Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Pew Charitable Trusts

June 30, 2020 and 2019

Contents

GRANT THORNTON LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103

D +215.561.4200
F +215.561.1066

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, 2020 and 2019, 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.

GrantThornton

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, 2020 and 2019, 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
December 2, 2020

The Pew Charitable Trusts

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands)

As of June 30,

ASSETS	2020	2019
Cash and cash equivalents	$ 4,133	$ 6,863
Accounts receivable	377	404
Prepaid expenses	3,873	3,574
Contributions receivable, net	28,433	25,252
Investments	1,064,995	1,059,539
Property and equipment, net	195,162	201,011
Operating lease right-of-use assets	25,789	28,372
Beneficial interest in supporting charitable trusts	5,037,219	5,448,309
Retirement plan assets	6,846	6,546
Other assets	435	540
Total assets	$ 6,367,262	$ 6,780,410
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 10,093	$ 12,395
Accrued vacation	8,520	6,548
Grants payable, net	98,469	93,388
Operating lease liabilities	36,383	39,963
Accrued pension and postretirement obligation	39,882	35,929
Bonds payable, net	142,540	148,133
Interest rate swaps	42,183	29,701
Other liabilities	1,458	851
Total liabilities	379,528	366,908
NET ASSETS		
Without donor restrictions	894,953	905,996
With donor restrictions - other	55,562	59,197
With donor restrictions - beneficial interest in trusts	5,037,219	5,448,309
Total net assets	5,987,734	6,413,502
Total liabilities and net assets	$ 6,367,262	$ 6,780,410

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

The Pew Charitable Trusts

CONSOLIDATED STATEMENT OF ACTIVITIES

(In thousands)

Year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenues			
Distributions from supporting charitable trusts	$ 232,271	$ 49,878	$ 282,149
Contributions	1,084	25,516	26,600
Investment returns, net	45,406	542	45,948
Other income	1,587	-	1,587
Net assets released from restrictions	79,571	(79,571)	-
Total revenues	359,919	(3,635)	356,284
Operating expenses			
Grants	97,865	-	97,865
Program	217,566	-	217,566
General and administrative	33,455	-	33,455
Fundraising	7,203	-	7,203
Total operating expenses	356,089	-	356,089
Change in net assets from operating activities	3,830	(3,635)	195
Non-operating activities			
Change in fair value of beneficial interest in trusts	-	(411,090)	(411,090)
Change in fair value of interest rate swaps	(12,482)	-	(12,482)
Net periodic benefit cost other than service cost	1,625	-	1,625
Other changes in postretirement benefits	(4,016)	-	(4,016)
Change in net assets	(11,043)	(414,725)	(425,768)
Net assets, beginning of year	905,996	5,507,506	6,413,502
Net assets, end of year	$ 894,953	$ 5,092,781	$ 5,987,734

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

The Pew Charitable Trusts

CONSOLIDATED STATEMENT OF ACTIVITIES

(In thousands)

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues			
Distributions from supporting charitable trusts	$ 230,817	$ 49,564	$ 280,381
Contributions	17,275	23,456	40,731
Investment returns, net	51,073	74	51,147
Other income	1,658	-	1,658
Net assets released from restrictions	71,291	(71,291)	-
Total revenues	372,114	1,803	373,917
Operating expenses			
Grants	89,587	-	89,587
Program	212,222	-	212,222
General and administrative	32,448	-	32,448
Fundraising	7,018	-	7,018
Total operating expenses	341,275	-	341,275
Change in net assets from operating activities	30,839	1,803	32,642
Non-operating activities			
Change in fair value of beneficial interest in trusts	-	(44,920)	(44,920)
Change in fair value of interest rate swaps	(8,016)	-	(8,016)
Net periodic benefit cost other than service cost	2,519	-	2,519
Other changes in postretirement benefits	(5,917)	-	(5,917)
Change in net assets	19,425	(43,117)	(23,692)
Net assets, beginning of year	886,571	5,550,623	6,437,194
Net assets, end of year	$ 905,996	$ 5,507,506	$ 6,413,502

