Consolidated Financial Statements and Report of Independent Certified Public Accountants

Annenberg Foundation

December 31, 2017 and 2016

Contents

Grant Thornton LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103

T 215.561.4200
F 215.561.1066
GrantThornton.com
linked.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report of Independent Certified Public Accountants

Board of Directors
Annenberg Foundation

We have audited the accompanying consolidated financial statements of the Annenberg Foundation (a nonprofit organization) (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, 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 Foundation'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 Foundation'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 Annenberg Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its 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 14, 2018

Annenberg Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	2017	2016
ASSETS		
Cash and cash equivalents	$ 53,299,438	$ 31,612,417
Cash and cash equivalents designated for others (Note G)	577,966	180,787
Due from investment manager	6,741,802	5,737,276
Investment income and other receivables	4,034,090	3,316,025
Investments, at fair value		
(cost $865,147,169 and $973,647,483, respectively)	1,456,693,241	1,404,055,034
Investments designated for others, at fair value (Note G)		
(cost $40,170,498 and $40,721,887, respectively)	48,717,161	44,148,429
Inventory	14,729	34,879
Prepaid federal excise and income taxes	1,249,628	1,763,485
State income tax receivable	64,845	-
Property and equipment, net (Note C)	38,565,644	38,237,298
Total assets	$ 1,609,958,544	$ 1,529,085,630
LIABILITIES		
Grants payable, net of discount (Note D)	$ 93,662,777	$ 30,679,893
Accounts payable	4,871,863	4,880,451
Long-term liability [ARO] (Note I)	3,304,332	3,102,659
Deferred excise tax liability	12,001,855	1,348,570
State income tax payable	-	2,578
Total liabilities	113,840,827	40,014,151
NET ASSETS		
Unrestricted net assets:		
Accumulated change in net assets	1,496,116,717	1,489,070,479
Capital stock (1,000 shares authorized, issued and outstanding; $1 par value)	1,000	1,000
Total unrestricted net assets	1,496,117,717	1,489,071,479
Total liabilities and net assets	$ 1,609,958,544	$ 1,529,085,630

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2017	2016
REVENUES AND GAINS:		
Investment income		
Dividends	$ 7,125,585	$ 12,624,656
Interest	4,117,108	5,036,093
Net realized gains	38,824,706	7,656,125
Net unrealized gains	175,759,743	67,428,499
Total investment income	225,827,142	92,745,373
Investment expenses	(16,351,158)	(16,650,168)
Federal/state excise/income tax	(11,220,849)	(1,677,323)
Total investment expenses and taxes	(27,572,007)	(18,327,491)
Net investment income	198,255,135	74,417,882
Program revenue		
Explore LLC	406,137	617,084
Annenberg Space for Photography/Skylight Studios	365,954	433,858
Annenberg Learner	301,618	355,974
Other income	394,288	667,456
Total revenues	199,723,132	76,492,254
EXPENSES:		
Grants	148,879,357	56,022,600
Direct program		
Annenberg Space for Photography/Skylight Studios	9,042,973	9,919,426
Explore LLC	9,410,432	8,527,660
Metabolic Studio LLC	7,860,152	7,153,046
Chairman's Fund Programs	2,629,014	2,671,746
Annenberg Learner	1,671,855	2,441,302
Annenberg Ventures	649,077	1,008,264
GRoW	684,346	519,175
Total direct program	31,947,849	32,240,619
General and administrative	11,849,688	11,225,886
Total expenses	192,676,894	99,489,105
Change in unrestricted net assets	7,046,238	(22,996,851)
Unrestricted net assets, beginning of year	1,489,071,479	1,512,068,330
Unrestricted net assets, end of year	$ 1,496,117,717	$ 1,489,071,479

