program and support functions; (4) the netting of all external and direct investment expenses against investment returns; and (5) additional disclosures regarding general liquidity and the availability of funds to meet short-term expenditures. The new standard is effective for reporting periods beginning after December 15, 2017. Management has determined that the adoption of this ASU will require new disclosures in the consolidated financial statements, but will not materially affect the total reported amounts of assets and liabilities or revenues and expenses.

ASU 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update provides (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction; and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. The guidance applies to both recipients and resource providers. For transactions in which an organization serves as a resource recipient, the new standard is effective for reporting periods beginning after June 15, 2018. For transactions in which an organization serves as resource provider, the new standard is effective for reporting periods beginning after December 15, 2018. Management has determined that the adoption of this ASU will not materially affect the total reported amounts of assets and liabilities or revenues and expenses.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Reclassifications

To maintain consistency and comparability, certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation. These reclassifications had no impact on net assets or changes in net assets.

NOTE C - CONTRIBUTIONS REVENUE AND RELATED CONTRIBUTIONS RECEIVABLE, NET

Unconditional contributions, including cash, promises to give, and other assets are recorded as revenue at fair value in the year received. The fair value of contributions receivable is recorded at the present value of expected future cash flows using risk-adjusted rates ranging from 1.38% to 3.10%. Conditional contributions are recorded as revenue when stipulated conditions on which they depend are substantially met. Contributions whose stipulated conditions had not been met, and for which revenue had not been recognized, as of June 30, 2018 and 2017 were $13,087,017 and $18,894,248, respectively. Management reviews each receivable to determine if an allowance is needed. There was no allowance for doubtful accounts at June 30, 2018 and 2017, as management deems all receivables to be collectible.

At June 30, 2018, contributions receivable are expected to be received as follows:

Less than one year	$ 12,894,115
One to five years	11,343,205
More than five years	2,661,605
	26,898,925
Less present value discount	(1,171,424)
Total contributions receivable, net	$ 25,727,501

NOTE D - INVESTMENTS

Investment sales and purchases are determined using the specific identification method. Changes in the fair value of investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations.

Investment gains, net include $28,559,569 and $20,912,211 of interest and dividend income for the years ended June 30, 2018 and 2017, respectively.

NOTE E - FAIR VALUE MEASUREMENTS

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 Financial assets and liabilities whose values are based on one or more of the following:
1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. Pricing models whose inputs are derived principally from, or corroborated by, observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's judgments regarding the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurements. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

(Continued)

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The following tables present information about the Organization's financial assets and liabilities measured at fair value on June 30, 2018 and 2017, by level within the fair value hierarchy.

	June 30, 2018			
Description	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 62,941,547	$ -	$ -	$ 62,941,547
U.S. Treasuries	136,056,856	-	-	136,056,856
Mutual funds	185,794,866	-	-	185,794,866
Corporate obligations	-	232,949,535	-	232,949,535
Asset-backed securities	-	110,507,738	-	110,507,738
Mortgage-backed securities	-	20,610,409	-	20,610,409
Government obligations	-	71,662,068	-	71,662,068
Equity securities	198,119,908	-	-	198,119,908
Total	582,913,177	435,729,750	-	1,018,642,927
Beneficial interest in supporting charitable trusts	-	-	5,493,229,412	5,493,229,412
Retirement plan assets	6,129,681	-	-	6,129,681
Liabilities				
Interest rate swaps	$ -	$ 21,685,913	$ -	$ 21,685,913

(Continued)

NOTE E - FAIR VALUE MEASUREMENTS - Continued

Description	June 30, 2017 Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 81,563,374	$ -	$ -	$ 81,563,374
U.S. Treasuries	88,374,226	-	-	88,374,226
Mutual funds	196,403,518	-	-	196,403,518
Corporate obligations	-	259,361,176	-	259,361,176
Asset-backed securities	-	112,717,019	-	112,717,019
Mortgage-backed securities	-	21,732,654	-	21,732,654
Government obligations	-	63,015,333	-	63,015,333
Equity securities	189,963,590	-	-	189,963,590
Total	556,304,708	456,826,182	-	1,013,130,890
Beneficial interest in supporting charitable trusts	-	-	5,346,015,359	5,346,015,359
Retirement plan assets	5,666,790	-	-	5,666,790
Liabilities				
Interest rate swaps	$ -	$ 30,425,891	$ -	$ 30,425,891