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

The Pew Charitable Trusts

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years ended June 30,

	2020	2019
Cash flows from operating activities		
Change in net assets	$ (425,768)	$ (23,692)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	8,831	8,951
Amortization	62	62
Net unrealized and realized gains on investments	(20,813)	(23,719)
Change in beneficial interest in supporting charitable trusts excluding distributions	128,941	(235,461)
Change in accrued pension and postretirement obligation	3,653	4,509
Change in fair value of interest rate swaps	12,482	8,016
Changes in assets and liabilities		
Accounts receivable	27	(94)
Prepaid expenses	(299)	(608)
Contributions receivable, net	(3,181)	475
Operating lease right-of-use assets and liabilites	(997)	(745)
Beneficial interest in supporting charitable trusts, distributions	282,149	280,381
Accounts payable and accrued expenses	(2,302)	2,516
Accrued vacation	1,972	335
Grants payable, net	5,081	2,554
Other assets and liabilities	712	417
Net cash (used in) provided by operating activities	(9,450)	23,897
Cash flows from investing activities		
Purchase of investments	(1,447,969)	(1,169,306)
Sale of investments	1,463,326	1,152,129
Purchase of property and equipment	(2,982)	(2,698)
Net cash provided by (used in) investing activities	12,375	(19,875)
Cash flows from financing activities		
Payment of bond principal	(5,655)	(5,465)
Net cash used in financing activities	(5,655)	(5,465)
Net decrease in cash and cash equivalents	(2,730)	(1,443)
Cash and cash equivalents, beginning of year	6,863	8,306
Cash and cash equivalents, end of year	$ 4,133	$ 6,863

Total interest paid was $5,275 and $5,138 for the years ended June 30, 2020 and 2019, respectively.

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

NOTE A - ORGANIZATION

The accompanying consolidated financial statements present the financial position, activities, and 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 the Center with administrative support services, including fundraising, accounting, human resources, facilities management, and technology services.

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

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 with or without donor-imposed restrictions as follows:

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

With donor restrictions - 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.

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.

Retirement Plan Assets

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

Beneficial Interest in Supporting Charitable Trusts

Pew is the sole beneficiary of seven individual trusts established by the children of Sun Oil Company founder Joseph N. Pew and his wife, Mary Anderson Pew. As the trustee for each of the trusts, The Glenmede Trust Company, NA (Glenmede) is responsible for the management of trust assets and for making the required annual distributions to Pew. Distributions from the trusts are based on a formula which in part is determined by the value of their assets. Pew's beneficial interest in the trusts is recorded at the fair value of the assets held by the trusts, and is classified in net assets with donor restrictions.

The investments held by the trusts consist of cash and cash equivalents, government obligations, corporate obligations, mutual funds, equity securities, and asset-backed securities, as well as various alternative assets including hedge, real estate, and private equity funds.

Alternative investments are recorded at their estimated fair value. In the absence of readily determinable fair value, the 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, general partners, and research performed by Glenmede. At June 30, 2020 and 2019, the trusts held alternative investments with a fair value of $3,569,249 and $3,912,186, respectively. Alternative investments carry certain risks, including reduced regulatory oversight, liquidity risk, interest rate risk, and market risk.

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 pension and postretirement plans, value of the beneficial interest in supporting charitable trusts, value of interest rate swaps, functional expense allocation, and fair value of certain of the Organization's assets and liabilities. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

Accounting Standards Update (ASU) 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* 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 in determining whether a contribution is conditional or unconditional. The guidance applies to both recipients and resource providers. The Organization adopted the new standard for transactions in which it serves as a resource recipient for the reporting period beginning July 1, 2018, resulting in the recognition of an additional $6,021 in contribution revenue previously classified as conditional. The Organization adopted the new standard for transactions in which it serves as a resource provider for the reporting period beginning July 1, 2019.

ASU 2016-02, *Leases (Topic 842)*, requires lessees to recognize in the statement of financial position a liability to make lease payments and an asset representing the right to use the underlying asset for the lease term. Upon implementation of Topic 842, the Organization measured and recognized leases at the beginning of the earliest period presented using a modified retrospective approach. The Organization adopted the new standard for the reporting period beginning July 1, 2019. Topic 842 did not impact the Organization's net assets.

(In thousands)

Reclassifications

To maintain comparability, certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 presentation. These reclassifications had no impact on total net assets or the total change in net assets.

