Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Annenberg Foundation

December 31, 2014 and 2013

Contents

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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, 2014 and 2013, 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years ended December 31, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Los Angeles, California
September 17, 2015

Annenberg Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	2014	2013
ASSETS:		
Cash and cash equivalents	$ 38,080,737	$ 47,582,876
Cash and cash equivalents designated for others (Note G)	254,354	501,101
Investment income and other receivables	1,227,348	1,915,796
Due from investment manager	2,012,830	20,298,000
Investments at fair value (cost $1,112,793,308 and $1,164,877,191, respectively)	1,538,885,119	1,555,618,641
Investments designated for others, at fair value (Note G) (cost $43,812,124 and $43,466,557, respectively)	46,573,030	47,034,518
Inventory	445,356	469,656
Prepaid excise taxes	220,595	-
Property and equipment, net	35,396,524	17,183,599
Total assets	$ 1,663,095,893	$ 1,690,604,187
LIABILITIES:		
Grants payable	$ 39,360,240	$ 34,410,742
Accounts payable	5,452,049	3,656,025
Current taxes payable	2,482	208,740
Long term liability [ARO] (Note I)	2,735,495	-
Deferred excise tax liability	1,034,434	4,232,866
Royalties and contracts payable	756,795	630,419
Total liabilities	49,341,495	43,138,792
NET ASSETS:		
Unrestricted net assets:		
Accumulated change in net assets	1,613,753,398	1,647,464,395
Capital stock (1,000 shares authorized, issued and outstanding; $1 par value)	1,000	1,000
Total unrestricted net assets	1,613,754,398	1,647,465,395
Total liabilities and net assets	$ 1,663,095,893	$ 1,690,604,187

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31,

	2014	2013
REVENUES AND GAINS:		
Investment income		
Dividends	$ 8,235,437	$ 6,326,344
Interest	4,233,639	3,982,788
Net realized gains	42,581,665	13,655,198
Net unrealized gains	51,721,709	211,666,902
Total investment income	106,772,450	235,631,232
Investment expenses	(20,718,299)	(25,299,418)
Federal excise tax provision / (benefit)	2,072,721	(1,977,761)
Total investment expenses and taxes	(18,645,578)	(27,277,179)
Net investment income	88,126,872	208,354,053
Annenberg Learner income	762,327	922,693
Annenberg Space for Photography/Skylight Studios income	283,473	205,470
Other income	486,263	245,541
Total revenues and gains	89,658,935	209,727,757
EXPENSES:		
Grants	76,515,935	54,314,775
Direct program		
Annenberg Space for Photography/Skylight Studios	10,736,918	9,055,430
Metabolic Studio LLC	8,217,553	8,693,500
Annenberg Learner	4,016,283	4,967,237
Explore LLC	5,569,866	4,507,958
AltaSea	-	1,816,047
Chairman's Fund Programs	4,619,729	1,783,926
Ballona Urban Ecology Center LLC	2,318,535	1,267,463
Annenberg Ventures	1,013,160	860,465
GRoW	266,839	814,228
Total direct program	36,758,883	33,766,254
General and administrative	10,095,114	9,854,066
Total expenses	123,369,932	97,935,095
Change in unrestricted net assets	(33,710,997)	111,792,662
Unrestricted net assets, beginning of year	1,647,465,395	1,535,672,733
Unrestricted net assets, end of year	$ 1,613,754,398	$ 1,647,465,395

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ (33,710,997)	$ 111,792,662
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and accretion	4,376,416	4,196,283
Loss on disposal of fixed assets	-	(31,424)
Net realized gains on sale of investments	(42,581,665)	(13,655,198)
Net unrealized gains on investments	(51,721,709)	(211,666,902)
Changes in assets and liabilities:		
Inventory	24,300	62,115
Asset retirement cost	2,691,145	-
Due from investment manager	18,285,170	17,726,299
Cash designated for others	246,747	2,760,044
Investment income and other receivables	688,448	(175,170)
Prepaid excise taxes	(220,595)	-
Grants payable	4,949,498	(14,804,356)
Due to investment manager	-	(29,695,011)
Accounts payable	1,796,024	(943,852)
Royalties and contracts payable	126,376	(20,195)
Current taxes payable	(206,258)	(50,871)
Long term liability [ARO]	2,735,495	-
Deferred excise tax liability	(3,198,432)	1,113,477
Net cash used in operating activities	(95,720,037)	(133,392,099)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,391,867,982	3,446,258,800
Purchase of investments	(2,280,369,598)	(3,345,714,111)
Purchase of property and equipment	(25,280,486)	(5,831,884)
Net cash provided by investing activities	86,217,898	94,712,805
Net change in cash and cash equivalents	(9,502,139)	(38,679,294)
Cash and cash equivalents, beginning of year	47,582,876	86,262,170
Cash and cash equivalents, end of year	$ 38,080,737	$ 47,582,876
Supplemental disclosure of cash flow information:		
Cash paid during the period for taxes	$ 1,555,000	$ 540,000

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

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, 2014 and 2013 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.