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ 7,046,238	$ (22,996,851)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	4,404,323	4,427,409
Net realized gains on sale of investments	(38,824,706)	(7,656,125)
Net unrealized gains on investments	(175,759,743)	(67,428,499)
Changes in assets and liabilities:		
Inventory	20,150	(636)
Asset retirement cost	90,204	90,204
Due from investment manager	(1,004,526)	9,215,529
Cash designated for others	(397,179)	44,758
Investment income and other receivables	(718,065)	(1,104,405)
Prepaid federal excise and income taxes	513,857	(583,861)
Grants payable, net of discount	62,982,884	(11,941,115)
Due to investment manager	-	(22,901,257)
Accounts payable	(8,588)	(197,099)
Long-term liability [ARO]	201,673	189,360
State income tax (receivable) payable	(67,423)	1,324,048
Deferred federal excise tax liability	10,653,285	-
Net cash used in operating activities	(130,867,616)	(119,518,540)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,685,059,860	1,515,455,248
Purchase of investments	(1,527,682,350)	(1,390,524,289)
Purchase of property and equipment	(4,822,873)	(8,615,350)
Net cash provided by investing activities	152,554,637	116,315,609
Net change in cash and cash equivalents	21,687,021	(3,202,931)
Cash and cash equivalents at beginning of year	31,612,417	34,815,348
Cash and cash equivalents at end of year	$ 53,299,438	$ 31,612,417
Supplemental disclosure of cash flow information:		
Cash paid during the year for taxes	$ -	$ 890,000

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Annenberg Foundation (the Foundation) was organized on October 16, 1958 as a stock nonprofit educational organization and was reclassified as a private foundation under Section 509(a) of the Internal Revenue Code effective July 1, 1989.

Ambassador Walter H. Annenberg, the sole shareholder of the stock of the Foundation, passed away on October 1, 2002. Under his will, all of the shares of stock of the Foundation were bequeathed to a trust known as the Annenberg Foundation Trust (the Trust), created by Walter H. Annenberg as settlor and sole trustee on December 1, 1992. The shares are intended to be held by the Annenberg Foundation Trust in perpetuity, subject to the terms and conditions of the Trust.

The Foundation is the sole member of Explore Annenberg LLC, Metabolic Studio LLC, Ballona Urban Ecology Center LLC, and Center for Performing Arts Finance Company LLC (dissolved in October 2017). All intercompany accounts and transactions have been eliminated in consolidation.

2. Basis of Presentation

The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP).

The Foundation also classifies net assets and revenues, gains, expenses and losses as unrestricted, temporarily restricted or permanently restricted. All of the Foundation's net assets at December 31, 2017 and 2016 are unrestricted.

3. Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits and highly liquid debt instruments with an original maturity of three months or less.

4. Inventory

Inventory purchased for sale in the Annenberg Space for Photography/Skylight Studios spaces is carried at the lower of first-in, first-out, cost or market.

5. Investments

Investments in marketable securities (equities and fixed income) are stated at fair value. Investment transactions are recorded on the trade date, which results in receivables and payables on trades that have not yet settled as of the consolidated financial statements date, and dividend income is recorded when earned. Realized gains and losses are recorded as the difference between historical cost and fair value, and are shown on a net basis. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Alternative investments include hedge funds, limited partnership interests and private equity funds. These investments are recorded at net asset value (NAV). The Foundation also reviews audited financial statements of the underlying funds or partnerships, when available, and other information provided by fund managers or general partners. Investments in such funds do carry certain risks, including lack of regulatory oversight, interest rate risk and market risk. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in risk factors in the near term would materially affect the amounts reported in the consolidated statements of financial position.

6. Property and Equipment

Property and equipment are carried at cost. Contributed assets are stated at fair market value as of the date donated. Expenditures for major additions and improvements are capitalized; maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation of property sold or otherwise disposed of are removed from the accounts, and any gain or loss thereon is credited or charged to income. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the estimated useful life or term of the lease.

7. Grants

Unconditional grants are recorded as an expense in the period in which the grant has been approved by the President or a Vice President of the Foundation. Conditional grants are recorded when the grantee has substantially met the conditions of the grant.

8. Tax Status

The Foundation has been recognized by the Internal Revenue Service as an organization that is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and is further classified as a private foundation under IRC Section 4940(a). IRC Section 4940(a) generally imposes a two-percent federal excise tax on “net investment income” as defined by the IRC. IRC Section 4940(e) provides for a reduction of the tax to one percent if the Foundation makes sufficient qualifying distributions exceeding a threshold amount determined based on a formula provided by the IRC. During the years ended December 31, 2017 and 2016, the Foundation made sufficient qualifying distributions to qualify for the reduced one-percent tax.

The current federal excise tax expense for the years ended December 31, 2017 and 2016 was $230,401 and $306,139, respectively.

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NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred taxes are associated with unrealized gains recorded as of December 31, 2017 and 2016. Deferred federal excise tax is computed based on the differences between the carrying value and tax basis of the Foundation's investments. If investments are sold and a gain is realized, then the Foundation will owe excise taxes. If the investments are sold at a loss, no excise tax is recognized. The deferred federal excise expense as of December 31, 2017 and 2016 was $12,001,855 and $1,348,570, respectively.

