Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Annenberg Foundation

December 31, 2015 and 2014

Contents

Audit – Tax – Advisory

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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, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years ended December 31, 2015 and 2014 in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Los Angeles, California
October 28, 2016

Annenberg Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	2015	2014
ASSETS:		
Cash and cash equivalents	$ 34,815,348	$ 38,080,737
Cash and cash equivalents designated for others (Note G)	225,545	254,354
Due from investment manager	14,952,805	2,012,830
Investment income and other receivables	2,211,620	1,227,348
Investments, at fair value	1,455,142,700	1,538,885,119
(cost $1,073,302,834 and $1,112,793,308, respectively)		
Investments designated for others, at fair value (Note G)	42,907,098	46,573,030
(cost $42,145,209 and $43,812,124, respectively)		
Inventory	34,243	445,356
Prepaid federal excise and income taxes	1,179,624	220,595
Property and equipment, net	34,139,561	35,396,524
Total assets	$ 1,585,608,544	$ 1,663,095,893
LIABILITIES:		
Grants payable, net of discount	$ 42,621,008	$ 39,360,240
Due to investment manager	22,901,257	-
Accounts payable	4,413,169	5,454,531
Royalties and contracts payable	664,381	756,795
Long term liability [ARO] (Note I)	2,913,299	2,735,495
State income tax payable	27,100	-
Deferred federal excise tax liability	-	1,034,434
Total liabilities	73,540,214	49,341,495
NET ASSETS:		
Unrestricted net assets:		
Accumulated change in net assets	1,512,067,330	1,613,753,398
Capital stock (1,000 shares authorized, issued and outstanding; $1 par value)	1,000	1,000
Total unrestricted net assets	1,512,068,330	1,613,754,398
Total liabilities and net assets	$ 1,585,608,544	$ 1,663,095,893

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2015	2014
REVENUES AND GAINS:		
Investment income		
Dividends	$ 5,876,983	$ 8,235,437
Interest	5,053,350	4,233,639
Net realized gains	42,048,963	42,581,665
Net unrealized gains (losses)	(33,312,031)	51,721,709
Total investment income	19,667,265	106,772,450
Investment expenses	(17,267,365)	(20,718,299)
Provision for federal excise and income taxes	877,136	2,072,721
Total investment expenses and taxes	(16,390,229)	(18,645,578)
Net investment income	3,277,036	88,126,872
Program revenue		
Annenberg Learner	506,280	762,329
Annenberg Space for Photography/Skylight Studios	259,485	283,473
Other income	358,503	486,261
Total revenues	4,401,304	89,658,935
EXPENSES:		
Grants	64,355,490	76,515,935
Direct program		
Annenberg Space for Photography/Skylight Studios	9,866,963	10,736,918
Metabolic Studio LLC	6,886,004	8,217,553
Explore LLC	6,181,090	5,569,866
Annenberg Learner	3,148,897	4,016,283
Chairman's Fund Programs	3,221,341	4,619,729
Annenberg Ventures	1,101,448	1,013,160
Ballona Urban Ecology Center LLC	381,033	2,318,535
GRoW	225,063	266,839
AltaSea	119,016	-
Total direct program	31,130,855	36,758,883
General and administrative	10,601,027	10,095,114
Total expenses	106,087,372	123,369,932
Change in unrestricted net assets	(101,686,068)	(33,710,997)
Unrestricted net assets, beginning of year	1,613,754,398	1,647,465,395
Unrestricted net assets, end of year	$ 1,512,068,330	$ 1,613,754,398

