Consolidated Financial Statements and Report of Independent Certified Public Accountants

Annenberg Foundation

December 31, 2018 and 2017

Contents

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

D +1 215 561 4200
F +1 215 561 1066

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, 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.

Grant Thornton

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter
As discussed in Note A to the financial statements, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 28, 2019

Annenberg Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	2018	2017
ASSETS		
Cash and cash equivalents	$ 46,032,553	$ 53,299,438
Cash and cash equivalents designated for others (Note H)	822,923	577,966
Due from investment manager	3,945,164	6,741,802
Investment income and other receivables	4,688,976	4,034,090
Investments, at fair value (cost $774,292,755 and $865,147,169, respectively)	1,266,492,746	1,456,693,241
Investments designated for others, at fair value (Note H) (cost $40,899,704 and $40,170,498, respectively)	42,432,452	48,717,161
Inventory	14,847	14,729
Prepaid federal excise and income taxes	423,085	1,249,628
State income tax receivable	105,877	64,845
Property and equipment, net (Note C)	37,364,142	38,565,644
Total assets	$ 1,402,322,765	$ 1,609,958,544
LIABILITIES		
Grants payable, net of discount (Note D)	$ 103,763,944	$ 93,662,777
Accounts payable	6,296,148	4,871,863
Long-term liability [ARO] (Note J)	3,483,326	3,304,332
Deferred excise tax liability	9,874,655	12,001,855
Total liabilities	123,418,073	113,840,827
NET ASSETS		
Net assets without donor restrictions:		
Accumulated change in net assets	1,278,903,692	1,496,116,717
Capital stock (1,000 shares authorized, issued and outstanding; $1 par value)	1,000	1,000
Total net assets without donor restrictions	1,278,904,692	1,496,117,717
Total liabilities and net assets	$ 1,402,322,765	$ 1,609,958,544

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

Annenberg Foundation

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2018	2017
REVENUES AND GAINS:		
Net investment (loss) income (Note B)	$ (44,782,171)	$ 198,255,135
Program revenue		
Explore LLC	5,367	406,137
Annenberg Space for Photography/Skylight Studios	391,470	365,954
Annenberg Learner	227,574	301,618
Other income	342,936	394,288
Total (losses) revenues	(43,814,824)	199,723,132
EXPENSES:		
Grants	128,433,259	148,879,357
Direct program		
Metabolic Studio LLC	10,390,377	7,860,152
Annenberg Space for Photography/Skylight Studios	9,390,707	9,042,973
Wallis Annenberg programs	668,751	649,077
Explore LLC	9,193,391	9,410,432
Chairman's Fund programs	1,653,728	2,629,014
Annenberg Learner	1,336,893	1,671,855
GRoW	824,193	684,346
Total direct program	33,458,040	31,947,849
General and administrative	11,506,902	11,849,688
Total expenses	173,398,201	192,676,894
Change in net assets without donor restrictions	(217,213,025)	7,046,238
Net assets without donor restrictions, beginning of year	1,496,117,717	1,489,071,479
Net assets without donor restrictions, end of year	$ 1,278,904,692	$ 1,496,117,717

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018, with summarized information for 2017

	2018				2017
	Grantmaking	Direct charitable activities	Core operations	Total expenses	Total expenses
Grants awarded	$ 128,433,259	$ -	$ -	$ 128,433,259	$ 148,879,357
Salary, benefits and payroll taxes	1,110,062	8,724,096	4,519,423	14,353,581	13,035,548
Legal and accounting fees	9,117	665,641	633,077	1,307,835	1,690,928
Other professional fees	127,518	13,857,477	1,013,117	14,998,112	13,884,028
Occupancy	7,337	1,864,474	1,846,241	3,718,052	3,899,468
Travel, conferences and meetings	31,448	947,118	157,549	1,136,115	1,098,360
Printing and publications	293	205,416	13,875	219,584	190,182
Community events and programs	1,000	2,118,570	97,307	2,216,877	2,445,705
Office costs	132,395	1,342,561	735,241	2,210,197	2,162,626
Insurance	-	290,864	113,060	403,924	399,007
Depreciation and amortization	-	3,172,986	958,842	4,131,828	4,644,161
Other	-	268,837	-	268,837	347,524
Total operating expenses	$ 129,852,429	$ 33,458,040	$ 10,087,732	$ 173,398,201	$ 192,676,894

The accompanying notes are an integral part of this consolidated financial statement.