The Foundation is also subject to income taxes on net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. The Foundation's obligation for unrelated business income tax for the years ended December 31, 2017 and 2016 was $258,485 and $22,614, respectively.

Tax positions taken related to the Foundation's tax exempt status, unrelated business activities taxable income, and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Foundation would more likely than not be sustained on examination. Accordingly, the Foundation has not recorded an income tax liability for uncertain tax benefits as of December 31, 2017 and 2016, and the Foundation does not anticipate a material change in its uncertain tax benefits for the 12 months following December 31, 2017. As of December 31, 2017, the Foundation's tax periods ended December 31, 2014 through December 31, 2017 for the federal tax jurisdiction remain open to examination.

9. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash equivalents and investments. At times, the Foundation's cash may be in excess of the Federal Deposit Insurance Corporation limit of $250,000. The Foundation manages the credit risk associated with cash equivalents and investments by investing its portfolio with high quality banking institutions and investment managers. The Foundation has not experienced any losses as a result of the nonperformance by the custodians and investment managers of its cash equivalents or investments. Further, the Foundation believes that it is not exposed to any significant credit risk that will result in a loss in the future.

10. Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP 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 consolidated financial statements and the reported amounts of revenues and gains and expenses and losses during the reporting period. Actual results could differ from those estimates. The most significant estimates and assumptions relate to the determination of the alternative investment values, useful lives of fixed assets, fair value of contributions payable and the reported values of certain of the Foundation's assets and liabilities.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Adoption of New Accounting Standard

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 updates existing fair value guidance and amends Accounting Standards Codification (ASC) 820, *Fair Value Measurements*. Under the amendments of ASU 2015-07, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value classification. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for annual reporting periods beginning after December 15, 2016, and early adoption is permitted. The adoption of this guidance only amended disclosure requirements within Note F and did not have any impact on the Foundation's consolidated statements of financial position or consolidated statements of activities for the years ended December 31, 2017 and 2016.

Investments using NAV as fair value, and not a practical expedient for fair value, will still be listed in the fair value hierarchy. For example, investments where NAV per share is determined and published and the basis for current transactions is fair value. These are shown in the hierarchy below under Investments, Level 2.

The investments that fit under the new guidance are Level 2 and 3 investments previously listed in the fair value hierarchy. These include equities and alternative investments (hedge funds, limited partnerships, and private equity). Because investments measured at NAV as a practical expedient will no longer be included in the fair value hierarchy, they will no longer appear in the associated disclosures, including the roll forward of Level 3 investments.

12. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current US GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The Foundation is determining the impact of ASU 2016-02 at this time.

In August 2016, the FASB issued a new standard related to the presentation of financial statements of not-for-profit entities. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for 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) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. The Foundation is determining the impact of the new standard at this time.

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NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Reclassification

Certain reclassifications were made to prior period consolidated financial statements to conform to the current year presentation.

NOTE B - INVESTMENTS

The investment objective of the Foundation is to invest assets in a manner that will achieve a total real return sufficient to replace the assets spent for ordinary grants and expenses and to recoup any value lost due to inflation.

Investments held at December 31, were as follows:

	2017		2016	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 481,120,483	$ 250,749,475	$ 429,924,375	$ 286,392,372
Fixed income	158,717,839	158,578,749	164,019,165	164,685,228
Alternative investments:				
Hedge funds	375,182,635	210,578,741	350,839,512	224,725,289
Limited partnerships	296,318,971	138,838,989	333,386,588	198,211,113
Private equity	145,353,313	106,401,215	125,885,394	99,633,481
	$1,456,693,241	$ 865,147,169	$1,404,055,034	$ 973,647,483

Investments designated for others held at December 31, were as follows:

	2017		2016	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 36,262,725	$ 27,710,341	$ 32,371,875	$ 28,760,640
Fixed income	11,733,894	11,867,585	10,996,786	11,254,007
Alternative investments:				
Real estate funds	720,542	592,572	779,768	707,240
	$ 48,717,161	$ 40,170,498	$ 44,148,429	$ 40,721,887
Total investments	$1,505,410,402	$ 905,317,667	$1,448,203,463	$1,014,369,370

