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Report of Independent Auditors

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, 2016 and 2015, and the related statements of activities and statements of 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.

Auditors' 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 balance sheets of The Andrew W. Mellon Foundation as of December 31, 2016 and 2015, 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.

PricewaterhouseCoopers LLP

May 23, 2017

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BALANCE SHEETS

December 31, 2016 and 2015 (in thousands of dollars)

	2016	2015
ASSETS		
Investments	$ 6,204,634	$ 6,127,391
Cash	4,562	4,581
Investment receivable	2,202	1,827
Other assets	4,401	4,104
Taxes receivable	7,900	7,915
Property, at cost, less accumulated depreciation of $34,917 and $32,530 at December 31, 2016 and 2015, respectively	30,489	32,388
Total assets	$ 6,254,188	$ 6,178,206

	2016	2015
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	$ 119,359	$ 118,718
Accrued expenses	4,831	4,758
Deferred federal excise tax	22,900	19,100
Debt	94,350	174,350
Total liabilities	241,440	316,926
Net assets (unrestricted)	6,012,748	5,861,280
Total liabilities and net assets	$ 6,254,188	$ 6,178,206

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

STATEMENTS OF ACTIVITIES

Years ended December 31, 2016 and 2015 (in thousands of dollars)

	2016	2015
INVESTMENT RETURN		
Gain (loss) on investments		
Realized, net	$ 287,267	$ 362,648
Unrealized, net	187,550	(244,341)
Interest	9,547	3,312
Dividends	13,978	14,220
	498,342	135,839
Less: Investment management expenses	(10,734)	(11,959)
Net investment return	487,608	123,880
EXPENSES		
Program grants and contributions, net	296,917	279,380
Grantmaking operations	20,052	17,889
Direct charitable activities	1,544	1,012
Investment operations	9,677	9,094
Interest	1,632	1,426
Current provision for taxes	6,096	10,357
Other expenses	222	259
	336,140	319,417
Change in net assets	151,468	(195,537)
NET ASSETS (UNRESTRICTED)		
Beginning of year	5,861,280	6,056,817
End of year	$ 6,012,748	$ 5,861,280

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015 (in thousands of dollars)

	2016	2015
Cash flow from investment income and operations		
Change in net assets	$ 151,468	$ (195,537)
Adjustments to reconcile change in unrestricted net assets to net cash used by investment income and operations		
Realized gain on investments, net	(287,267)	(362,648)
Unrealized (gain) loss on investments, net	(191,350)	249,341
Increase in investment receivable	(375)	(852)
Increase in other assets	(297)	(1,212)
Decrease (increase) in taxes receivable	15	(1,324)
Increase in grants payable	641	71,134
Increase in accrued expenses	73	84
Depreciation and amortization expense	2,387	2,387
Increase (decrease) in deferred federal excise tax payable	3,800	(5,000)
Net effect of bond amortization	(134)	(382)
Total adjustments	(472,507)	(48,472)
Net cash used by investment income and operations	(321,039)	(244,009)
Cash flow from investing activities		
Proceeds from sales of and distributions from investments	1,574,309	2,451,530
Purchases of investments	(1,172,801)	(2,085,974)
Purchases of fixed assets	(488)	—
Net cash provided by investing activities	401,020	365,556
Cash flow from financing activities		
Borrowings under revolving credit facility	110,000	40,000
Repayment of borrowings under revolving credit facility	(110,000)	(80,000)
Repayment of borrowings under nonrevolving credit facilities	(80,000)	(80,000)
Net cash used by financing activities	(80,000)	(120,000)
Net (decrease) increase in cash	(19)	1,547
Cash		
Beginning of year	4,581	3,034
End of year	$ 4,562	$ 4,581
Supplemental disclosure of cash flow information		
Taxes paid	$ 6,081	$ 11,681
Supplemental disclosure of noncash investing activities		
Distributions of securities received from alternative investments	$ 41,606	$ 58,248

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 in the humanities; arts and cultural heritage; scholarly communications; diversity; and international higher education and strategic projects.

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. All of the Foundation’s limited marketability funds are valued at net asset value using the practical expedient.

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 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.

Investments reported at net asset value per share as a practical expedient, are not included within Level 1, 2 or 3 in the fair value hierarchy.

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.

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.

The Foundation's limited marketability funds 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. Investments in these partnerships may be illiquid, and thus there can be no assurance that the Foundation will be able to realize the recorded fair value of such investments in a timely manner.

Realized gains and losses on investments are calculated based on the first-in, first-out identification method.