(Continued)

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, 2014 and 2013, the Foundation did not make sufficient qualifying distributions to qualify for the reduced one-percent tax.

The current federal excise tax expense for the years ended December 31, 2014 and 2013 was $1,096,734 and $864,284, respectively.

Deferred taxes are associated with unrealized gains recorded as of December 31, 2014 and 2013. 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 for the years ended December 31, 2014 and 2013 was $(3,198,432) and $1,113,477, respectively.

(Continued)

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, 2014 was $28,977. Since the Foundation's obligation for unrelated business income tax for the year ended December 31, 2013 was immaterial to the financial statements taken as a whole, no provisions for federal or state income taxes are presented.

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, 2014 and 2013, and the Foundation does not anticipate a material change in its uncertain tax benefits for the 12 months following December 31, 2014. As of December 31, 2014, the Foundation's tax periods ended June 30, 2011 through December 31, 2014 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 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.

(Continued)

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:

	2014		2013	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 492,648,366	$ 334,766,813	$ 486,387,689	$ 333,301,321
Fixed income	173,403,826	172,032,340	210,551,899	210,353,594
Alternative investments:				
Hedge funds	99,128,844	83,389,486	113,341,941	97,658,809
Limited partnerships	685,999,831	450,092,466	677,630,682	465,006,877
Private equity	87,704,252	72,512,203	67,706,430	58,556,590
	$ 1,538,885,119	$1,112,793,308	$ 1,555,618,641	$ 1,164,877,191

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

	2014		2013	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 30,815,189	$ 27,838,922	$ 28,759,693	$ 24,742,230
Fixed income	14,827,763	15,148,483	16,271,057	16,727,612
Alternative investments:				
Commodity linked	-	-	888,669	900,000
Real estate	930,078	824,719	1,115,099	1,096,715
	46,573,030	43,812,124	47,034,518	43,466,557
Total investments held	$ 1,585,458,149	$1,156,605,432	$ 1,602,653,159	$ 1,208,343,748

Net realized gains on the sale of investments for the years ended December 31, 2014 and 2013 were $42,581,665 and $13,655,198, respectively. Net unrealized gains on investments for the years ended December 31, 2014 and 2013 were $51,721,709 and $211,666,902, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Useful life	2014	2013
Art		$ 222,422	$ 222,422
Computer software and equipment	3 years	5,297,279	4,596,796
Office furniture, fixtures and equipment	5 - 7 years	9,658,630	7,339,601
Leasehold improvements	2 - 5 years	16,508,372	16,493,388
Building	30 years	6,736,544	2,576,072
Land		13,695,667	1,000,000
Asset retirement cost		2,691,145	-
Construction in progress		3,174,328	3,330,341
		57,984,387	35,558,620
Less accumulated depreciation and amortization		(22,587,863)	(18,375,021)
Net property and equipment		$ 35,396,524	$ 17,183,599

Depreciation expense was $4,332,066 and $4,196,283 for the years ended December 31, 2014 and 2013, respectively. In addition, depreciation and accretion expense in connection with the asset retirement cost was $44,350 for the year ended December 31, 2014.

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:

2015	$ 22,672,937
2016	11,263,758
2017	7,495,485
2018	450,000
Total	41,882,180
Less amount representing discount	(2,521,940)
Total at present value	$ 39,360,240

Unpaid conditional grant commitments payable at December 31, 2014 and 2013 of $400,000 and $3,695,000, respectively, are not recorded in the consolidated financial statements and consist of matching and reimbursement grants.

(Continued)

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
2015	$ 1,470,080	$ 161,249	$ 174,555	$ 1,805,884
2016	1,497,515	13,716	101,824	1,613,055
2017	1,548,327	-	-	1,548,327
2018	1,417,042	-	-	1,417,042
2019	-	-	-	-
	$ 5,932,964	$ 174,965	$ 276,379	$ 6,384,308

Rent expense, net of sublease rental income, under the operating leases was $1,731,016 and $1,769,221 for the years ended December 31, 2014 and December 31, 2013, 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.

(Continued)

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, 2014 and 2013 and indicates the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

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

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments				
Equities	$ 83,475,407	$ 402,912,282	$ -	$ 486,387,689
Fixed income	-	210,551,899	-	210,551,899
Alternative investments				
Hedge funds	-	-	113,341,941	113,341,941
Limited partnerships	-	-	677,630,682	677,630,682
Private equity	-	-	67,706,430	67,706,430
Subtotal	83,475,407	613,464,181	858,679,053	1,555,618,641
Investments designated for others				
Equities	-	28,759,693	-	28,759,693
Fixed income	-	16,271,057	-	16,271,057
Alternative investments				
Commodity-linked	-	888,669	-	888,669
Real estate	-	1,115,099	-	1,115,099
Subtotal	-	47,034,518	-	47,034,518
Total	$ 83,475,407	$ 660,498,699	$ 858,679,053	$1,602,653,159

