Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Annenberg Foundation

December 31, 2012 and 2011

Contents

Grant Thornton

Audit – Tax – Advisory

Grant Thornton LLP
515 South Flower Street, 7th Floor
Los Angeles, CA 90071-2201

T 213.627.1717
F 213.624.6793
www.GrantThornton.com

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, 2012 and 2011, and the related consolidated statements of activities and cash flows for the year ended December 31, 2012 and the six months ended December 31, 2011, 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, 2012 and 2011, and the changes in its net assets and its cash flows for the year ended December 31, 2012 and the six months ended December 31, 2011 in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Los Angeles, California
September 17, 2013

Annenberg Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS	2012	2011
Cash and cash equivalents	$ 86,262,170	$ 155,268,254
Cash designated for others (Note A)	3,261,145	-
Investment income and other receivables	1,740,626	2,136,720
Due from investment manager	38,024,299	16,365,000
Investments in marketable securities, at fair value (cost $1,232,358,996 and $1,274,969,052, respectively)	1,436,635,625	1,341,390,206
Investments designated for others, at fair value (cost $40,853,230 at December 31, 2012)	41,240,123	-
Inventory	531,771	546,423
Excise tax receivable	-	928,922
Property and equipment, net	15,466,286	16,599,390
Total assets	$ 1,623,162,045	$ 1,533,234,915
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	$ 49,215,098	$ 81,765,231
Due to The Annenberg Foundation Trust at Sunnylands	-	27,607,262
Accounts payable	4,549,589	4,527,385
Current taxes payable	259,611	-
Due to investment manager	29,695,011	-
Deferred excise tax liability (asset)	3,119,389	(2,205,588)
Royalties and contracts payable	650,614	322,457
Total liabilities	87,489,312	112,016,747
Net assets		
Unrestricted net assets		
Accumulated change in net assets	1,535,671,733	1,421,217,168
Capital stock (1,000 shares authorized, issued and outstanding; $1 par value)	1,000	1,000
Total unrestricted net assets	1,535,672,733	1,421,218,168
Total liabilities and net assets	$ 1,623,162,045	$ 1,533,234,915

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended December 31, 2012 and six months ended December 31, 2011

	2012	2011
Revenues and gains		
Investment income (loss)		
Dividends	$ 6,141,887	$ 6,013,665
Interest	3,477,188	2,558,792
Net realized and unrealized gains (losses)	168,467,197	(102,363,945)
Total investment income (loss)	178,086,272	(93,791,488)
Investment expenses	(20,063,848)	(7,996,357)
Federal excise tax (provision) benefit	(5,854,029)	5,316,141
Total investment expenses and taxes	(25,917,877)	(2,680,216)
Net investment income (loss)	152,168,395	(96,471,704)
Program revenue - Annenberg Learner	1,346,338	813,287
Other income	465,555	148,440
Recovery of grants (Note A)	43,120,278	-
Total revenues (loss)	197,100,566	(95,509,977)
Expenses		
Grants	44,592,585	18,828,826
Program related administrative	5,025,988	2,081,146
Direct program		
Annenberg Learner	4,170,907	1,841,190
Annenberg Space for Photography	8,509,809	3,174,769
Ballona Urban Ecology Center LLC	622,299	5,161,082
Explore LLC	4,859,415	2,217,889
Metabolic Studio LLC	7,326,599	3,028,217
Total direct program	25,489,029	15,423,147
General and administrative	7,538,399	3,686,951
Total expenses	82,646,001	40,020,070
Change in unrestricted net assets	114,454,565	(135,530,047)
Unrestricted net assets, beginning of period	1,421,218,168	1,556,748,215
Unrestricted net assets, end of period	$ 1,535,672,733	$ 1,421,218,168

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2012 and six months ended December 31, 2011

