

Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Andrew W. Mellon Foundation

We have audited the accompanying financial statements of the Andrew W. Mellon Foundation (the "Foundation"), which comprise the balance sheets as of December 31, 2013 and December 31, 2012, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the 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 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 Financial Statements referred to above present fairly, in all material respects, the financial position of the Andrew W. Mellon Foundation at December 31, 2013 and December 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



PricewaterhouseCoopers LLP
New York, NY
May 29, 2014

The Andrew W. Mellon Foundation

Balance Sheets

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
ASSETS		
Investments		
Marketable securities	\$ 1,972,334	\$ 1,641,132
Alternative investments	4,170,415	3,862,388
	<u>6,142,749</u>	<u>5,503,520</u>
Receivable from unsettled securities transactions, net	2,236	415
	<u>6,144,985</u>	<u>5,503,935</u>
Cash	221	192
Investment and other income receivable	1,025	2,641
Other assets	3,131	3,316
Taxes receivable	1,722	6,504
Property, at cost, less accumulated depreciation of \$27,773 and \$25,353 at December 31, 2013 and 2012, respectively	37,145	39,565
Total assets	<u>\$ 6,188,229</u>	<u>\$ 5,556,153</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	\$ 39,785	\$ 39,546
Accrued expenses, including interest payable	8,982	9,297
Deferred federal excise tax	22,700	14,700
Borrowings under credit facility	—	40,000
Long term debt	<u>274,350</u>	<u>274,350</u>
Total liabilities	345,817	377,893
Net assets (unrestricted)	<u>5,842,412</u>	<u>5,178,260</u>
Total liabilities and net assets	<u>\$ 6,188,229</u>	<u>\$ 5,556,153</u>

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

The Andrew W. Mellon Foundation

Statements of Activities

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
INVESTMENT RETURN		
Gain on investments		
Realized, net	\$ 547,660	\$ 307,373
Unrealized, net	389,187	267,875
Interest	9,742	12,572
Dividends	11,456	12,021
	<u>958,045</u>	<u>599,841</u>
Less: Investment management expenses	<u>(12,684)</u>	<u>(11,424)</u>
Net investment return	<u>945,361</u>	<u>588,417</u>
EXPENSES		
Program grants and contributions, net	233,258	258,943
Grantmaking operations	15,058	13,971
Direct charitable activities	1,869	2,194
Investment operations	7,092	6,795
Interest	9,707	9,577
Current provision for taxes	13,772	7,324
Other expenses	453	448
	<u>281,209</u>	<u>299,252</u>
Change in net assets	664,152	289,165
NET ASSETS (UNRESTRICTED)		
Beginning of year	<u>5,178,260</u>	<u>4,889,095</u>
End of year	<u>\$5,842,412</u>	<u>\$5,178,260</u>

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

The Andrew W. Mellon Foundation

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Cash flow from investment income and operations		
Change in net assets	\$ 664,152	\$ 289,165
Adjustments to reconcile change in unrestricted net assets to net cash used by investment income and operations		
Realized gain on investments, net	(547,660)	(307,373)
Unrealized gain on investments, net	(397,187)	(273,375)
Decrease in investment and other income receivable	1,616	1,068
Decrease (increase) in other assets	185	(46)
Decrease (increase) in taxes receivable	4,782	(4,919)
Increase in grants payable	239	2,999
Decrease in accrued expenses	(315)	(1,023)
Depreciation and amortization expense	2,420	2,536
Increase in deferred federal excise tax payable . .	8,000	5,500
Net effect of bond amortization	815	1,188
Total adjustments	<u>(927,105)</u>	<u>(573,445)</u>
Net cash used by investment income and operations	<u>(262,953)</u>	<u>(284,280)</u>
Cash flow from investing activities		
Proceeds from sales of marketable securities		
Short-term	1,559,970	2,523,160
Other	2,111,647	2,965,526
Receipts from alternative investments	699,485	526,990
Purchases of marketable securities		
Short-term	(1,924,612)	(2,411,591)
Other	(1,844,063)	(2,860,707)
Purchases of alternative investments	<u>(299,445)</u>	<u>(502,257)</u>
Net cash provided by investing activities	<u>302,982</u>	<u>241,121</u>
Cash flow from financing activities		
Borrowings under credit facility	110,000	50,000
Repayment of credit facility borrowings	<u>(150,000)</u>	<u>(10,000)</u>
Net cash (used) provided by financing activities .	<u>(40,000)</u>	<u>40,000</u>
Net increase (decrease) in cash	29	(3,159)
Cash		
Beginning of year	192	3,351
End of year	<u>\$ 221</u>	<u>\$ 192</u>
<i>Supplemental disclosure of noncash investing activities</i>		
Distributions of securities received from alternative investments	<u>\$ 39,798</u>	<u>\$ 55,252</u>