Annenberg Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ (217,213,025)	$ 7,046,238
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	3,608,685	4,404,323
Net realized losses (gains) on sale of investments	9,496,199	(38,824,706)
Net unrealized losses (gains) on investments	33,183,802	(175,759,743)
Loss on disposal of property and equipment	5,849,801	-
Changes in assets and liabilities:		
Inventory	(118)	20,150
Asset retirement cost	90,212	90,204
Due from investment manager	2,796,638	(1,004,526)
Investment income and other receivables	(654,886)	(718,065)
Prepaid federal excise and income taxes	826,543	513,857
Grants payable, net of discount	10,101,167	62,982,884
Accounts payable	1,424,285	(8,588)
Long-term liability [ARO]	178,994	201,673
State income tax receivable	(41,032)	(67,423)
Deferred federal excise tax liability	(2,127,200)	10,653,285
Net cash used in operating activities	(152,479,935)	(130,470,437)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,418,274,973	1,685,059,860
Purchase of investments	(1,264,469,770)	(1,527,682,350)
Purchase of property and equipment	(8,347,196)	(4,822,873)
Cash designated for others	(244,957)	(397,179)
Net cash provided by investing activities	145,213,050	152,157,458
Net change in cash and cash equivalents	(7,266,885)	21,687,021
Cash and cash equivalents at beginning of year	53,299,438	31,612,417
Cash and cash equivalents at end of year	$ 46,032,553	$ 53,299,438

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 and Metabolic Studio 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 net assets without donor restrictions and net assets with donor restrictions. All of the Foundation's net assets at December 31, 2018 and 2017 are net assets without donor restrictions.

3. Cash and Cash Equivalents

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

4. Inventory

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

5. Investments

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

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

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

6. Property and Equipment

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

7. Grants

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

8. Tax Status

The Foundation has been recognized by the Internal Revenue Service as an organization that is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and is further classified as a private foundation under IRC Section 4940(a). IRC Section 4940(a) generally imposes a two-percent federal excise tax on "net investment income" as defined by the IRC. IRC Section 4940(e) provides for a reduction of the tax to one percent if the Foundation makes sufficient qualifying distributions exceeding a threshold amount determined based on a formula provided by the IRC. During the years ended December 31, 2018 and 2017, 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, 2018 and 2017 was $1,644,999 and $230,401, respectively.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred taxes are associated with unrealized gains recorded as of December 31, 2018 and 2017. Deferred federal excise tax is computed based on the differences between the carrying value and tax basis of the Foundation's investments. If investments are sold and a gain is realized, then the Foundation will owe excise taxes. If the investments are sold at a loss, no excise tax is recognized. The deferred federal excise expense as of December 31, 2018 and 2017 was $9,874,655 and $12,001,855, 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/(benefit) for unrelated business income tax for the years ended December 31, 2018 and 2017 was ($395,608) and $258,485, 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, 2018 and 2017, and the Foundation does not anticipate a material change in its uncertain tax benefits for the 12 months following December 31, 2018. As of December 31, 2018, the Foundation's tax periods ended December 31, 2015 through December 31, 2018 for the federal tax jurisdiction remain open to examination.

9. Concentration of Credit Risk

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

10. Use of Estimates

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

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Adoption of New Accounting Standard

The Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the previously required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics; and (4) the presentation of expenses by both natural and functional classification.