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ (101,686,068)	$ (33,710,997)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,345,488	4,376,416
Net realized gains on sale of investments	(42,048,963)	(42,581,665)
Net unrealized losses (gains) on investments	33,312,031	(51,721,709)
Changes in assets and liabilities:		
Inventory	411,113	24,300
Asset retirement cost	90,204	2,691,145
Due from investment manager	(12,939,975)	18,285,170
Cash designated for others	28,809	246,747
Investment income and other receivables	(984,272)	688,448
Prepaid federal excise and income taxes	(959,029)	(220,595)
Grants payable, net of discount	3,260,768	4,949,498
Due to investment manager	22,901,257	-
Accounts payable	(1,041,362)	1,796,024
Royalties and contracts payable	(92,414)	126,376
Current taxes payable	-	(206,258)
Long term liability [ARO]	177,804	2,735,495
State income tax payable	27,100	-
Deferred federal excise tax liability	(1,034,434)	(3,198,432)
Net cash used in operating activities	(96,231,943)	(95,720,037)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,915,896,069	2,391,867,982
Purchase of investments	(1,819,750,785)	(2,280,369,598)
Purchase of property and equipment	(3,178,730)	(25,280,486)
Net cash provided by investing activities	92,966,554	86,217,898
Net change in cash and cash equivalents	(3,265,389)	(9,502,139)
Cash and cash equivalents, beginning of year	38,080,737	47,582,876
Cash and cash equivalents, end of period	$ 34,815,348	$ 38,080,737
Supplemental disclosure of cash flow information:		
Cash paid during the period for taxes	$ 1,030,000	$ 1,555,000

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

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 the Center For Performing Arts Finance Company LLC. 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, 2015 and 2014 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 use primarily in the Annenberg Learner project is carried at the lower of first-in, first-out, cost or market.

5. Investments

Investments in marketable securities 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 financial statement 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.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

5. Investments (continued)

Other investments include hedge funds, limited partnership interests, private equity funds and real assets. 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 Annenberg 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 Code. 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, 2015 and December 31, 2014, 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, 2015 and 2014 was $117,672 and $1,096,734, respectively.

Deferred taxes are associated with unrealized gains recorded as of December 31, 2015 and 2014. 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 benefit for the years ended December 31, 2015 and 2014 was $1,034,434 and $3,198,432, respectively.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

8. Tax Status (continued)

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, 2015 and 2014 was $39,626 and $28,977 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, 2015 and 2014, and the Foundation does not anticipate a material change in its uncertain tax benefits for the 12 months following December 31, 2015. As of December 31, 2015, the Foundation's tax periods ended December 31, 2011 through December 31, 2015 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 (FDIC) 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 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 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 grants payable and the reported values of certain of the Foundation's assets and liabilities.

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:

	2015		2014	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 431,661,780	$ 309,146,906	$ 492,648,366	$ 334,766,813
Fixed income	198,577,086	199,468,212	173,403,826	172,032,340
Alternative investments:				
Hedge funds	67,974,141	55,628,993	99,128,844	83,389,486
Limited partnerships	645,866,683	416,144,690	685,999,831	450,092,466
Private equity	111,063,010	92,914,033	87,704,252	72,512,203
	$ 1,455,142,700	$1,073,302,834	$ 1,538,885,119	$ 1,112,793,308

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

	2015		2014	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 29,471,487	$ 27,954,171	$ 30,815,189	$ 27,838,922
Fixed income	12,538,949	13,366,319	14,827,763	15,148,483
Alternative investments:				
Real estate	896,662	824,719	930,078	824,719
	42,907,098	42,145,209	46,573,030	43,812,124
Total investments	$ 1,498,049,798	$1,115,448,043	$ 1,585,458,149	$ 1,156,605,432

Net realized gains on the sale of investments for the years ended December 31, 2015 and 2014 were $42,048,963 and $42,581,665 respectively. Net unrealized (losses)/gains on investments for the years ended December 31, 2015 and 2014 were ($33,312,031) and $51,721,709, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Useful life	2015	2014
Art		$ 222,422	$ 222,422
Computer software and equipment	3 years	6,713,857	5,297,279
Office furniture, fixtures and equipment	5 - 7 years	11,245,548	9,658,630
Leasehold improvements	2 - 5 years	16,526,367	16,508,372
Building	30 years	6,736,544	6,736,544
Land		14,879,203	13,695,667
Asset retirement cost		2,600,941	2,691,145
Construction in progress		2,148,030	3,174,328
		61,072,912	57,984,387
Less accumulated depreciation and amortization		(26,933,351)	(22,587,863)
Net property and equipment		$ 34,139,561	$ 35,396,524

Depreciation expense was $4,345,489, and $4,332,066 for the years ended December 31, 2015 and 2014, respectively. In addition, depreciation and accretion expense in connection with the asset retirement cost was $268,008 and $44,350 for the years ended December 31, 2015 and 2014, respectively.