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

The Andrew W. Mellon Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Andrew W. Mellon Foundation (the “Foundation”) is a not-for-profit corporation under the laws of the State of New York. The Foundation makes grants in five core program areas: higher education and scholarship; scholarly communications and information technology; performing arts; art history, conservation and museums; and conservation and the environment. Commencing in 2014, the Foundation will close its conservation and the environment program and will no longer appropriate new grants in this area. Following a strategic review in 2014 the Foundation will reorganize its core program areas as follows: higher education and scholarship; arts and cultural heritage; diversity; scholarly communications; and international.

The financial statements of the Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The significant accounting policies followed are described below.

Investments

The Foundation’s financial assets and financial liabilities are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Foundation utilizes the practical expedient in valuing certain of its investments where ownership is represented by a portion of partnership capital or shares representing a net asset value investment. The practical expedient is an acceptable method under GAAP to determine the fair value of investments that (i) do not have a readily determinable fair value predicated upon a public market, and (ii) have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and refer to the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation considers observable data to be that market data which is readily available and reliable and provided by independent sources. The categorization of a financial

instrument within the hierarchy is therefore based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets are classified as Level 1 and include active listed equities and certain short-term fixed income investments. The Foundation does not adjust the quoted price for such instruments, even in situations where the Foundation holds a large position and a sale of all its holdings could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources are classified as Level 2. These include certain US government and sovereign obligations, government agency obligations, investment grade corporate bonds, commingled funds and less liquid equity securities.

Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. The majority of the Foundation's alternative investments are classified as Level 3. These investments are primarily made under agreements to participate in limited partnerships and are generally subject to certain withdrawal restrictions. Values for these partnerships, which may include investments in both nonmarketable and market-traded securities, are provided by the general partner and may be based on recent transactions, cash flow forecasts, appraisals and other factors. Market values may be discounted for concentration of ownership. Because of the inherent uncertainty of valuing the investments in such partnerships and certain of the underlying investments held by the partnerships, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a ready market for the investments existed. The financial statements of the limited partnerships are audited annually by independent auditing firms. Investments in these partnerships may be illiquid, and thus there can be no assurance that the Foundation will be able to realize the full recorded fair value of such investments in a timely manner.

Realized gains and losses on investments in marketable securities are calculated based on the first-in, first-out identification method. Included in receivable from unsettled securities transactions in the accompanying Balance Sheets are receivables of \$17.5 million and \$20.8 million from unsettled security sales at December 31, 2013 and 2012, respectively, net of payables from unsettled securities purchases of \$15.3 million and \$20.4 million at December 31, 2013 and 2012, respectively.

Grants

Grant appropriations include both conditional and unconditional grants. Unconditional grants are expensed when appropriated. Certain grants are approved by the Trustees subject to the grantee fulfilling specific conditions, most frequently that all or a portion of the grant funds be matched in a specified ratio. Such conditional grants are considered commitments and are not recorded as expense until the Foundation determines that the material conditions of the grant are substantially met or such meeting of conditions is probable.

Substantially all grants payable are due within one year and are recorded at face value.

Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, the Foundation is subject to a federal excise tax. The Foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments. The deferred federal excise tax in the accompanying financial statements represents tax provided on the net unrealized appreciation of investments. Under federal tax law the Foundation cannot carry forward realized losses resulting from the sale of investments. The Foundation

Notes to Financial Statements, (continued)

is subject to income tax at corporate rates on certain income that is considered unrelated business income under the Internal Revenue Code. The Foundation's tax returns are subject to examination by federal and various state tax authorities. With few exceptions the Foundation is no longer subject to tax examinations for years prior to 2010.