NOTE C - FINANCIAL ASSETS AND LIQUIDITY

Investments consist of liquid financial assets, including cash, investment grade short-to-medium-term fixed-income securities, and equity funds. Undesignated investment balances sufficient to meet six months or more of operating costs are continually maintained. Cash balances are monitored at regular intervals to ensure short term operating needs are met. Financial assets available for general expenditures within one year were as follows at June 30:

	2020	2019
Cash and cash equivalents	$ 4,133	$ 6,863
Accounts receivable	377	404
Contributions receivable due within one year	18,867	11,904
Investments, net of donor-advised funds	886,032	870,714
Financial assets available for general expenditures within one year	$ 909,409	$ 889,885

NOTE D - CONTRIBUTIONS REVENUE AND RELATED CONTRIBUTIONS RECEIVABLE, NET

Unconditional contributions, including cash, promises to give, and other assets are recorded as revenue at fair value when received. The fair value of contributions receivable is recorded at the present value of expected future cash flows discounted at rates ranging from 0.16% to 3.10%. Conditional contributions are recorded as revenue when stipulated conditions are substantially met. Contributions whose stipulated conditions had not been met, and for which revenue had not been recognized, as of June 30, 2020 and 2019 were $25,334 and $2,765, respectively.

Management monitors receivables to determine if an allowance is needed. There was no allowance for doubtful accounts at June 30, 2020 and 2019, as management deems all receivables to be collectible.

At June 30, 2020, cash payments for contributions receivable were expected as follows:

Less than one year	$ 18,867
One to five years	10,100
	28,967
Present value discount	(534)
Contributions receivable, net	$ 28,433

NOTE E - FAIR VALUE MEASUREMENTS

The Organization has categorized its financial instruments into a three-level fair value hierarchy, based on the priority of the inputs to the valuation technique. 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 measurement. 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.

(In thousands)

The Organization's financial assets and liabilities measured at fair value by level within the fair value hierarchy are as follows:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 47,475	$ -	$ -	$ 47,475
U.S. Treasuries	184,249	-	-	184,249
Mutual funds	192,642	-	-	192,642
Equity securities	193,206	-	-	193,206
Corporate obligations	-	207,280	-	207,280
Asset-backed securities	-	165,172	-	165,172
Mortgage-backed securities	-	42,942	-	42,942
Government obligations	-	32,029	-	32,029
Total	617,572	447,423	-	1,064,995
Beneficial interest in supporting charitable trusts	-	-	5,037,219	5,037,219
Retirement plan assets	5,533	1,313	-	6,846
Liabilities				
Interest rate swaps	$ -	$ 42,183	$ -	$ 42,183

(In thousands)

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 45,733	$ -	$ -	$ 45,733
U.S. Treasuries	208,673	-	-	208,673
Mutual funds	192,084	-	-	192,084
Equity securities	197,105	-	-	197,105
Corporate obligations	-	239,929	-	239,929
Asset-backed securities	-	137,906	-	137,906
Mortgage-backed securities	-	25,078	-	25,078
Government obligations	-	13,031	-	13,031
Total	643,595	415,944	-	1,059,539
Beneficial interest in supporting charitable trusts	-	-	5,448,309	5,448,309
Retirement plan assets	6,546	-	-	6,546
Liabilities				
Interest rate swaps	$ -	$ 29,701	$ -	$ 29,701

Changes in the fair value of Level 3 assets are as follows:

	2020	2019
Balance, beginning of year	$ 5,448,309	$ 5,493,229
Change in fair value of assets	(128,941)	235,461
Distributions from supporting charitable trusts	(282,149)	(280,381)
Balance, end of year	$ 5,037,219	$ 5,448,309

(In thousands)

NOTE F - PROPERTY AND EQUIPMENT, NET

Property and equipment are capitalized at cost 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	39 years
Building improvements	Remaining useful life of the building
Furniture and equipment	7 years
Information technology equipment and software	3 years
Leasehold and tenant improvements	Lesser of the useful life of the improvements or lease term

Property and equipment at June 30 consisted of:

	2020	2019
Land	$ 90,000	$ 90,000
Building and tenant improvements	131,481	131,849
Furniture and equipment	6,948	6,938
Information technology equipment and software	34,423	33,581
Leasehold improvements	11,800	11,800
	274,652	274,168
Accumulated depreciation	(79,490)	(73,157)
Property and equipment, net	$ 195,162	$ 201,011

NOTE G - LEASES

The Organization has operating leases for offices in Philadelphia, Washington, D.C., London, and other locations, as well as for office equipment. Certain office space is subleased to third parties.