The activity of the fair value measurements for the Level 3 assets is as follows:

	The Pew Memorial Trust	Medical Trust	J. Howard Pew Freedom Trust	J. N. Pew Jr. Charitable Trust	Mabel Pew Myrin Trust	Mary Anderson Trust	The Knollbrook Trust	Total
Balance, June 30, 2016	$ 3,319,644,139	$ 202,898,381	$ 682,435,237	$ 328,704,928	$ 419,688,887	$ 45,588,059	$ 8,219,172	$ 5,007,178,803
Change in fair value of assets	402,949,034	24,358,853	82,532,128	39,431,399	50,644,175	5,565,691	983,732	606,465,012
Distributions from supporting charitable trusts	(177,410,709)	(10,848,782)	(36,467,923)	(17,570,871)	(22,436,535)	(2,451,228)	(442,408)	(267,628,456)
Balance, June 30, 2017	3,545,182,464	216,408,452	728,499,442	350,565,456	447,896,527	48,702,522	8,760,496	5,346,015,359
Change in fair value of assets	279,248,471	17,197,901	57,272,442	27,863,527	35,199,067	3,751,331	675,225	421,207,964
Distributions from supporting charitable trusts	(181,649,124)	(11,103,059)	(37,335,559)	(17,981,736)	(22,964,904)	(2,507,492)	(452,037)	(273,993,911)
Balance, June 30, 2018	$ 3,642,781,811	$ 222,503,294	$ 748,436,325	$ 360,447,247	$ 460,130,690	$ 49,946,361	$ 8,983,684	$ 5,493,229,412

NOTE F - PROPERTY AND EQUIPMENT, NET

Property and equipment are capitalized and depreciated using the straight-line method over their estimated useful lives. Land is recorded at cost and is not depreciated. Maintenance and repairs are expensed as incurred. The estimated useful lives of depreciable assets are as follows:

Building	Lesser of 39 years or remaining useful life of the asset
Building improvements	Remaining useful life of the asset
Furniture and equipment	7 years
Information technology equipment and software	3 years
Leasehold and tenant improvements	Lesser of the useful life of the asset or lease term

At June 30, 2018 and 2017, property and equipment consisted of:

	2018	2017
Land	$ 90,000,000	$ 90,000,000
Building and tenant improvements	131,889,143	131,919,418
Furniture and equipment	6,846,686	6,792,404
Information technology equipment and software	32,432,767	34,418,486
Leasehold improvements	11,777,359	11,717,568
	272,945,955	274,847,876
Less accumulated depreciation	(65,681,157)	(60,495,517)
Property and equipment, net	$ 207,264,798	$ 214,352,359

Depreciation expense for the years ended June 30, 2018 and 2017 was $10,237,276 and $10,589,287, respectively.

NOTE G - GRANTS PAYABLE, NET

The fair value of grants payable is recorded at the present value of expected future payments, discounted at rates ranging from 1.55% to 2.68%. Conditional grants are recognized when the stated conditions are met.

(Continued)

NOTE G - GRANTS PAYABLE, NET - Continued

At June 30, 2018, expected grant payments were as follows:

Year ending June 30,	
2019	$ 69,674,599
2020	17,159,179
2021	5,094,522
2022	73,500
	92,001,800
Less present value discount	(1,168,550)
Grants payable, net	$ 90,833,250

Pew had unpaid conditional grants outstanding of $4,500,000 and $1,206,000 at June 30, 2018 and 2017, respectively, whose conditions had not been met as of these dates.