Property

Property consists of land held at cost, and buildings and their improvements located in New York City. These buildings are depreciated on a straight-line basis over their useful lives, generally twenty-five to twenty-eight years. Building improvements are depreciated over the remaining useful life of the building.

Investment Return

Investment return includes income and realized and unrealized gains or losses on all investments. Unrealized gain or loss comprises the change in unrealized appreciation or depreciation on marketable securities and alternative investments, net of deferred federal excise tax provided on such unrealized appreciation. Realized gains or losses include gains or losses realized on the sale of marketable securities and the Foundation's share of the operating results of partnership investments, whether distributed or undistributed.

Expenses

Grantmaking operations include all costs related to appropriating, paying and administering grants. Direct charitable activities include building operating expenditures for ARTstor Inc. ("ARTstor") and Ithaca Harbors, Inc. ("Ithaca"), which are independent not-for-profit entities, and expenditures for research. Investment operations include the costs of supervising the Foundation's investment portfolio. Interest expense includes interest, amortization of deferred bond issuance costs, commitment fees and remarketing fees incurred in connection with servicing the Foundation's debt. Current provision for taxes includes federal and state taxes. Other expenses include certain expenses that the Foundation is not permitted to report either as an expense of distribution or an expense of earning income.

Salaries and benefits are allocated to the activities listed above, and also to core administration, based on estimates of the time each staff member devoted to that activity. Core administration expenses are then prorated among the activities listed above based on headcount allocations. Identifiable costs, such as consultants, are charged directly to each activity.

Amounts for program grants, grantmaking operations, and direct charitable activities shown on the Statement of Activities will not agree with the amounts on the Foundation's Form 990PF, the federal excise tax return, because a cash basis is required for reporting the expenses of distribution for tax purposes as contrasted with the accrual basis used in preparing the accompanying financial statements.

The administrative expenses of distribution, including direct charitable activities, were \$16.9 million (7.2% of appropriated grants) in 2013, compared to \$16.2 million (6.3% of appropriated grants) in 2012.

Investment management expenses are the direct costs of portfolio management, including fees for investment management, custody and advisory services.

The Foundation's expenses by natural classification are as follows for 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Program grants and contributions, net	\$233,258	\$258,943
Salaries, pensions and benefits	16,202	15,348
Interest	9,707	9,577
Current provision for taxes	13,772	7,324
Other operating expenses	8,270	8,060
	<u>\$281,209</u>	<u>\$299,252</u>

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

2. INVESTMENTS

Investments held at December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
	<i>(in thousands of dollars)</i>			
Equities	\$1,279,498	\$1,049,871	\$1,067,874	\$ 924,253
Fixed income	195,031	192,664	441,168	426,838
Short-term	496,704	496,675	132,011	132,009
Derivative financial instruments	1,101	3,632	79	641
	<u>1,972,334</u>	<u>1,742,842</u>	<u>1,641,132</u>	<u>1,483,741</u>
Alternative investments . . .	4,170,415	3,265,027	3,862,388	3,281,728
	<u>\$6,142,749</u>	<u>\$5,007,869</u>	<u>\$5,503,520</u>	<u>\$4,765,469</u>

The classification of investments by level within the valuation hierarchy as of December 31, 2013 is as follows:

	<u>Quoted</u>	<u>Significant</u>	<u>Significant</u>	<u>Total</u>
	<u>Prices</u>	<u>Observable</u>	<u>Unobservable</u>	
	<u>(Level 1)</u>	<u>Inputs</u>	<u>Inputs</u>	
		<i>(in thousands of dollars)</i>		
		<u>(Level 2)</u>	<u>(Level 3)</u>	
Marketable securities . . .	\$ 795,775	\$1,176,559	\$ —	\$1,972,334
Alternative investments . . .		632,773	3,537,642	4,170,415
Receivable from unsettled securities sales, net	2,236			2,236
	<u>\$ 798,011</u>	<u>\$1,809,332</u>	<u>\$3,537,642</u>	<u>\$6,144,985</u>