In 2016, the Foundation reclassified the presentation of its investments in note 2 of the financial statements. Investment amounts for 2015 have been reclassified to conform to this presentation.

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 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 2013.

Property

Property substantially 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 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 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 expenditures primarily for research. Investment operations include the costs of supervising the Foundation's investment portfolio. Interest expense includes interest, commitment fees, remarketing fees incurred in connection with servicing the Foundation's debt and amortization of deferred bond issuance costs. 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 $21.6 million (7.5% of appropriated grants) in 2016, compared to $18.9 million (6.7% of appropriated grants) in 2015.

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 2016 and 2015 (in thousands of dollars):

	2016	2015
Program grants and contributions, net	$ 296,917	$ 279,380
Salaries, pensions and benefits	21,722	18,839
Interest	1,632	1,426
Current provision for taxes	6,096	10,357
Other operating expenses	9,773	9,415
	$ 336,140	$ 319,417

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 2015 amounts have been reclassified to conform to the 2016 presentation.

New Accounting Pronouncements

For the year ended December 31, 2015, the Foundation adopted Accounting Standards Update 2015-07 ("ASU"), Disclosures for Investments in Certain Entities That Calculated Net Asset Value per Share (or Its Equivalent). The

ASU removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the practical expedient. The ASU further removed the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the practical expedient.

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. This standard marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new guidance, the existing three categories of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions" and renames unrestricted net assets as "net assets without donor restrictions." There will be new reporting requirements for expenses and additional disclosures to describe an organization's liquidity. The standard is effective for fiscal years beginning after December 15, 2017. The Foundation is currently assessing the impact this standard will have on its financial statements.

2. Investments

Investments held at December 31, 2016 and 2015 are summarized as follows (in thousands of dollars):

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Public equity	$ 332,791	$ 313,524	$ 465,813	$ 484,045
Fixed income	393,662	395,595	378,059	380,374
Short-term	127,258	127,258	200,313	200,313
	853,711	836,377	1,044,185	1,064,732
Limited marketability funds:				
Private equity	2,389,648	1,651,190	2,318,257	1,658,671
Diversified strategies	1,520,150	1,329,704	1,353,534	1,207,374
Public equity	1,444,896	1,244,273	1,413,351	1,243,439
	5,354,694	4,225,167	5,085,142	4,109,484
Payable from unsettled security transactions	(5,132)	(5,132)	(2,792)	(2,792)
Receivable from unsettled security transactions	1,361	1,361	856	856
	$6,204,634	$5,057,773	$ 6,127,391	$ 5,172,280

The classification of investments by level within the valuation hierarchy as of December 31, 2016 is as follows (in thousands of dollars):

	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Assets Value	Total
Public equity	$330,504	$ 2,287	$—	$ —	$ 332,791
Fixed income	—	393,662	—	—	393,662
Short term	127,258	—	—	—	127,258
Limited marketability funds:					
Private equity	—	—	—	2,389,648	2,389,648
Diversified strategies	—	—	—	1,520,150	1,520,150
Public equity	—	—	—	1,444,896	1,444,896
	$457,762	$395,949	$—	$5,354,694	6,208,405
Payable from unsettled security transactions					(5,132)
Receivable from unsettled security transactions					1,361
					$6,204,634

The classification of investments by level within the valuation hierarchy as of December 31, 2015 is as follows (in thousands of dollars):

	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Assets Value	Total
Public equity	$464,263	$ 1,550	$—	$ —	$ 465,813
Fixed income	-	378,059	—	—	378,059
Short term	200,313	—	—	—	200,313
Limited marketability funds:					
Private equity	—	—	—	2,318,257	2,318,257
Diversified strategies	—	—	—	1,353,534	1,353,534
Public equity	—	—	—	1,413,351	1,413,351
	$664,576	$379,609	$—	$5,085,142	6,129,327
Payable from unsettled security transactions					(2,792)
Receivable from unsettled security transactions					856
					$6,127,391

Certain investments that were classified as Level 2 in 2015 are now classified as follows: $49.7 million as Level 1 and $1.0 billion as investments at net asset value.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Set forth below is additional information pertaining to limited marketability funds valued at net asset value as of December 31, 2016 and 2015 (in thousands of dollars):

	Fair Value 2016	Fair Value 2015	Redemption Frequency Ranges	Redemption Notice Period
Private equity (1)	$ 2,389,648	$ 2,318,257	Not applicable	Not applicable
Diversified (2)	1,520,150	1,353,534	For 10% of Diversified investments redemption not permitted during life of the fund	Not applicable
			Monthly to 24 Months	44-92 Days
Public equity (3)	1,444,896	1,413,351	Monthly to 36 Months	6-90 Days
	$ 5,354,694	$ 5,085,142		

(1) This category includes investments in private equity, venture capital, buyout, 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, 2016 were $1.26 billion compared to $1.08 billion at December 31, 2015.