Net realized gains on the sale of investments for the years ended December 31, 2017 and 2016 were $38,824,706 and $7,656,125, respectively. Net unrealized gains on investments for the years ended December 31, 2017 and 2016 were $175,759,743 and $67,428,499, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	Useful life	2017	2016
Art		$ 222,422	$ 222,422
Computer software and equipment	3 years	8,799,737	8,312,746
Office furniture, fixtures and equipment	5 - 7 years	15,386,882	13,336,705
Leasehold improvements	2 - 5 years	16,805,513	16,776,834
Building	30 years	6,867,888	6,736,544
Land		14,879,203	14,879,203
Asset retirement cost		2,420,533	2,510,737
Construction in progress		8,948,551	6,822,869
		74,330,729	69,598,060
Less accumulated depreciation		(35,765,085)	(31,360,762)
Net property and equipment		$ 38,565,644	$ 38,237,298

Depreciation expense was $4,404,323 and $4,427,409 for the years ended December 31, 2017 and 2016, respectively. In addition, depreciation and accretion expense in connection with the asset retirement cost was $291,877 and $279,564 for the years ended December 31, 2017 and 2016, respectively.

NOTE D - GRANTS PAYABLE

Unpaid grant commitments are recorded in the consolidated financial statements at net present value (based on discount rates between 5.7% and 7.1%). Unpaid unconditional grant commitments are scheduled for payment as follows as of December 31, 2017:

2018	$ 81,601,932
2019	13,146,592
2020	2,259,858
2021	1,235,000
Total	98,243,382
Less amount representing discount	(4,580,605)
Grants payable, net of discount	$ 93,662,777

Conditional grant commitments payable at December 31, 2017 and 2016 of $2,048,000 and $1,750,000, respectively, are not recorded in the consolidated financial statements and consist of matching and reimbursement grants.

NOTE E - LEASES

The Foundation leases office space in Los Angeles, California; Conshohocken, Pennsylvania; and Washington, DC. Future minimum payments, net of sublease income, under these operating leases consist of the following:

	CA	PA	DC	Total
2018	$ 1,639,045	$ 127,460	$ 90,172	$ 1,856,677
2019	2,055,232	-	7,599	2,062,831
2020	2,127,099	-	-	2,127,099
2021	2,201,704	-	-	2,201,704
2022	2,278,738	-	-	2,278,738
Thereafter	2,155,683	-	-	2,155,683
	$ 12,457,501	$ 127,460	$ 97,771	$ 12,682,732

Rent expense, net of sublease rental income, under the operating leases was $1,895,055 and $1,862,452 for the years ended December 31, 2017 and 2016, respectively.

NOTE F - FAIR VALUE MEASUREMENTS

The Foundation 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 and the lowest priority to unobservable inputs. The levels of the hierarchy under ASC 820, *Fair Value Measurements and Disclosures,* 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 which require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Foundation had no investments whose values were based on Level 3 inputs as of December 31, 2017 and 2016.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Investments at Net Asset Value

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 in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Foundation'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.

Both observable and unobservable inputs may be used to determine the fair value of positions that the Foundation has classified within the NAV category. As a result, the unrealized gains and losses for assets and liabilities within the NAV category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2017 and 2016 and indicate the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

December 31, 2017	Level 1	Level 2	Net asset value	Total
Investments				
Equities	$ 46,461,463	$ 118,995,013	$ 315,664,007	$ 481,120,483
Fixed income	-	158,717,839	-	158,717,839
Alternative investments				
Hedge funds	-	-	375,182,635	375,182,635
Limited partnerships	-	-	296,318,971	296,318,971
Private equity	-	-	145,353,313	145,353,313
Subtotal	46,461,463	277,712,852	1,132,518,926	1,456,693,241
Investments designated for others				
Equities	-	18,931,565	17,331,160	36,262,725
Fixed income	-	4,980,709	6,753,185	11,733,894
Alternative investments				
Real estate funds	-	720,542	-	720,542
Subtotal	-	24,632,816	24,084,345	48,717,161
Total	$ 46,461,463	$ 302,345,668	$1,156,603,271	$1,505,410,402