Notes to Financial Statements, (continued)

The classification of investments by level within the valuation hierarchy as of December 31, 2012 is as follows:

	<i>Quoted Prices (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Total</i>
	<i>(in thousands of dollars)</i>			
Marketable securities	\$ 614,497	\$ 1,026,635	\$ —	\$ 1,641,132
Alternative investments		273,793	3,588,595	3,862,388
Receivable from unsettled securities sales, net	415			415
	<u>\$ 614,912</u>	<u>\$ 1,300,428</u>	<u>\$ 3,588,595</u>	<u>\$ 5,503,935</u>

The reconciliation of activity for Level 3 investments is as follows:

	<i>2013</i>	<i>2012</i>
	<i>Alternative Investments</i>	
	<i>(in thousands of dollars)</i>	
Balance at January 1	\$ 3,588,595	\$ 3,247,932
Transfers, net	(239,511)	41,731
Net realized gains	312,362	203,246
Income	95,865	51,717
Purchases	299,445	502,257
Distributions/redemptions	(739,283)	(582,242)
Net unrealized gains	220,169	123,954
Balance at December 31	<u>\$ 3,537,642</u>	<u>\$ 3,588,595</u>

Net unrealized gains included in the Statements of Activities for investments designated as Level 3 and held at December 31, 2013 and 2012 were \$273.1 million and \$123.9 million, respectively. There were no transfers between Level 1 and Level 2 in 2013 or in 2012.

Set forth below is additional information pertaining to alternative investments as of December 31, 2013 and 2012:

	<i>Fair Value 2013</i>	<i>Fair Value 2012</i>	<i>Redemption Frequency</i>	<i>Redemption Notice Period</i>
	<i>(in thousands of dollars)</i>			
Equity long only (1)	\$ 332,601	\$ 264,275	Quarterly	30-90 Days
Equity long/short (2)	466,949	373,246	Quarterly/ Annually	30-60 Days
Diversified (3)	864,142	924,377	Quarterly/ Annually	45-180 Days
Private partnerships (4)	<u>2,506,723</u>	<u>2,300,490</u>		
	<u>\$ 4,170,415</u>	<u>\$ 3,862,388</u>		

- (1) This category includes investments in funds that invest in equity securities and derivatives in domestic and international markets. The Foundation estimates that approximately 49% of the value of these funds can be redeemed within 12 months. There are no unfunded commitments in this category.

- (2) This category includes investments in funds that invest long and short in domestic and international securities, primarily in equity securities. The Foundation estimates that approximately 78% of the value of these funds can be redeemed within 12 months. There are no unfunded commitments in this category.
- (3) This category includes investments in funds that invest in a variety of privately held and publicly available securities, including equities, corporate and government bonds, convertibles, derivatives, and includes investments in domestic and international markets. The Foundation estimates that approximately 53% of the value of these funds can be redeemed within 12 months. Unfunded commitments at December 31, 2013 were \$19 million.
- (4) This category includes investments in private equity, venture capital, buyout, credit opportunity, real estate and energy-related funds. These funds invest both domestically and internationally across a broad spectrum of industries. Generally these funds cannot be redeemed; instead, the nature of the investments is that distributions will be received as the underlying investments of the fund are liquidated. Unfunded commitments at December 31, 2013 were \$952 million, compared to \$907 million at December 31, 2012.

Through certain investment managers, the Foundation is a party to a variety of interest rate swaps and options. The extent of the Foundation's involvement in these instruments is determined by the composition of the investment portfolio and the investment managers' expectations as to the direction and volatility of equity and fixed income markets as well as other economic factors. At December 31, 2013, approximately \$3.0 million in assets and \$1.8 million in liabilities related to these financial instruments are included in derivative financial instruments. At December 31, 2012, approximately \$3.7 million in assets and \$3.2 million in liabilities related to these financial instruments are included in derivative financial instruments.