	2012	2011
Cash flows from operating activities		
Change in unrestricted net assets	$ 114,454,565	$ (135,530,047)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Depreciation	3,592,491	1,671,769
Loss on disposal of fixed assets	150	4,753,217
Deferred federal excise tax	5,324,977	(6,175,741)
Realized gains on the sale of investments	(12,497,751)	(7,915,450)
Unrealized (gains) losses on investments	(155,969,446)	110,279,395
Changes in assets and liabilities		
Investment income and other receivables	396,094	1,348,117
Due from investment manager	(21,659,299)	(16,365,000)
Restricted cash	-	2,500,000
Cash designated for others	(3,261,145)	-
Inventory	14,652	20,630
Excise tax receivable	928,922	806,374
Grants payable	(32,550,133)	(15,924,669)
Due to The Annenberg Foundation Trust at Sunnylands	(27,607,262)	(29,480,896)
Due to investment manager	29,695,011	-
Accounts payable	22,204	633,541
Current taxes payable	259,611	-
Royalties and contracts payable	328,157	(393,042)
Net cash used in operating activities	(98,528,202)	(89,771,802)
Cash flows from investing activities		
Proceeds from sale of investments	2,905,261,457	1,297,787,941
Purchase of investments	(2,873,279,802)	(1,111,784,839)
Purchase of property and equipment	(2,459,537)	(1,278,335)
Net cash provided by investing activities	29,522,118	184,724,767
Net (decrease) increase in cash and cash equivalents	(69,006,084)	94,952,965
Cash and cash equivalents, beginning of period	155,268,254	60,315,289
Cash and cash equivalents, end of period	$ 86,262,170	$ 155,268,254
Supplemental disclosure of cash flow information:		
Cash paid during the period for taxes	$ 325,000	$ 50,000

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 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, 2012 and 2011 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. Cash and Investments 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.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 2012 draw from the Grantor Trust to the Association for fiscal 2012/13 operating support in the amount of $2,362,500.

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 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.

Cash and investments designated for others in the amount of $3,261,145 and $41,240,123, respectively, are included in the Foundation's consolidated statement of financial position as of December 31, 2012. These assets are held in custody at The Northern Trust Company under the Trust Agreement for the benefit of the Association.

5. Inventory

Inventory purchased for use primarily in the Annenberg Learner Project is carried at the lower of first-in, first-out, cost or market.

6. 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.

Other 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.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

7. 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.

8. 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.

9. 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 year ended December 31, 2012 and six months ended December 31, 2011, the Foundation did not make sufficient qualifying distributions to qualify for the reduced one-percent tax.

The current federal excise tax expense/(benefit) for the year ended December 31, 2012 and the six months ended December 31, 2011 was $529,052 and $859,600, respectively.

Deferred taxes are associated with unrealized gains recorded as of December 31, 2012 and 2011. 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 tax expense/(benefit) for the year ended December 31, 2012 and the six months ended December 31, 2011 was $5,324,977 and $(6,175,741), 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 year ended December 31, 2012 and the six months ended December 31, 2011 is immaterial to the financial statements taken as a whole, and therefore, no provisions for federal or state income taxes are presented.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2012 and 2011, and the Foundation does not anticipate a material change in its uncertain tax benefits for the 12 months following December 31, 2012. As of December 31, 2012, the Foundation's tax periods ended June 30, 2009 through December 31, 2012 for the federal tax jurisdiction remain open to examination.

10. 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.

11. 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 contributions 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:

	2012		2011	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 392,925,793	$ 324,839,650	$ 353,321,093	$ 340,585,334
Fixed income	271,243,135	267,251,247	278,829,834	275,880,662
Alternative investments:				
Hedge funds	149,975,152	143,185,303	186,912,563	187,165,812
Limited partnerships	575,937,510	453,741,521	504,331,943	453,176,750
Private equity	46,554,035	43,341,275	17,994,773	18,160,494
	$ 1,436,635,625	$ 1,232,358,996	$ 1,341,390,206	$ 1,274,969,052

(Continued)