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

December 31, 2016	Level 1	Level 2	Net asset value	Total
Investments				
Equities	$ 42,494,186	$ 100,114,410	$ 287,315,779	$ 429,924,375
Fixed income	-	164,019,165	-	164,019,165
Alternative investments				
Hedge funds	-	-	350,839,512	350,839,512
Limited partnerships	-	-	333,386,588	333,386,588
Private equity	-	-	125,885,394	125,885,394
Subtotal	42,494,186	264,133,575	1,097,427,273	1,404,055,034
Investments designated for others				
Equities	-	16,437,857	15,934,018	32,371,875
Fixed income	-	5,171,197	5,825,589	10,996,786
Alternative investments				
Real estate funds	-	779,768	-	779,768
Subtotal	-	22,388,822	21,759,607	44,148,429
Total	$ 42,494,186	$ 286,522,397	$1,119,186,880	$1,448,203,463

Details related to the fair value of investments that have been estimated using a net asset value equivalent (e.g., ownership interest in partners' capital to which a proportionate share of net assets is attributable) were as follows as of December 31, 2017:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Investments					
Equities	(a)	$ 315,664,007	$ -	Monthly	1 - 60 days
Hedge funds	(b)	375,182,635	-	Monthly/ Annually	30 - 180 days
Limited partnerships	(c)	296,318,971	-	Quarterly/ Annually	90 - 180 days
Private equity	(d)	145,353,313	59,130,781	Not eligible for redemption	N/A
Subtotal		1,132,518,926	59,130,781		

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Investments designated for others					
Equities	(e)	$ 17,331,160	$ -	Daily	1 day
Fixed income	(f)	6,753,185	-	Daily	1 day
Subtotal		24,084,345	-		
Total		$1,156,603,271	$ 59,130,781		

Investments

(a) Comprised of a commingled fund invested in U.S. equity utilizing a long-short strategy (68%) and a commingled fund invested in value-oriented non-U.S. equity investments in international developed and emerging markets (32%). Fair values are estimated using NAV per share based on the market value of underlying equity holdings. The U.S. equity fund has quarterly liquidity with a 60-day redemption notice. The non-U.S. equity fund has monthly liquidity with a 14-day redemption notice.

(b) Comprised of commingled absolute return direct and hedge fund-of-fund investments invested in global equity (37%), long-short global equity (32%), and other multi-strategy portfolios which include non-directional absolute return strategies (31%). Fair values are estimated using the NAV per share of the underlying equity and asset holdings. Hedge fund investments have redemption notice periods ranging from 95 to 105 days. As of December 31, 2017, investments with fair values comprising 80% have quarterly liquidity with a 105-day redemption notice period, 13% have semi-annual liquidity with 95-day notice and the remaining 7% are in illiquid lockup structures.

(c) Comprised of limited partnership investments which include multi-strategy portfolios (61%) invested primarily in global equity, long-short global equity and other non-directional absolute return strategies. Fair values are estimated using the NAV per share of the underlying investments. As of December 31, 2017, investments with fair values comprising 39% have quarterly liquidity with a 30-day redemption notice period, 22% have quarterly liquidity with a 60-day redemption notice period, and the remaining 39% have annual liquidity with a 180-day redemption notice period.

(d) Includes direct and fund-of-funds limited partnership investments. Underlying investments are valued by the general partner for direct investments. For fund-of-funds investments, fair values are estimated using NAV per share. Independent third-party firms provide private equity valuations. These investments are illiquid and cannot be redeemed.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Investments Designated for Others

(e) Comprised of several passively managed common trust funds invested in U.S. equity (72%) and non-U.S. equities (28%). Fair values are estimated using NAV per share based on the market values of underlying equity holdings. All common trust funds have daily liquidity.

(f) Comprised of various common trust funds invested in fixed income investments representative of the U.S. bond and debt market as characterized by the Barclays Aggregate index (57%) and the Barclays U.S. 1 to 5 Year Credit Bond index (43%). Fair values are estimated using the NAV per share of the underlying fixed income investments which include securities issued by the U.S. Treasury and other governmental agencies, mortgage and other commercial asset-backed bonds, corporate bonds and other credit securities of the overall U.S. bond and debt market. All common trust funds have daily liquidity.

The following provides a brief description of the types of recurring financial instruments the Foundation holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate:

Cash and Cash Equivalents

Cash and cash equivalents are recurring fair value measurements. This category includes cash and highly liquid investments with a maturity of three months or less which are considered Level 1 inputs.

Investments

Fixed Income: Fixed income securities including U.S. treasury obligations, government agency bonds, corporate bonds, non-investment grade high-yield credit, commercial and residential mortgages, bank loans, preferred securities and non-U.S. credit obligations. Directly held fixed income securities are valued at quoted market prices and are classified as Level 2 inputs. This category also includes institutional mutual and exchange-traded funds, which also invest in fixed income securities which are also Level 2 inputs.