The leases have remaining terms ranging from 1 to 9 years. Based on the Organization’s reasonably certain expectations at the time it entered these leases, the lease terms exclude periods covered by lease extension options and include periods covered by lease termination options.

The Organization has made an accounting policy election to discount all leases at the risk-free rate for periods comparable with that of the individual lease terms.

(In thousands)

The components of lease cost are as follows for the years ended June 30:

	2020	2019
Operating lease cost	$ 4,113	$ 4,003
Variable lease cost	67	18
Sublease income	(185)	(259)
Total lease cost	$ 3,995	$ 3,762

Supplemental cash flow and balance sheet information related to leases are as follows at June 30:

	2020	2019
Operating cash flows from operating leases	$ (5,058)	$ (4,670)
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 400	$ 156
Weighted-average remaining lease term	8 years	9 years
Weighted-average discount rate	2.85%	2.86%

Maturities of lease liabilities for the years ending June 30 are as follows:

2021	$ 4,668
2022	5,226
2023	5,189
2024	4,766
2025	4,408
Thereafter	16,768
	41,025
Less imputed interest	(4,642)
Operating lease liabilities	$ 36,383

NOTE H - GRANTS PAYABLE, NET

The fair value of grants payable is recorded at the present value of expected future payments, discounted at rates ranging from 0.16% to 1.75%. Conditional grants are recognized when the stated conditions are met. Pew had unpaid conditional grants outstanding of $55,486 and $3,415 at June 30, 2020 and 2019, respectively, whose conditions had not been met as of these dates.

(In thousands)

At June 30, 2020, grants payable were expected to be paid as follows:

Year ending June 30,	
2021	$ 77,792
2022	16,469
2023	2,025
2024	1,500
2025	1,000
	98,786
Present value discount	(317)
Grants payable, net	$ 98,469

NOTE I - BONDS PAYABLE

At June 30, 2020 and 2019, Pew had $143,630 and $149,285, respectively, of tax exempt bonds outstanding with a maturity date of April 1, 2038. The interest rate on the bonds is based on the Securities Industry and Financial Markets Association (SIFMA) index, which was 0.11% and 1.90% on June 30, 2020 and 2019, 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 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, 2020. The available amount under the letter of credit as of June 30, 2020 was $145,991.

Principal payments on the bonds are due as follows:

Year ending June 30,	
2021	$ 5,855
2022	6,060
2023	6,275
2024	6,495
2025	6,720
Thereafter	112,225
	143,630
Deferred financing costs, net of amortization	(1,090)
Bonds payable, net	$ 142,540

Bond interest expense in 2020 and 2019 totaled $1,785 and $2,389, respectively.

(In thousands)

NOTE J - INTEREST RATE SWAPS

Pew entered into the following interest rate swap agreements in order to hedge interest rate exposure on its variable rate tax exempt bonds:

Notional amount	Maturity date	Fixed rate	Floating rate
$71,048	4/1/2038	3.366%	67% of USD-LIBOR
$72,582	4/1/2038	3.327%	67% of USD-LIBOR

Pew expensed $3,490 and $2,714 under the interest rate swap agreements for the years ended June 30, 2020 and 2019, respectively.

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

Two of the supporting charitable trusts are purpose restricted. Distributions from the J. Howard Pew Freedom Trust are restricted to 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, and convalescence. Distributions from the Medical Trust were fully expensed as of June 30, 2020 and 2019. Net assets with donor restrictions at June 30 consisted of the following:

	2020	2019
J. Howard Pew Freedom Trust	$ 13,822	$ 11,575
Net assets restricted for program expenditures	41,740	47,622
Net assets with donor restrictions - beneficial interest in trusts	5,037,219	5,448,309
Total net assets with donor restrictions	$ 5,092,781	$ 5,507,506

NOTE L - RETIREMENT PLANS

401(k) Plan

Organization-funded 401(k) contributions for the years ended June 30, 2020 and 2019 were $12,866 and $12,034, respectively.