NOTE D - GRANTS PAYABLE

Unpaid grant commitments are recorded in the consolidated financial statements at net present value (based on discount rates between 2.91% and 6.70%). Unpaid unconditional grant commitments are scheduled for payment as follows:

2016	$ 29,623,426
2017	11,460,299
2018	2,385,000
2019	1,425,000
Total	44,893,725
Less amount representing discount	(2,272,717)
Total at present value	$ 42,621,008

Unpaid conditional grant commitments payable at December 31, 2015 and 2014 of $250,000 and $400,000, 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:

Year ended December 31:	CA	PA	DC	Total
2016	$ 1,497,515	$ 136,452	$ 130,615	$ 1,764,582
2017	1,548,327	136,348	87,759	1,772,434
2018	1,417,042	139,068	90,172	1,646,282
2019	-	-	7,599	7,599
	$ 4,462,884	$ 411,868	$ 316,145	$ 5,190,897

Rent expense, net of sublease rental income, under the operating leases was $1,851,633 and $1,731,016 for the years ended December 31, 2015 and 2014, 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy under Accounting Standards Codification (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.

NOTE F - FAIR VALUE MEASUREMENTS - Continued

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 Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 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. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2015 and 2014 and indicates the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Equities	$ 57,358,630	$ 374,303,150	$ -	$ 431,661,780
Fixed income	-	198,577,086	-	198,577,086
Alternative investments				
Hedge funds	-	-	67,974,141	67,974,141
Limited partnerships	-	-	645,866,683	645,866,683
Private equity	-	-	111,063,010	111,063,010
Subtotal	57,358,630	572,880,236	824,903,834	1,455,142,700
Investments designated for others				
Equities	-	29,471,487	-	29,471,487
Fixed income	-	12,538,949	-	12,538,949
Alternative investments				
Real estate	-	896,662	-	896,662
Subtotal	-	42,907,098	-	42,907,098
Total	$ 57,358,630	$ 615,787,334	$ 824,903,834	$1,498,049,798

NOTE F - FAIR VALUE MEASUREMENTS - Continued

December 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Equities	$ 90,797,193	$ 401,851,173	$ -	$ 492,648,366
Fixed income	-	173,403,826	-	173,403,826
Alternative investments				
Hedge funds	-	-	99,128,844	99,128,844
Limited partnerships	-	-	685,999,831	685,999,831
Private equity	-	-	87,704,252	87,704,252
Subtotal	90,797,193	575,254,999	872,832,927	1,538,885,119
Investments designated for others				
Equities	-	30,815,189	-	30,815,189
Fixed income	-	14,827,763	-	14,827,763
Alternative investments				
Commodity-linked	-	-	-	-
Real estate	-	930,078	-	930,078
Subtotal	-	46,573,030	-	46,573,030
Total	$ 90,797,193	$ 621,828,029	$ 872,832,927	$1,585,458,149

A financial instrument’s level within fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

NOTE F - FAIR VALUE MEASUREMENTS – Continued

The following table summarizes the change in value of the Foundation's Level 3 investments.

December 31, 2015	Hedge Funds	Limited Partnerships	Private Equity	Total
Beginning balance	$ 99,128,844	$ 685,999,831	$ 87,704,252	$ 872,832,927
Purchases	220,777	2,425,746	26,355,814	29,002,337
Redemptions	(35,278,916)	(46,392,064)	(7,719,280)	(89,390,260)
Net realized investment gains	7,297,646	10,018,542	1,765,296	19,081,484
Net unrealized gains (losses)	(2,035,183)	3,574,476	4,731,282	6,270,575
Management and incentive fees	(1,359,027)	(9,759,848)	(1,774,354)	(12,893,229)
Ending balance	$ 67,974,141	$ 645,866,683	$ 111,063,010	$ 824,903,834

December 31, 2014	Hedge Funds	Limited Partnerships	Private Equity	Total
Beginning balance	$ 113,341,941	$ 677,630,682	$ 67,706,430	$ 858,679,053
Purchases	21,554,884	16,270,210	25,274,056	63,099,150
Redemptions	(42,714,854)	(38,773,345)	(16,364,176)	(97,852,375)
Net realized investment gains	6,890,647	7,588,724	5,045,733	19,525,104
Net unrealized gains	1,514,470	35,405,320	7,060,536	43,980,326
Management and incentive fees	(1,458,244)	(12,121,760)	(1,018,327)	(14,598,331)
Ending balance	$ 99,128,844	$ 685,999,831	$ 87,704,252	$ 872,832,927

There were no transfers out from Level 3 during the years ended in December 31, 2015 or 2014.