Equities: Directly held equity securities are valued at quoted market prices reported from respective markets and are classified as Level 2 inputs or those measured at NAV. This category also includes institutional mutual and exchange-traded funds, which also invest in equity securities and are considered Level 2 inputs. Fair values are estimated based on market values of the underlying holdings or NAV.

Hedge Funds: Actively managed funds and funds-of-funds which invest in equities, credit securities and non-correlated assets. While generally less liquid than traditional fixed income or equity investments, hedge funds provide stable returns and preserve capital in down market environments. Market values are determined using NAV per share as provided by an independent administrator. Market values are provided by independent custodians and/or fund managers based on third-party valuation assessments. These assets are classified at NAV.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Limited Partnerships: Less-liquid investments in privately owned assets managed by a general partner. Limited partnership investments, like hedge funds, are expected to outperform public markets over a market cycle, and tend to invest in non-correlated assets including real estate, distressed credit securities and private equity investments which provide attractive long-term returns. These investments are also expected to protect against inflation and preserve capital in down market environments. Market values are provided by the general partner supported by independent third-party valuation estimates. Investments are classified at NAV as they are unobservable.

Private Equity: Limited partnership equity investments in private companies with a global orientation which are expected to significantly outperform public equity markets over a market cycle. These investments are illiquid as capital is called by general partners over a number of years as investments are made. Market values are provided by the general partner supported by independent third-party valuation estimates. Investments are classified at NAV as they are unobservable.

NOTE G - ASSETS DESIGNATED FOR OTHERS

As a major supporter of The Philadelphia Orchestra Association (the Association), the Foundation worked closely with the Association throughout its Chapter 11 Bankruptcy to ensure the organization's sustainability. In an agreement dated September 15, 2003, the Foundation granted $50 million to the Association's endowment. During the Chapter 11 reorganization, the Foundation and the Association collaborated on a new trust agreement to redefine the parameters and reiterate the restrictions on those endowment funds (the Trust Agreement), which provides for the transfer of certain assets to the Philadelphia Orchestra Association Grantor Trust (the Grantor Trust), with The Northern Trust Company, as trustee, for the Association's use and benefit, on terms and conditions set forth in the Trust Agreement.

The confirmation of the Association's Plan of Reorganization on June 28, 2012 constitutes approval of the Trust Agreement and authorization for the Association to enter into the Trust Agreement. The parties executed a Side Letter dated September 4, 2012 that governs their conduct in connection with certain administrative provisions of the Grantor Trust. The Side Letter memorializes the initial funding of the Grantor Trust with assets whose fair value at August 28, 2012 was $45,603,170 before being reduced by certain fees. The Office of the Attorney General of the Commonwealth of Pennsylvania approved the Trust Agreement and Side Letter on November 2, 2012.

The Trust Agreement and Side Letter contain conditional terms that preclude the Association from recording the aforementioned assets on its consolidated statement of financial position.

The Side Letter also provides for an annual fiscal draw from the Grantor Trust in the amount of 5.5% of the three-year moving average of the endowment. The Foundation approved a September 2017 draw from the Grantor Trust to the Association for fiscal 2017/18 operating support in the amount of $2,574,225.

Cash and cash equivalents designated for others was $577,966 and $180,787 at December 31, 2017 and 2016, respectively. Investments designated for others were $48,717,161 and $44,148,429 at December 31, 2017 and 2016, respectively. These assets are held in custody at The Northern Trust Company under the Trust Agreement for the benefit of the Association.

NOTE H - LOAN GUARANTY

In October 2011, the Foundation established Center for Performing Arts Finance Company LLC (Finance Company), a special purpose limited liability company formed under the laws of the State of Delaware, and qualified to do business in the State of California. The Foundation was the sole member of this LLC.

On August 31, 2012, the Finance Company entered into a reimbursement agreement with The Northern Trust Company (Northern Trust) to provide a five-year $38,500,000 standby letter of credit (Northern Trust Letter of Credit) to support a portion of the loans (CNB Loans) made by City National Bank (CNB) to the Wallis Annenberg Center for the Performing Arts (WACPA), a separate nonprofit corporation exempt from taxation under Section 501(c)(3) of the IRC, dedicated to the preservation and transformation of the historic landmark Beverly Hills Post Office (Post Office). The primary purpose of the CNB Loans is to finance the renovation of the Post Office and construction of an additional integrated theatre building on the site. The Foundation guarantied the obligations of the Finance Company under the Northern Trust reimbursement agreement. The Standby Exposure Fee on the Northern Trust Letter of Credit is 0.625% annually.