NOTE H - BONDS PAYABLE

At June 30, 2018 and 2017, Pew had $154,750,000 and $160,030,000, respectively, of tax exempt bonds outstanding. The interest rate on the bonds is based on the Securities Industry and Financial Markets Association (SIFMA) index, which was 1.50% and 0.90% on June 30, 2018 and 2017, respectively. The bonds are collateralized by an irrevocable letter of credit which expires on October 24, 2021. The bonds are remarketed on a weekly basis by a remarketing agent on a best efforts basis. If the bonds tendered are not remarketed, the letter of credit is in place to satisfy the bond obligation. If the liquidity facility provided by the letter of credit is drawn upon, Pew is obligated to repay the principal on demand. Pew expects that any bonds submitted for tender will continue to be remarketed successfully due to the credit-worthiness of the letter of credit provider. The letter of credit requires that Pew comply with certain financial covenants, with which it was in compliance for the year ended June 30, 2018. The available amount under the letter of credit as of June 30, 2018 was $157,293,836.

Principal payments are due as follows:

Year ending June 30,	
2019	$ 5,465,000
2020	5,655,000
2021	5,855,000
2022	6,060,000
2023	6,275,000
Thereafter	125,440,000
	154,750,000
Deferred financing costs, net of amortization	(1,213,552)
	$ 153,536,448

Bond interest expense in 2018 and 2017 totaled $1,785,848 and $1,126,141, respectively.

NOTE I - INTEREST RATE SWAPS

In March 2008, Pew entered into interest rate swap agreements in order to hedge interest rate exposure on its variable rate tax exempt bonds. The terms of the swap agreements are as follows:

Notional amount	Maturity date	Fixed rate	Floating rate*
$ 76,543,258	4/1/2038	3.366%	67% of USD-LIBOR
78,206,742	4/1/2038	3.327%	67% of USD-LIBOR

* Calculated on a monthly basis

Pew expensed $3,666,047 and $4,699,035 under the interest rate swap agreements for the years ended June 30, 2018 and 2017, respectively.

NOTE J - NET ASSETS

Temporarily Restricted Net Assets

Distributions received from two of the seven supporting charitable trusts are restricted as to purpose. Distributions from the J. Howard Pew Freedom Trust are restricted to a number of purposes related to freedom, the American form of government, and religious faith. Distributions from the Medical Trust are restricted to general medical purposes, including research, education, treatment, convalescence, and related purposes. At June 30, 2018 and 2017, distributions from the Medical Trust were fully utilized, and remaining temporarily restricted net assets consisted of the following:

	2018	2017
J. Howard Pew Freedom Trust	$ 10,900,536	$ 11,005,705
Temporarily restricted net assets for grants and charitable expenditures	46,493,474	62,024,787
Total temporarily restricted net assets	$ 57,394,010	$ 73,030,492

Permanently Restricted Net Assets

Permanently restricted net assets represent the beneficial interest in the seven supporting charitable trusts. (See Note B3.)

NOTE K - RETIREMENT PLANS

401(k) Plan

Organization-funded 401(k) contributions for eligible employees for the years ended June 30, 2018 and 2017 were $11,512,499 and $11,180,617, respectively.

Supplemental Employee Retirement Plan Assets

Certain Pew employees participate in a legacy supplemental employee retirement plan (SERP) that provided employer contributions above the Internal Revenue Service 401(k) caps. That plan is now frozen. The SERP assets and corresponding liability are included in the consolidated statements of financial position in retirement plan assets and accrued pension and postretirement obligation, respectively.

Postretirement Medical and Life Insurance Plan

Retirees who are eligible to participate in The Pew Charitable Trusts Retiree Health and Welfare Plan (the Plan) by meeting certain requirements, including a combination of a minimum service requirement and a minimum age requirement, may receive health insurance premium reimbursement benefits, dental benefits, and life insurance benefits. The Plan was amended in June 2016 to eliminate coverage for staff who retire on or after July 1, 2016, with the exception of certain grandfathered employees who meet stated requirements.