NOTE B - INVESTMENTS - Continued

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

	2012		2011	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 26,912,180	$ 26,565,154	$ -	$ -
Fixed income	12,452,910	12,434,427	-	-
Alternative investments:				
Real assets	1,875,033	1,853,649	-	-
	41,240,123	40,853,230	-	-
	$ 1,477,875,748	$ 1,273,212,226	$ 1,341,390,206	$ 1,274,969,052

Net realized gains on the sale of investments for the year ended December 31, 2012 and the six months ended December 31, 2011 were $12,497,751 and $7,915,450, respectively. Net unrealized gains (losses) on investments for the year ended December 31, 2012 and the six months ended December 31, 2011 were $155,969,446 and $(110,279,395), respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Useful life	2012	2011
Art		$ 237,422	$ 237,572
Computer software and equipment	3 years	3,794,528	2,778,277
Office furniture, fixtures and equipment	5 - 7 years	5,267,427	4,210,454
Leasehold improvements	2 - 5 years	14,703,488	13,791,626
Building		2,576,072	2,576,072
Land		1,000,000	1,000,000
Construction in progress		2,097,511	2,623,061
		29,676,448	27,217,062
Less accumulated depreciation and amortization		(14,210,162)	(10,617,672)
Net property and equipment		$ 15,466,286	$ 16,599,390

Depreciation expense was $3,592,491 and $1,671,769 for the year ended December 31, 2012 and the six months ended December 31, 2011, respectively.

(Continued)

NOTE D - GRANTS PAYABLE

Unpaid grant commitments are recorded in the consolidated financial statements at net present value (based on discount rates between 2.44% and 8.60%). Unpaid unconditional grant commitments are scheduled for payment as follows at December 31, 2012:

2013	$ 27,405,934
2014	20,580,159
2015	4,525,184
2016	205,000
2017	205,000
Total	52,921,277
Less amount representing discount	(3,706,179)
Total at present value	$ 49,215,098

Unpaid conditional grant commitments payable at December 31, 2012 and 2011 were $225,000 and $255,000, respectively, and are not recorded in the consolidated financial statements, and consist of matching and reimbursement grants.

NOTE E - PAYABLE TO RELATED PARTY

On May 14, 2001, the Foundation created The Annenberg Foundation Trust at Sunnylands (Sunnylands Trust), a Pennsylvania charitable trust, which is classified as a private operating foundation and tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Concurrently, the Foundation transferred $250 million to the Sunnylands Trust to be used for operations of the Sunnylands Trust.

In July 2004, the Foundation and Sunnylands Trust entered into an agreement whereby the Foundation agreed to provide $125 million in additional funding to the Sunnylands Trust; $40 million for the planning, design and construction of the Sunnylands Center and Gardens in Rancho Mirage, California, and $85 million to the Sunnylands Trust endowment, payable over three annual installments, upon completion of the capital construction project. Amounts payable at December 31, were as follows:

	2012	2011
Payable	$ -	$ 28,333,333
Less discount	-	(726,071)
Payable, net	$ -	$ 27,607,262

The Foundation made payments of $28,333,333 and $30,333,333 during the year ended December 31, 2012 and the six months ended December 31, 2011, respectively.

(Continued)

NOTE F - 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
2013	$ 1,669,047	$ 153,461	$ 201,756	$ 2,024,264
2014	1,641,652	157,309	206,790	2,005,751
2015	1,584,363	161,249	210,630	1,956,242
2016	1,775,220	13,716	-	1,788,936
2017	1,834,363	-	-	1,834,363
Thereafter	1,679,191	-	-	1,679,191
	$ 10,183,836	$ 485,735	$ 619,176	$ 11,288,747

Rent expense, net of sublease rental income, under the operating leases was $1,695,370 and $948,665 for the year ended December 31, 2012 and the six months ended December 31, 2011, respectively.

NOTE G - 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 SFAS No. 157 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.