(2) 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 32% of the value of these funds can be redeemed within 12 months. Unfunded commitments at December 31, 2016 were $81 million compared to $131 million at December 31, 2015.

(3) This category includes investments in funds that invest long and short in international and domestic securities, primarily in equity securities and investments in derivatives. The Foundation estimates that approximately 67% of the value of these funds can be redeemed within 12 months. There are no unfunded commitments in this category.

3. Debt

Debt outstanding as of December 31, 2016 and 2015 is as follows (in thousands of dollars):

	2016	2015
Nonrevolving lines of credit, due June 30, 2017	$ 50,000	$ 130,000
Variable Rate bonds, due December 1, 2032	44,350	44,350
	$ 94,350	$ 174,350

The interest rate on borrowings under the nonrevolving lines of credit is LIBOR plus 35 basis points.

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 2016 and 2015 for the Variable Rate bonds was 0.56% and 0.14%, respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was $249 thousand and $63 thousand in 2016 and 2015, respectively.

The Foundation maintains a secured revolving line of credit agreement ("Credit Agreement") which permits the Foundation to borrow up to $145 million and which matures on March 18, 2018. At December 31, 2016 and December 31, 2015 no borrowings were outstanding under the Credit Agreement. Borrowings under the Credit Agreement are to be used to pay grants or other qualifying distributions. The interest rate on borrowings under the Credit Agreement is LIBOR plus 35 basis points. One of the Foundation's managed accounts valued at $407 million, as of December 31, 2016, has been pledged to secure borrowings under the Credit Agreement. The pledged account is included in Investments in the accompanying Balance Sheet.

4. Taxes

The Internal Revenue Code ("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 Code. The Foundation qualified for the one percent rate in 2016 and was subject to the two percent rate in 2015. Certain income defined as unrelated business income by the Code may be subject to tax at ordinary corporate rates.

The current and deferred provision for taxes for 2016 and 2015 are as follows (in thousands of dollars):

	2016	2015
Current provision		
Federal excise tax on net investment income	$ 4,336	$ 9,319
Federal and state taxes on unrelated business income	1,760	1,038
	$ 6,096	$ 10,357
Deferred provision (benefit)		
Change in unrealized appreciation (1)	$ 3,800	$ (5,000)

(1) The deferred tax provision (benefit) is reflected on the Statement of Activities and represents the change in net unrealized appreciation of investments at two percent.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Grants, Contributions, and Commitments

The following table of grant activity by major program area includes all grant appropriations approved during 2016 (in thousands of dollars):

	Payable and Committed December 31, 2015	2016 Grants and Commitments Appropriated	2016 Grants and Commitments Paid	Payable and Committed December 31, 2016
Higher Education and Scholarship in the Humanities	$ 60,063	$ 122,770	$ 124,619	$ 58,214
Arts and Cultural Heritage	50,289	95,272	104,407	41,154
Scholarly Communications	12,608	35,208	35,178	12,638
Diversity	6,850	20,754	18,547	9,057
International Higher Education and Strategic Projects	556	12,150	12,275	431
Conservation and the Environment	2,216	—	2,216	—
Program grants and commitments - totals	132,582	286,154	297,242	121,494
Contributions and matching gifts	—	1,138	1,138	—
	$ 132,582	$ 287,292	$ 298,380	$ 121,494

Grant and grant commitment activity is summarized below (in thousands of dollars):

	2016	2015
Grants payable		
Grants payable at January 1	$ 118,718	$ 47,584
Grant expense	299,021	279,821
Less: Grants paid	(298,380)	(208,687)
Grants payable at December 31	$ 119,359	$ 118,718
Net grant expense		
Unconditional grants	$ 236,680	$ 223,182
Conditional grants meeting conditions for expense	62,341	56,639
	299,021	279,821
Less: Grant refunds	(2,104)	(441)
Net grant expense at December 31	$ 296,917	$ 279,380
Grant commitments		
Grant commitments at January 1	$ 13,864	$ 10,879
Conditional grants appropriated	50,612	59,624
Less: Grants meeting conditions for expense	(62,341)	(56,639)
Grant commitments at December 31	$ 2,135	$ 13,864

6. Subsequent Events

The Foundation has evaluated subsequent events through May 23, 2017, the date the financial statements were issued, and believes no additional disclosures are required in its financial statements.