The Finance Company executed a reimbursement agreement on or about August 31, 2012 with WACPA whereby WACPA agreed to reimburse the Finance Company for any payment made by Finance Company to reimburse Northern Trust for any draw under the Northern Trust Letter of Credit. As of December 31, 2016, the Northern Trust Letter of Credit was $8,397,111 and no draw had been made.

On August 9, 2017, the Finance Company assigned its rights and duties under the reimbursement agreement with Northern Trust to the Foundation. The Foundation provided a limited guaranty to CNB for principal outstanding on the CNB loans not to exceed the maximum amount of $6,760,318, secured by a promissory note with WACPA. At the same time, WACPA amended its loan agreement with CNB extending the maturity date of the CNB loans to December 31, 2019. As a condition to this extension, CNB cancelled and returned the Northern Trust Letter of Credit to Northern Trust. The Finance Company LLC was dissolved effective October 4, 2017.

As of December 31, 2017, the principal outstanding on WACPA's CNB loans was $5,708,926. The Foundation's repayment loan guaranty to CNB was $6,095,483, which includes $386,557 in undisbursed funds under the commitment as of this date.

NOTE I - LONG-TERM LIABILITY - ASSET RETIREMENT OBLIGATION (ARO)

ASC 410, *Asset Retirement and Environmental Obligations,* requires organizations to accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

The Foundation identified future contaminated soil abatement activities as a conditional asset retirement obligation associated with certain properties acquired by Metabolic Studio LLC during 2014. Contaminated soil abatement activities were estimated based upon historical removal costs per square foot applied to assets identified requiring soil abatement. ASC 410 requires that the estimate be recorded as a liability and as an increase to the recorded historical cost of the asset. The capitalized portion is depreciated over the remaining useful life of the asset.

(Continued)

NOTE I - LONG-TERM LIABILITY - ASSET RETIREMENT OBLIGATION (ARO) - Continued

The present value of the asset retirement obligation totaled $3,304,332 and $3,102,659 as of December 31, 2017 and 2016, respectively, utilizing a discount rate of 6.50%. The liability will continue to be accreted to expense until such point that remediation costs are required. An initial asset retirement cost and asset retirement obligation of $2,706,179 was recorded at the time of the purchases of the properties. During 2017 and 2016, accretion expense related to the asset retirement obligation was $201,673 and $189,360, respectively.

NOTE J - LINE OF CREDIT

The Foundation entered into a loan agreement with Northern Trust on June 9, 2016. This one-year agreement allows the Foundation to obtain short-term loans for periods ranging from 30 to 90 days from Northern Trust of up to $25,000,000 to fund Foundation quarterly working capital needs for grants and operating expenses. The Foundation may elect the interest rate at the time of the draw, either the Prime Rate or the one-, two-, or three-month London Interbank Offered Rate (LIBOR). At loan maturity, any outstanding principal and interest are due to Northern Trust. The Foundation pays Northern Trust an unused carry fee equal to ten one-hundredths of one percent (0.10 of 1%) or $25,000 on an annualized basis. The Foundation made no principal draws against this loan in 2017 and 2016.

NOTE K - RELATED PARTY TRANSACTIONS

The Foundation's Chairman is also the chairman of The Wallis Annenberg Legacy Foundation (Legacy), a private operating foundation located in Los Angeles, California. During the years ended December 31, 2017 and 2016, the Foundation granted $71.7 million and $18.0 million, respectively, to Legacy to support and operate programs that educate the general public.

Legacy is the sole member of the Annenberg Legacy at Playa Vista, LLC (Playa Vista LLC), which was formed in May 2015 under the laws of the State of California. The Foundation approved a guaranty for Playa Vista LLC to enter into a twelve-year operating lease through March 15, 2028 for the Wallis Annenberg PetSpace. As of December 31, 2017 and 2016, rent payments due over the remaining term of this lease were $19,850,994 and $21,409,812, respectively.

NOTE L - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2017 consolidated financial statements for subsequent events through November 14, 2018, the date the consolidated financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.