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in certain entities that calculate NAV (or its equivalent) as of December 31, 2015 are as follows:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Investments					
Money market fund	(a)	$ 5,028,748	$ -	Daily	1 day
International equities	(b)	191,225,924	-	Monthly	1 - 15 days
Multi-strategy hedge fund-of-funds and limited partnerships	(c)	630,702,047	-	Monthly/Annually	30 - 180 days
Multi-strategy hedge funds and limited partnerships	(d)	83,138,776	-	Quarterly/Annually	90 - 180 days
Private equity	(e)	111,063,010	101,505,721	Not eligible for redemption	N/A
Subtotal		1,021,158,505	101,505,721		
Investments designated for others					
Fixed income	(f)	12,538,949	-	Daily	1 day
U.S. equities	(g)	20,002,364	-	Daily	1 day
International equities	(h)	8,696,981	-	Daily	1 day
Natural resources-linked	(i)	772,142	-	Daily	1 day
Real estate	(j)	896,662	-	Daily	1 day
Subtotal		42,907,098	-		
Total		$ 1,064,065,603	$ 101,505,721		

Investments

(a) Institutional money-market fund which invests in short term U.S. Treasury and government agency obligations, commercial paper, repurchase agreements and other short-term fixed income holdings. The fair values have been estimated using the NAV per share of the investments. This investment has daily liquidity and a one-day redemption notice requirement.

(b) Comprised of various mutual funds and unit trusts funds which primarily hold long-only global equities. The fair values have been estimated using the NAV per share/unit of the underlying investments. As of December 31, 2015, investments with fair values comprising 35% of this category have a one- to six-business day redemption period, 14% have a 15-day notice and the remaining 51% have a 30-day redemption notice period.

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Investments (continued)

(c) Comprised of various commingled hedge fund-of-funds and limited partnership investments. These multi-strategy portfolios primarily invest in long and short positions in U.S. and global common stock, natural resources, and non-directional market neutral strategies, including event-driven, relative value, and credit strategies. Fair values are estimated using the NAV per share of the investments. Investments in this category require a 30- to 180-day redemption notice. As of December 31, 2015, investments with fair values comprising 13% have a 30-day redemption notice period, 3% have a 90-day redemption notice period, 7% have a 95-day redemption notice period, 46% have a 105-day redemption notice period, 20% have a 180-day redemption notice period, while the remaining 11% are illiquid in lockup structures.

(d) Comprised of various direct hedge fund and limited partnership investments which include multi-strategy portfolios invested primarily in fundamental long and short positions in U.S. and global common stock, event-oriented, distressed credit, asset-based financing, derivative and private investments. Fair values are estimated using the NAV per share of the investments. Investments in this category require a 60- to 65-day redemption notice period and can be redeemed quarterly. Independent third-party firms provide private equity valuations.

(e) 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. These investments are illiquid and cannot be redeemed.

Investments designated for others

(f) Comprised of various active (49%) and passively (51%) managed institutional fixed income mutual funds and exchange traded funds which invest primarily in securities comprising the Barclays Capital Aggregate Bond Index (67%), the Bank of America Merrill Lynch U.S. High Yield Index (26%) and three-year target duration U.S. Treasury Inflation Protected Securities (TIPS) index (7%). Fair values are estimated using the NAV per share of the underlying investments which include U.S. treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, non-U.S. bonds, high yield corporate securities, emerging market bonds, convertibles, preferred stock, mortgages, bank loans, Real Estate Investment Trusts (REITS), municipal bonds and closed-end high yield funds. All funds have daily liquidity.

(g) Comprised of various passive and active institutional mutual funds which invest in U.S. equity securities. Passive strategies are invested to duplicate the performance of the Russell 1000 (46%) and Russell 2000 (8%) and Mid-Cap (7%) indices. Active strategies are large cap stocks (39%). Fair values are estimated using NAV per share based on the market values of underlying equity holdings. Each fund has daily liquidity.