Through certain investment managers, the Foundation purchases and sells forward currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to minimize the exposure of certain of its marketable securities to adverse fluctuations in financial and currency markets. At December 31, 2013, the Foundation had open foreign currency contracts with notional amounts of approximately \$20.6 million in assets and \$20.7 million in liabilities included in derivative financial instruments. At December 31, 2012, the Foundation had open foreign currency contracts with notional amounts of approximately \$37.3 million in assets and \$37.8 million in liabilities included in derivative financial instruments. All of these derivative financial instruments are carried at fair value, and changes in fair value are recognized currently in the Statements of Activities.

Financial instruments such as those described above involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the balance sheet. Market risk represents the potential loss the Foundation faces due to the decrease in the value of financial instruments. Credit risk represents the maximum potential loss the Foundation faces due to possible nonperformance by obligors and counterparties as to the terms of their contracts.

Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the financial position and operations of the Foundation.

The Foundation invests in a variety of fixed income securities and contractual instruments, which by their nature are interest rate sensitive. Changes in interest rates will affect the value of such securities and contractual instruments.

3. DEBT

At December 31, 2013, long term debt consists of \$230 million of bonds with a maturity date of August 1, 2014 (the "Fixed Rate Bonds") and \$44.4 million of bonds with a maturity date of December 1, 2032 (the "Variable Rate Bonds").

Notes to Financial Statements, (continued)

The Fixed Rate Bonds bear a 3.95% fixed rate of interest, payable semi-annually. The bonds may be redeemed at any time by the Foundation at a price equal to the greater of (i) 100% of the principal amount, and (ii) the sum of the present value of the remaining scheduled payments of principal and interest. The Foundation estimates that the fair value of the Fixed Rate Bonds at December 31, 2013 and 2012 was \$234.3 million and \$242.6 million, respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs, for the Fixed Rate Bonds was \$9.1 million for both 2013 and 2012. On February 26, 2014, the Foundation entered into two nonrevolving credit agreements that permit the Foundation to borrow up to an aggregate \$230 million and that mature on June 30, 2017. The interest rate on the borrowings will be LIBOR plus 35 basis points. The Foundation intends to draw down these nonrevolving lines of credit in late July 2014 and use the proceeds to redeem the Fixed Rate Bonds.

Interest for the Variable Rate Bonds is reset weekly by the Foundation's bond agent. Bond holders have the right to tender their bonds to the bond agent weekly, and the agent has an obligation to remarket such bonds. Bonds that cannot be remarketed must be redeemed by the Foundation. The Foundation believes that the fair value of the Variable Rate Bonds approximates their book value. The average interest rate applicable in 2013 for the Variable Rate Bonds was 0.13% and in 2012 was 0.17%. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was \$59 thousand and \$75 thousand in 2013 and 2012, respectively.

In connection with the Variable Rate Bond offering, the Foundation entered into a \$30 million dedicated line of credit agreement. Borrowings, if any, under this line of credit are at the discretion of the Foundation and are to be used solely to fund redemption requirements of the Variable Rate Bonds. The line of credit agreement expires on September 8, 2014. The annual commitment fee is 0.25%. As of December 31, 2013 and 2012, there were no borrowings outstanding under this line of credit.

On April 30, 2012, the Foundation entered into a two year secured revolving line of credit agreement ("Credit Agreement") which permits the Foundation to borrow up to \$60 million with an option to borrow up to \$75 million. Borrowings under the Credit Agreement are to be used to pay grants or other qualifying distributions. The interest rate on borrowings is LIBOR plus 35 basis points and the annual commitment fee is 0.10%. One of the Foundation's managed accounts valued at \$128.7 million, as of December 31, 2013, has been pledged to secure borrowings under the Credit Agreement. The pledged account is included in Marketable Securities in the accompanying Balance Sheet. As of December 31, 2013, there were no borrowings outstanding under the Credit Agreement and as of December 31, 2012 borrowings of \$40 million were outstanding. On April 30, 2014, the Credit Agreement was amended to extend the maturity date to April 30, 2016 and to increase borrowing capacity to \$145 million. The interest rate on borrowings under the amended Credit Agreement is LIBOR plus 30 basis points and the annual commitment fee is 0.05%.

4. TAXES

The Internal Revenue Code imposes an excise tax on private foundations equal to two percent of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax is reduced to one percent when a foundation meets certain distribution requirements under Section 4940(e) of the Internal Revenue Code. The Foundation was subject to the two percent rate in 2013

and 2012. Certain income defined as unrelated business income by the Code may be subject to tax at ordinary corporate rates.