The Foundation allocates insurance expense based on head count and square footage. Insurance costs for all departments under core operations (administration, finance/accounting, human resources, information technology, marketing, grant-making) are charged 100% to administration rather than allocated further. Depreciation/amortization is charged directly to the program/department where the assets are used. Depreciation/amortization costs for all six core operations departments are charged 100% to administration.

12. Recently Issued Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of net assets at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. The Foundation is determining the impact of ASU 2014-09 at this time.

(Continued)

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance will help entities evaluate whether transactions should be accounted for as contributions, or exchange transactions subject to other guidance. The guidance will also help in determining whether a contribution is conditional. The guidance is effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact of this guidance on its consolidated financial statements.

13. Reclassification

Certain reclassifications were made to prior period consolidated financial statements to conform to the current year presentation format as set forth by ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*.

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:

	2018		2017	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 393,850,344	$ 245,772,371	$ 481,120,483	$ 250,749,475
Fixed income	157,777,406	158,336,400	158,717,839	158,578,749
Alternative investments:				
Hedge funds	356,755,536	210,340,701	375,182,635	210,578,741
Limited partnerships	198,214,913	47,768,736	296,318,971	138,838,989
Private equity	159,894,547	112,074,547	145,353,313	106,401,215
	$1,266,492,746	$ 774,292,755	$1,456,693,241	$ 865,147,169

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

	2018		2017	
	Fair value	Cost basis	Fair value	Cost basis
Equities	$ 25,632,620	$ 23,591,650	$ 36,262,725	$ 27,710,341
Fixed income	14,462,581	14,964,470	11,733,894	11,867,585
Alternative investments:				
Hedge funds	1,461,066	1,500,000	-	-
Real estate funds	876,185	843,584	720,542	592,572
	$ 42,432,452	$ 40,899,704	$ 48,717,161	$ 40,170,498
Total investments	$1,308,925,198	$ 815,192,459	$1,505,410,402	$ 905,317,667

(Continued)

NOTE B - INVESTMENTS - Continued

Net realized (losses) gains on the sale of investments for the years ended December 31, 2018 and 2017 were $(9,496,199) and $38,824,706, respectively. Net unrealized (losses) gains on investments for the years ended December 31, 2018 and 2017 were $(33,183,802) and $175,759,743, respectively.

Net investment (loss) income is comprised of the following for the years ended December 31:

	2018	2017
Dividends	$ 6,022,530	$ 7,125,585
Interest	6,072,525	4,117,108
Net realized (losses) gains	(9,496,199)	38,824,706
Net unrealized (losses) gains	(33,183,802)	175,759,743
Total investment (loss) income	(30,584,946)	225,827,142
Investment expenses	(14,922,882)	(16,444,703)
Provision for federal/state excise/income tax	725,657	(11,127,304)
Total investment expenses and taxes	(14,197,225)	(27,572,007)
Net investment (loss) income	$ (44,782,171)	$ 198,255,135

NOTE C - PROPERTY AND EQUIPMENT

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

	Useful life	2018	2017
Art		$ 182,539	$ 222,422
Computer software and equipment	3 years	3,337,182	8,799,737
Office furniture, fixtures and equipment	5 - 7 years	7,656,084	15,386,882
Leasehold improvements	2 - 5 years	1,490,771	16,805,513
Building	30 years	10,948,891	6,867,888
Land		14,879,203	14,879,203
Asset retirement cost		2,330,321	2,420,533
Construction in progress		6,293,669	8,948,551
		47,118,660	74,330,729
Less accumulated depreciation		(9,754,518)	(35,765,085)
Net property and equipment		$ 37,364,142	$ 38,565,644

Depreciation expense was $3,608,685 and $4,404,323 for the years ended December 31, 2018 and 2017, respectively. In addition, depreciation and accretion expense in connection with the asset retirement cost was $269,206 and $291,877 for the years ended December 31, 2018 and 2017, respectively.