Supplemental Employee Retirement Plan Assets

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

(In thousands)

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. The Plan is unfunded and Pew pays benefits as they become due.

The following table summarizes the activity in the benefit obligation for the years ended June 30:

	2020	2019
Benefit obligation, beginning of year	$ 27,678	$ 23,259
Service cost	1,263	1,110
Interest cost	1,027	978
Actuarial loss	1,855	2,840
Benefits paid	(577)	(509)
Benefit obligation, end of year	$ 31,246	$ 27,678

Net periodic benefit cost at June 30 was comprised of:

	2020	2019
Service cost	$ 1,263	$ 1,110
Interest cost	1,027	978
Amortization of prior service cost	(917)	(917)
Recognized actuarial gain	(1,796)	(2,649)
Net periodic benefit cost	$ (423)	$ (1,478)

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended June 30:

	2020	2019
Net actuarial loss	$ 1,855	$ 2,840
Recognized actuarial gain	1,796	2,649
Recognized prior service cost	917	917
Total recognized in net assets without donor restrictions	$ 4,568	$ 6,406
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ 4,145	$ 4,928

(In thousands)

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

	2020	2019
Discount rate	3.00%	3.75%
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)	2020	2019
Initial trend rate (Medicare cost)	7.50%	7.50%
Ultimate trend rate (Medicare cost)	5.00%	5.00%
Year ultimate trend rate is reached (Medicare cost)	2030	2030

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate would have the following effects for the years ended June 30:

	2020	2019
Effect on other changes in service and interest cost components		
1% increase	$ 229	$ 190
1% decrease	(292)	(259)
Effect on accrued pension and postretirement obligation		
1% increase	$ 3,336	$ 2,646
1% decrease	(3,720)	(3,206)

Future benefits are expected to be paid for the years ending June 30 as follows:

2021	$ 634
2022	730
2023	818
2024	911
2025	1,049
2026-2030	7,108

NOTE M – 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, 2020 total $1,475. No liability has been recorded for this guaranty.

(In thousands)

NOTE N - CLASSIFICATION AND ALLOCATION OF EXPENSES

Expenses benefiting multiple functions are allocated on the basis of estimated time and effort or the proportion of full-time employee equivalents attributable to each function. The Organization's expenses by functional and natural classification are as follows:

	June 30, 2020			
	Grants and Program	General and Administrative	Fundraising	Total
Grants	$ 97,865	$ -	$ -	$ 97,865
Personnel	130,201	22,563	5,461	158,225
Professional services	48,301	4,558	579	53,438
Office and occupancy	13,579	2,263	293	16,135
Travel and entertainment	7,959	243	153	8,355
Subscriptions and publications	2,165	116	44	2,325
Depreciation and amortization	7,346	1,237	310	8,893
Bond and swap interest	4,348	730	197	5,275
Other	3,667	1,745	166	5,578
Total operating expenses	315,431	33,455	7,203	356,089
Net periodic benefit cost other than service cost	(1,311)	(251)	(63)	(1,625)
Total expenses	$ 314,120	$ 33,204	$ 7,140	$ 354,464

	June 30, 2019			
	Grants and Program	General and Administrative	Fundraising	Total
Grants	$ 89,587	$ -	$ -	$ 89,587
Personnel	125,351	20,889	5,158	151,398
Professional services	45,360	4,356	624	50,340
Office and occupancy	13,761	2,558	279	16,598
Travel and entertainment	9,667	653	276	10,596
Subscriptions and publications	2,430	116	101	2,647
Depreciation and amortization	7,475	1,270	268	9,013
Bond and swap interest	4,217	725	161	5,103
Other	3,961	1,881	151	5,993
Total operating expenses	301,809	32,448	7,018	341,275
Net periodic benefit cost other than service cost	(2,045)	(379)	(95)	(2,519)
Total expenses	$ 299,764	$ 32,069	$ 6,923	$ 338,756

NOTE O - SUBSEQUENT EVENTS

The Organization evaluated its June 30, 2020 consolidated financial statements for subsequent events through December 2, 2020, the date they are issued and notes that the COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on the duration and spread of the outbreak and its impact on its investment portfolio, supporting charitable trusts, grantees, employees and partners, all of which at present, cannot be determined. Accordingly, the Organization's consolidated financial statements do not include adjustments relating to the effects of the pandemic.