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.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS – Continued

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

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 (losses) 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

December 31, 2013	Hedge funds	Limited partnerships	Private equity	Total
Beginning balance	$ 149,975,152	$ 575,937,510	$ 46,554,035	$ 772,466,697
Purchases	4,385,963	83,233,880	19,117,399	106,737,242
Redemptions	(46,226,799)	(51,362,745)	(5,061,084)	(102,650,628)
Net realized investment (losses) gains	(3,685,657)	(307,779)	1,159,000	(2,834,436)
Net unrealized gains	10,379,780	107,084,756	6,639,909	124,104,445
Management and incentive fees	(1,486,498)	(16,656,940)	(702,829)	(18,846,267)
Transfers out from level 3	-	(20,298,000)	-	(20,298,000)
Ending balance	$ 113,341,941	$ 677,630,682	$ 67,706,430	$ 858,679,053

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Transfers out from Level 3 include investments which have been reclassified to Level 1 based on a return of capital at December 31, 2013. 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.

Fair value measurements of investments in certain entities that calculate NAV (or its equivalent) as of December 31, 2014 are as follows:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Investments					
Money market fund	(a)	$ 9,045,731	$ -	Daily	1 day
International equities	(b)	220,538,735	-	Monthly	1 - 15 days
Multi-strategy hedge fund-of- funds and limited partnerships	(c)	697,219,050	-	Monthly/Annually	30 - 180 days
Multi-strategy hedge funds and limited partnerships	(d)	87,909,624	-	Quarterly/Annually	90 - 180 days
Private equity	(e)	87,704,252	76,169,219	Not eligible for redemption	N/A
Subtotal		1,102,417,392	76,169,219		
Investments designated for others					
Fixed income	(f)	14,827,763	-	Daily	1 day
U.S. equities	(g)	19,789,803	-	Daily	1 day
International equities	(h)	9,910,175	-	Daily	1 day
Natural resources-linked	(i)	1,115,211	-	Daily	1 day
Real estate	(j)	930,078	-	Daily	1 day
Subtotal		46,573,030	-		
Total		$ 1,148,990,422	$ 76,169,219		

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

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, 2014, investments with fair values comprising 36% of this category have a one- to six-business day redemption period, 17% have a 15-day notice and the remaining 47% have a 30-day redemption notice period.

(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, 2014, investments with fair values comprising 11% have a 30-day redemption notice period, 5% have a 90-day redemption notice period, 11% have a 95-day redemption notice period, 44% have a 105-day redemption notice period, 19% have a 180-day redemption notice period, while the remaining 10% 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 (31%) and passively (69%) managed institutional fixed income mutual funds and exchange traded funds which invest primarily in securities comprising the Barclays Capital Aggregate Bond Index (71%), the Bank of America Merrill Lynch U.S. High Yield Index (21%) and three-year target duration U.S. Treasury inflation protected securities (TIPS) index (8%). 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, REITS, municipal bonds and closed-end high yield funds. All funds have daily liquidity.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

(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 (44%) and Russell 2000 (7%) and Mid-Cap (6%) indices. Active strategies are diversified between large cap (36%) and small cap stocks (7%). 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 (35%) and MSCI Emerging Markets Index (6%). Active strategies are diversified between international developed (34%) and emerging (13%) equity markets. A global infrastructure fund consisting of equity securities in infrastructure companies also makes up (12%) 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.

(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 real estate and real estate investment trusts (REITS). The fund's holdings approximate the composition of the FTSE EPRA 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.

NOTE F - FAIR VALUE MEASUREMENTS - Continued

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 net asset value 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 net asset value per share based on market values of the underlying holdings.

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 net asset value 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.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

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 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 2014 draw from the Grantor Trust to the Association for fiscal 2014/15 operating support in the amount of $2,523,919.

Cash and cash equivalents designated for others was $254,354 and $501,101 at December 31, 2014 and 2013, respectively. Investments designated for others was $46,573,030 and $47,034,518 at December 31, 2014 and 2013, respectively. These assets are held in custody at The Northern Trust Company under the Trust Agreement for the benefit of the Association.

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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 October 4, 2011, and qualified to do business in the State of California on 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 was 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 the Finance Company to reimburse Northern Trust for any draw under the Northern Trust Letter of Credit. As of December 31, 2014, the Northern Trust Letter of Credit was $22,856,372 and no draw had been made.

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

Accounting Standards Codification 410, *Asset Retirement and Environmental Obligations* ("ASC 410") 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.

The present value of the asset retirement obligation totaled $2,735,495 as of December 31, 2014, 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 ("ARO") of $2,706,179 was recorded at the time of the purchases of the properties. During 2014, accretion expense related to the ARO was $29,316.

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NOTE J - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2014 consolidated financial statements for subsequent events through September 17, 2015, 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.