A summary of the activity in the benefit obligation follows:

	2018	2017
Benefit obligation at beginning of year	$ 35,520,000	$ 38,994,000
Service cost	2,754,000	3,650,000
Interest cost	1,495,000	1,451,000
Actuarial gain	(15,797,000)	(7,960,000)
Benefits paid	(713,000)	(615,000)
Benefit obligation at end of year	$ 23,259,000	$ 35,520,000

Change in plan assets

This plan is unfunded and Pew pays benefits as they become due.

(Continued)

NOTE K - RETIREMENT PLANS - Continued

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets:

Net periodic benefit cost

	2018	2017
Service cost	$ 2,754,000	$ 3,650,000
Interest cost	1,495,000	1,451,000
Amortization of prior service cost	(917,000)	(917,000)
Recognized actuarial loss	-	173,000
Net periodic benefit cost	$ 3,332,000	$ 4,357,000

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	2018	2017
Net actuarial gain	$ (15,797,000)	$ (7,960,000)
Recognized actuarial loss	-	(173,000)
Recognized prior service cost	917,000	917,000
Total recognized in unrestricted net assets	$ (14,880,000)	$ (7,216,000)
Total recognized in net periodic benefit cost and unrestricted net assets	$ (11,548,000)	$ (2,859,000)

Assumptions

Weighted average assumptions used to determine the benefit obligation and net periodic postretirement benefit cost at June 30:

	2018	2017
Discount rate	4.25%	4.25%
Assumed health care cost trend rates		
Initial trend rate (flat-dollar subsidy)	3.00%	3.00%
Ultimate trend rate (flat-dollar subsidy)	3.00%	3.00%
Year ultimate trend rate is reached (flat-dollar subsidy)	2018	2017
Initial trend rate (Medicare cost)	7.50%	N/A
Ultimate trend rate (Medicare cost)	5.00%	N/A
Year ultimate trend rate is reached (Medicare cost)	2030	N/A

(Continued)

NOTE K - RETIREMENT PLANS - Continued

Health care cost trend sensitivity analysis

Pew has the ability to determine benefits independent of changes in health care costs and, as a result, does not perform a health care cost trend sensitivity analysis.

Expected future benefit payments

Benefits are expected to be paid as follows:

Year ending June 30,	
2019	$ 509,000
2020	603,000
2021	679,000
2022	765,000
2023	855,000
2024-2028	5,923,000

NOTE L - COMMITMENTS AND CONTINGENCIES

Leases

The Organization has entered into operating leases for office facilities in Philadelphia, Washington, D.C., London, and other locations. Occupancy expense for the years ended June 30, 2018 and 2017 was $5,278,905 and $5,164,483, respectively.

Future minimum rental payments under these operating leases, as well as leases for equipment rental, are as follows:

Year ending June 30,	
2019	$ 5,054,019
2020	4,978,063
2021	5,033,805
2022	5,130,736
2023	5,119,865
Thereafter	26,018,952
	$ 51,335,440

(Continued)

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Pew has entered into agreements to lease or sublease office space in Washington, D.C. and Portland, Oregon through November 2020. Rental income for the years ended June 30, 2018 and 2017 was $1,448,392 and $1,907,434, respectively. As of June 30, 2018, the leases and subleases provide for future minimum annual rents to be received as follows:

Year ending June 30,	
2019	$ 773,508
2020	653,276
2021	358,802
2022	175,698
2023	159,439
Thereafter	224,767
	$ 2,345,490

Guarantees

Pew is guarantor of a lease agreement for office space occupied by a Pew grantee. The lease term extends through February 28, 2026. Cumulative remaining lease payments under this lease agreement at June 30, 2018 total $1,951,200.

NOTE M - SUBSEQUENT EVENTS

The Organization evaluated its June 30, 2018 consolidated financial statements for subsequent events through November 16, 2018, the date the consolidated financial statements were available to be issued. Based on the Organization's evaluation, no subsequent events meet the criteria under U.S. GAAP for disclosure.