(Continued)

NOTE G - 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 tables present information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2012 and 2011 and indicate the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments				
Equities	$ 84,750,617	$ 308,175,176	$ -	$ 392,925,793
Fixed Income	-	271,243,135	-	271,243,135
Alternative Investments				
Hedge Funds	-	-	149,975,152	149,975,152
Limited Partnerships	-	-	575,937,510	575,937,510
Private Equity	-	-	46,554,035	46,554,035
Subtotal	84,750,617	579,418,311	772,466,697	1,436,635,625
Investments designated for others				
Equities	-	26,912,180	-	26,912,180
Fixed Income	-	12,452,910	-	12,452,910
Alternative Investments				
Real Assets	-	1,875,033	-	1,875,033
Subtotal	-	41,240,123	-	41,240,123
Total	$ 84,750,617	$ 620,658,434	$ 772,466,697	$ 1,477,875,748

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments				
Equities	$ 71,656,565	$ 281,664,528	$ -	$ 353,321,093
Fixed Income	-	278,829,834	-	278,829,834
Alternative Investments				
Hedge Funds	-	-	186,912,563	186,912,563
Limited Partnerships	-	-	504,331,943	504,331,943
Private Equity	-	-	17,994,773	17,994,773
Total	$ 71,656,565	$ 560,494,362	$ 709,239,279	$ 1,341,390,206

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.

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

December 31, 2012

	Hedge Funds	Limited Partnerships	Private Equity	Total
Beginning balance	$ 186,912,563	$ 504,331,943	$ 17,994,773	$ 709,239,279
Purchases	1,516,124	88,871,931	26,435,069	116,823,124
Redemptions	(48,100,496)	(81,516,905)	(1,199,756)	(130,817,157)
Net realized investment gains (losses)	2,603,862	(5,194,865)	(54,533)	(2,645,536)
Net unrealized gains	8,672,195	83,224,621	4,754,443	96,651,259
Management and incentive fees	(1,629,096)	(12,354,947)	(1,375,961)	(15,360,004)
Transfers out from Level 3	-	(1,424,268)	-	(1,424,268)
Ending balance	$ 149,975,152	$ 575,937,510	$ 46,554,035	$ 772,466,697

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Transfers out from Level 3 include investments which have been reclassified to Level 1 based on changes in the underlying holdings at December 31, 2012. The fair value of these investments is based on quoted prices for global equity holdings and financial assets whose values are accessible at the measurement date.

December 31, 2011

	Comingled	Hedge Funds	Limited Partnerships	Private Equity	Total
Beginning balance	$ 38,502,076	$ 207,921,390	$ 536,826,975	$ 14,304,399	$ 797,554,840
Purchases	-	126,346,647	1,090,965	6,643,184	134,080,796
Redemptions	(31,558,091)	(136,589,578)	-	(297,541)	(168,445,210)
Net realized investment (losses) gains	(6,943,985)	14,167,263	-	(4,473)	7,218,805
Net unrealized losses	-	(24,105,467)	(29,723,683)	(3,520)	(53,832,670)
Management and incentive fees	-	(827,692)	(3,862,314)	(166,245)	(4,856,251)
Transfers out from Level 3	-	-	-	(2,481,031)	(2,481,031)
Ending balance	$ -	$ 186,912,563	$ 504,331,943	$ 17,994,773	$ 709,239,279

Transfers out from Level 3 include investments which have been reclassified to Level 1 based on the Foundation's review of underlying holdings at December 31, 2011. The fair value of these investments is based on quoted prices for global equity holdings and financial assets whose values are accessible at the measurement date.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2012 are as follows:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Money Market Fund	(a)	$ 16,917,328	$ -	Daily	1 day
Global Equity	(c)	197,782,052	-	Monthly	1 - 30 days
Multi-strategy Hedge Fund-of-Funds & Limited Partnerships	(d)	613,223,468	-	Monthly/Annually	30 - 105 days
Multi-strategy Hedge Funds & Limited Partnerships	(e)	112,689,194	-	Quarterly/Annually	90 - 180 days
Private Equity	(f)	46,554,035	65,607,474	Not eligible for redemption	N/A
Subtotal		987,166,077	65,607,474		
Global Equity	(c)	26,912,180	-	Daily	1 day
Fixed Income	(b)	12,452,910	-	Daily	1 day
Real Assets	(g)	1,875,033	-	Daily	1 day
Subtotal		41,240,123	-		
Total		$1,028,406,200	$ 65,607,474		