(h) Comprised of various passive and active institutional mutual funds which invest in international equity securities. Passive strategies are invested to duplicate the performance of the MSCI All Country World Ex U.S. Index (38%) and MSCI Emerging Markets Index (5%). Active strategies are diversified between international developed (36%) and emerging (11%) equity markets. A global infrastructure fund consisting of equity securities in infrastructure companies also makes up (10%) of this category. All fund fair values are estimated using NAV per share based on the market values of underlying equity holdings. Each fund has daily liquidity.

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Investments designated for others (continued)

(i) The exchange traded fund will invest at least 80% of its assets in the securities of the Morningstar Global Upstream Natural Resources Index that have significant business operations in the ownership, management and/or production of natural resources in energy, agriculture, precious or industrial metals, timber and water resources. The Fund's investment objective is to provide global exposure to the rising demand for natural resources that is being driven by globalization. Fair values are estimated using NAV per share based on the market values of underlying investments. The fund has daily liquidity and invests in both American Depositary Receipts (ADRS) and Global Depositary Receipts (GDRS) based on the securities in the underlying index. The Fund may also invest up to 20% of its assets in cash and shares of money market funds, futures contracts, options on futures contracts, forward currency contracts, options and swaps. Each fund has daily liquidity.

(j) Institutional mutual fund index comprised substantially of publicly traded global equity securities which are engaged principally in real estate activities, including ownership, trading and development of income producing REITS. The fund's holdings approximate the composition of the Financial Times Stock Exchange (FTSE), European Public Real Estate Association (EPRA), National Association of Real Estate Investment Trust (NAREIT) global index which is a market capitalization-weighted real estate index designed to represent publicly traded REITS and listed property companies globally. The index covers both developed and emerging market countries. Fair values are estimated using NAV per share based on market values of the underlying investments. The fund has daily liquidity and is managed to replicate the performance of the index.

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. Fair values are estimated using NAV per share based on market values of the underlying holdings.

Equities: Directly held equity securities are valued at quoted market prices reported from respective markets and are classified as Level 2 inputs. 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 using NAV per share based on market values of the underlying holdings.

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Investments (continued)

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 as Level 3 inputs.

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 as Level 3 inputs 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 as Level 3 inputs 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 Association'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.

NOTE G – ASSETS DESIGNATED FOR OTHERS - Continued

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 2015 draw from the Grantor Trust to the Association for fiscal 2015/16 operating support in the amount of $2,590,602.

Cash and cash equivalents designated for others was $225,545 and $254,354 at December 31, 2015 and 2014, respectively. Investments designated for others was $42,907,098 and $46,573,030 at December 31, 2015 and 2014, respectively. These assets are held in custody at The Northern Trust Company under the Trust Agreement for the benefit of the Association.

NOTE H - STANDBY LETTER OF CREDIT

The Foundation is the sole member of Center for Performing Arts Finance Company LLC (Finance Company), a special purpose limited liability company formed under the laws of the State of Delaware on or about October 4, 2011, and qualified to do business in the State of California on or about October 6, 2011.

On August 31, 2012, the Finance Company entered into a reimbursement agreement with The Northern Trust Company (Northern Trust) to provide a $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 Internal Revenue Code, dedicated to the preservation and transformation of the historic landmark Beverly Hills Post Office. The primary purpose of the CNB Loans is to finance the renovation of the Beverly Hills Post Office and construction of an additional integrated theatre building on the Beverly Hills Post Office 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, 2015, the Northern Trust Letter of Credit was $14,349,779 and no draw had been made.

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.

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

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.

The present value of the asset retirement obligation totaled $2,913,299 and $2,735,495 as of December 31, 2015 and 2014, 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 2015 and 2014, accretion expense related to the asset retirement obligation was $177,804 and $29,316, respectively.

NOTE J – LINE OF CREDIT

The Foundation entered into a loan agreement with The Northern Trust Company (Northern Trust) on June 9, 2015. 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 $50,000,000 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 five one-hundredths of one percent (0.05 of 1%) or $25,000 on an annualized basis. The Foundation made no principal draws against this loan agreement in 2015.

NOTE K - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2015 consolidated financial statements for subsequent events through October 28, 2016, 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.