The provision for taxes consists of a current provision for the federal excise taxes on net investment income and federal and state taxes on unrelated business income and a deferred provision on the change in unrealized appreciation of investments. The current tax provision for 2013 comprises \$11.8 million for federal excise tax on net investment income and \$2.0 million in federal and state taxes on unrelated business income. The current tax provision for 2012 comprises \$5.7 million for federal excise tax on net investment income and \$1.6 million in federal and state taxes on unrelated business income. The change in unrealized appreciation in 2013 and 2012 reflected on the Statement of Activities includes deferred tax provisions of \$8.0 million and \$5.5 million, respectively based on change in net unrealized appreciation of investments at two percent. Taxes paid, net of refunds, in 2013 and 2012 were \$9.0 million and \$12.2 million, respectively.

5. GRANTS, CONTRIBUTIONS, AND COMMITMENTS

The following table of grant activity by major program area includes all grant appropriations approved during 2013. In addition, in 2013, the Foundation made one program-related investment for \$100 thousand, which is included in other assets in the accompanying Balance Sheets. Grants payable and committed at December 31, 2012 have been adjusted to reflect cancellations of \$439 thousand.

	<i>Payable and Committed December 31, 2012</i>	<i>2013 Grants and Commitments</i>		<i>Payable and Committed December 31, 2013</i>
		<i>Appropriated</i>	<i>Paid</i>	
		<i>(in thousands of dollars)</i>		
Higher Education and Scholarship	\$19,140	\$133,397	\$135,390	\$17,147
Scholarly Communications and Information Technology	3,439	27,394	26,765	4,068
Performing Arts	10,127	33,000	34,911	8,216
Art History, Conservation and Museums	12,583	26,085	23,692	14,976
Conservation and the Environment	3,246	13,640	12,019	4,867
Public Affairs	—	50	50	—
Other (1)	—	104	104	—
Program grants and commitments — totals	48,535	233,670	232,931	49,274
Contributions and matching gifts	—	1,441	1,441	—
	<u>\$48,535</u>	<u>\$235,111</u>	<u>\$234,372</u>	<u>\$49,274</u>

(1) Other is comprised of grants made to certain grantees that were directly affected by Hurricane Sandy.

Notes to Financial Statements, (continued)

Grant and grant commitment activity is summarized below.

	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Grants payable		
Grants payable at January 1	\$ 39,546	\$ 36,547
Grant expense	234,611	261,105
Less: Grants paid	<u>(234,372)</u>	<u>(258,106)</u>
Grants payable at December 31	<u>\$ 39,785</u>	<u>\$ 39,546</u>
Net grant expense		
Unconditional grants	\$ 203,894	\$ 226,221
Conditional grants meeting conditions for expense	<u>30,717</u>	<u>34,884</u>
	234,611	261,105
Less: Grant refunds	<u>(1,353)</u>	<u>(2,162)</u>
Net grant expense at December 31 . . .	<u>\$ 233,258</u>	<u>\$ 258,943</u>
Grant commitments		
Grant commitments at January 1	\$ 8,989	\$ 15,270
Less commitments cancelled	—	(439)
Conditional grants appropriated	31,217	29,042
Less: Grants meeting conditions for expense	<u>(30,717)</u>	<u>(34,884)</u>
Grant commitments at December 31 . .	<u>\$ 9,489</u>	<u>\$ 8,989</u>

6. OTHER SERVICES

Pursuant to agreements between the Foundation and Ithaka and ARTstor, the following services and arrangements have been provided:

- Ithaka provides information technology services to the Foundation. In both 2013 and 2012, Ithaka charged \$768 thousand to the Foundation for these services.
- The Foundation provides office space, free of charge, to Ithaka and ARTstor in a building owned by the Foundation in New York City. Under the terms of the building lease, which expires December 31, 2014, office space is provided rent free; however, Ithaka and ARTstor assume certain building operating costs.

7. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through May 29, 2014, the date the financial statements were released, and believes no additional disclosures are required in its financial statements.