(a) Institutional liquidity fund which invests in certificates of deposit, U.S. Treasury and sponsored 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 an institutional index fund priced using NAV which invests in investment-grade securities covering the treasury, agency, mortgage-backed, asset-backed and commercial mortgage-backed and credit sectors of the U.S. bond and debt markets as characterized by the Barclays Aggregate Index (49%).

This category also includes a highly diversified bond fund-of-funds which invests in high yield corporate securities as well as foreign and emerging market bonds, bank loans and closed-end high yield funds (23%); a three-year target duration treasury inflation protected securities (TIPS) index fund for inflation hedging to provide stable duration exposure through changing interest rate and economic cycles (11%); an actively managed bond fund which invests in intermediate duration, local currency-denominated debt instruments of emerging market countries on an unhedged basis (10%); and an exchange traded fund which invests in investment grade corporate debt, supranational, local authority and non-U.S. agency bonds that are U.S. dollar denominated as characterized by the U.S. Intermediate Credit Bond Index (7%). Fair values for all funds described use NAV per share calculated based on the market value of the underlying investments.

All fixed income funds in this category have daily liquidity and a one-day redemption notice requirement.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

(c) 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, 2012, investments with fair values comprising 89% of this category have a one- to six-business day redemption period and the remaining 11% have a 30-day redemption notice period.

(d) 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, 2012, investments with fair values comprising 20% of this category have a 180-day redemption notice period, 43% have a 105-day redemption notice period, 23% have a 90-day redemption notice period and 14% have a 30-day redemption notice period.

(e) 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 30- to 65-day redemption notice period. As of December 31, 2012, these investments can be redeemed quarterly. In the case of private investments, independent third-party firms typically provide valuations.

(f) Includes direct and fund-of-funds limited partnership investments in private assets. 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.

(g) Comprised of an investment trust which invests in gold bullion and trades on the NYSE Arca (56%) and an institutional global real estate index fund which invests in a portfolio of primarily common stocks and a diversified mix of real estate investment trusts across industry sectors (44%). Both funds have daily liquidity and a one-day redemption notice requirement.

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:

<u>Investments</u>

Equities: Mutual and commingled fund-of-funds which invest primarily in equity securities. These investment values are based on quoted market prices in active markets (market approach) and are classified as Level 2 inputs.

Fixed Income: Funds designed to add value above the return of the broad U.S. bond market over a full market cycle and reduce the risk in comparison to that of investing in the index. The underlying investments are valued at closing prices reported on the active market (market approach); these items are considered Level 2 inputs.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Hedge Funds: Funds designed to outperform the S&P index over a full market cycle, while also providing some protection during down markets. Valued using the market approach based on net asset value as provided by the fund manager, these funds are considered Level 3 inputs.

Limited Partnership: Funds used to protect against inflation and have a primary objective of creating income and capital preservation over the long term. Valued using the market approach based on net asset value as provided by the fund manager, these investments are considered Level 2 and Level 3 inputs.

Real Assets: The SPDR Gold Trust invests in gold bullion, the market value of which is determined daily using NAV on the basis of the prices as set by the NYSE Arca using the London PM gold fix.

The institutional mutual fund primarily holds a portfolio of publicly traded global equity securities and REITS. The market value is determined using a daily NAV based on quoted market prices in active markets and other observable inputs.

The fair value of both the trust and fund are categorized as Level 2 inputs, using the market approach.

NOTE H - STANDBY LETTER OF CREDIT

The Foundation wholly owns 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 or about 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, 2012, no draw had been made under the Northern Trust Letter of Credit.

(Continued)

NOTE I - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2012 consolidated financial statements for subsequent events through September 17, 2013, 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.