NOTE D - GRANTS PAYABLE

Unpaid grant commitments are recorded in the consolidated financial statements at net present value (based on discount rates between 5.7% and 7.1%). Unpaid unconditional grant commitments are scheduled for payment as follows as of December 31, 2018:

2019	$ 96,831,471
2020	6,619,321
2021	3,235,000
2022	1,750,000
	108,435,792
Less amount representing discount	(4,671,848)
Grants payable, net of discount	$ 103,763,944

Conditional grant commitments payable at December 31, 2018 and 2017 of $1,100,000 and $2,048,000, respectively, are not recorded in the consolidated financial statements and consist of matching and reimbursement grants.

NOTE E - LEASES

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

	CA	PA	DC	Total
2019	$ 2,055,232	$ 86,688	$ 7,599	$ 2,149,519
2020	2,127,099	96,459	-	2,223,558
2021	2,201,704	98,394	-	2,300,098
2022	2,278,738	100,357	-	2,379,095
2023	2,391,711	93,666	-	2,485,377
Thereafter	5,527,931	-	-	5,527,931
	$ 16,582,415	$ 475,564	$ 7,599	$ 17,065,578

Rent expense, net of sublease rental income, under the operating leases was $1,615,356 and $1,895,055 for the years ended December 31, 2018 and 2017, respectively.

NOTE F - FAIR VALUE MEASUREMENTS

The Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The levels of the hierarchy under ASC 820, *Fair Value Measurements and Disclosures,* are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Financial assets and liabilities whose values are based on one or more of the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques which require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Foundation had no investments whose values were based on Level 3 inputs as of December 31, 2018 and 2017.

<u>Investments at Net Asset Value</u>

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

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

The following tables present information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2018 and 2017 and indicate the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

December 31, 2018	Level 1	Level 2	Net asset value	Total
Investments				
Equities	$ -	$ 188,088,662	$ 205,761,682	$ 393,850,344
Fixed income	-	157,777,406	-	157,777,406
Alternative investments				
Hedge funds	-	-	356,755,536	356,755,536
Limited partnerships	-	-	198,214,913	198,214,913
Private equity	-	-	159,894,547	159,894,547
Subtotal	-	345,866,068	920,626,678	1,266,492,746
Investments designated for others				
Equities	-	11,597,557	14,035,063	25,632,620
Fixed income	-	7,563,076	6,899,505	14,462,581
Alternative investments				
Hedge funds	-	-	1,461,066	1,461,066
Real estate funds	-	876,185	-	876,185
Subtotal	-	20,036,818	22,395,634	42,432,452
Total	$ -	$ 365,902,886	$ 943,022,312	$1,308,925,198

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

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Details related to the fair value of investments that have been estimated using a net asset value equivalent (e.g., ownership interest in partners' capital to which a proportionate share of net assets is attributable) were as follows as of December 31, 2018:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period	Timing to draw down commitments (years)
Investments						
Equities	(a)	$ 205,761,682	$ -	Monthly	1 - 60 days	1
Hedge funds	(b)	356,755,536	-	Monthly/ Annually	30 - 180 days	1-5
Limited partnerships	(c)	198,214,913	-	Quarterly/ Annually	90 - 180 days	1-5
Private equity	(d)	159,894,547	78,458,778	Not eligible for redemption	N/A	1-10
Subtotal		920,626,678	78,458,778			
Investments designated for others						
Equities	(e)	14,035,063	-	Daily	1 day	1
Fixed income	(f)	6,899,505	-	Daily	1 day	1
Hedge funds	(g)	1,461,066	-	Daily	1 day	1
Subtotal		22,395,634	-			
Total		$ 943,022,312	$ 78,458,778			

Investments

(a) Comprised of a commingled fund invested in U.S. equity utilizing a long-short strategy. Fair values are estimated using NAV per share based on the market value of underlying equity holdings. The U.S. equity fund has quarterly liquidity with a 60-day redemption notice period.

(b) Comprised of commingled absolute return direct and hedge fund-of-fund investments invested in global equity (35%), long-short global equity (32%), and other multi-strategy portfolios which include non-directional absolute return strategies (33%). Fair values are estimated using the NAV per share of the underlying equity and asset holdings. Hedge fund investments have redemption notice periods ranging from 95 to 105 days. As of December 31, 2018, investments with fair values comprising 86% have quarterly liquidity with a 105-day redemption notice period and 14% have semi-annual liquidity with 95-day redemption notice period.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

(c) Comprised of limited partnership investments which include multi-strategy portfolios (73%) invested primarily in global equity, long-short global equity (27%) and other non-directional absolute return strategies. Fair values are estimated using the NAV per share of the underlying investments. As of December 31, 2018, investments with fair values comprising 27% have quarterly liquidity with a 30-day redemption notice period, 34% have quarterly liquidity with a 60-day redemption notice period, and the remaining 39% have annual liquidity with a 180-day redemption notice period.

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

Investments Designated for Others

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

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

(g) Comprised of various hedge fund investments invested in emerging market long-short equity, emerging market long-short credit and other global macro strategies with low correlation to stocks and bonds. Fair values are estimated using the NAV per share of the underlying equity and asset holdings. Hedge fund investments have redemption notice periods ranging from 6 days to 66 days.

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.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Investments

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

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

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

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

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

NOTE G - LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year.

Cash and cash equivalents	$ 46,032,553
Investments	
Equities	393,850,344
Fixed	157,777,406
Hedge funds	356,755,536
Limited partnerships	198,214,913
Private equity	159,894,547
	1,266,492,746
Investments receivable and other receivables	8,634,140
	1,321,159,439
Less those unavailable for general expenditure within one year due to:	
Illiquid investments	(160,201,784)
Redemption restrictions greater than 1 year	(194,953,222)
Financial assets available to meet cash needs for general expenditures within one year	$ 966,004,433

The Foundation closely evaluates the level of liquid and illiquid investments, structuring its financial assets to be available as Foundation grant commitments, general expenditures, liabilities and other obligations become due.

NOTE H - 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.

(Continued)

NOTE H - 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 2018 draw from the Grantor Trust to the Association for fiscal 2018/19 operating support in the amount of $2,572,428.

Cash and cash equivalents designated for others was $822,923 and $577,966 at December 31, 2018 and 2017, respectively. Investments designated for others were $42,432,452 and $48,717,161 at December 31, 2018 and 2017, respectively. These assets are held in custody at The Northern Trust Company under the Trust Agreement for the benefit of the Association.

NOTE I - LOAN GUARANTY

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

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

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

As of December 31, 2018, the principal outstanding on WACPA's CNB loan was $5,055,155. The Foundation's repayment loan guaranty to CNB was $5,441,712, which includes $386,557 in undisbursed funds under the original loan commitment as of this date.

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

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

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

The present value of the asset retirement obligation totaled $3,483,326 and $3,304,332 as of December 31, 2018 and 2017, 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 2018 and 2017, accretion expense related to the asset retirement obligation was $178,994 and $201,673, respectively.

NOTE K - RELATED PARTY TRANSACTIONS

The Foundation's Chairman is also the chairman of The Wallis Annenberg Legacy Foundation (Legacy), a private operating foundation located in Los Angeles, California. During the years ended December 31, 2018 and 2017, the Foundation granted $75.0 million and $71.7 million, respectively, to Legacy to support and operate programs that educate the general public.

Legacy is the sole member of the Annenberg Legacy at Playa Vista, LLC (Playa Vista LLC), which was formed in May 2015 under the laws of the State of California. The Foundation approved a guaranty for Playa Vista LLC to enter into a 12-year operating lease through March 15, 2028 for the Wallis Annenberg PetSpace. As of December 31, 2018 and 2017, rent payments due over the remaining term of this lease were $18,229,823 and $19,850,994, respectively.

NOTE L - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2018 consolidated financial statements for subsequent events through October 28, 2019, 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.