The Andrew W. Mellon Foundation

Financial Statements
December 31, 2017 and 2016

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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, which comprise the balance sheets as of December 31, 2017 and 2016, 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 Company'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 Company'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 as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

May 23, 2018

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BALANCE SHEETS

December 31, 2017 and 2016 (in thousands of dollars)

	2017	2016
ASSETS		
Investments	$ 6,650,209	$ 6,154,446
Redemption proceeds receivable	156,276	50,188
	6,806,485	6,204,634
Cash	2,899	4,562
Investment receivable	2,270	2,202
Other assets	4,921	4,401
Taxes receivable	9,558	7,900
Property, at cost, less accumulated depreciation of $37,130 and $34,917 at December 31, 2017 and 2016, respectively	29,175	30,489
Total assets	$ 6,855,308	$ 6,254,188

LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	$ 101,388	$ 119,359
Accrued expenses	6,094	4,831
Deferred federal excise tax	35,000	22,900
Debt	44,350	94,350
Total liabilities	186,832	241,440
Net assets (unrestricted)	6,668,476	6,012,748
Total liabilities and net assets	$ 6,855,308	$ 6,254,188

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

STATEMENTS OF ACTIVITIES

Years ended December 31, 2017 and 2016 (in thousands of dollars)

	2017	2016
INVESTMENT RETURN		
Gain on investments		
Realized, net	$ 404,634	$ 282,001
Unrealized, net	563,047	192,816
Interest	10,840	9,547
Dividends	12,527	13,978
	991,048	498,342
Less: Investment management expenses	(10,996)	(10,734)
Net investment return	980,052	487,608
EXPENSES		
Program grants and contributions, net	282,294	296,917
Grantmaking operations	21,541	20,052
Direct charitable activities	3,016	1,544
Investment operations	10,492	9,677
Interest	1,247	1,632
Current provision for taxes	5,390	6,096
Other expenses	344	222
	324,324	336,140
Change in net assets	655,728	151,468
NET ASSETS (UNRESTRICTED)		
Beginning of year	6,012,748	5,861,280
End of year	$ 6,668,476	$ 6,012,748

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2017 and 2016 (in thousands of dollars)

	2017	2016
Cash flow from operating activities		
Change in net assets	$ 655,728	$ 151,468
Adjustments to reconcile change in unrestricted net assets to net cash used by operating activities		
Realized gain on investments, net	(404,634)	(282,001)
Unrealized gain on investments, net	(575,147)	(196,616)
Increase in investment receivable	(68)	(375)
Increase in other assets	(520)	(297)
(Increase) decrease in taxes receivable	(1,658)	15
(Decrease) increase in grants payable	(17,971)	641
Increase in accrued expenses	1,263	73
Depreciation and amortization expense	2,069	2,253
Increase in deferred federal excise tax payable	12,100	3,800
Total adjustments	(984,566)	(472,507)
Net cash used by operating activities	(328,838)	(321,039)
Cash flow from investing activities		
Proceeds from sales of and distributions from investments	1,343,173	1,574,309
Purchases of investments	(965,099)	(1,172,801)
Purchases of fixed assets	(899)	(488)
Net cash provided by investing activities	377,175	401,020
Cash flow from financing activities		
Borrowings under revolving credit facility	65,000	110,000
Repayment of borrowings under revolving credit facility	(65,000)	(110,000)
Repayment of borrowings under nonrevolving credit facilities	(50,000)	(80,000)
Net cash used by financing activities	(50,000)	(80,000)
Net decrease in cash	(1,663)	(19)
Cash		
Beginning of year	4,562	4,581
End of year	$ 2,899	$ 4,562
Supplemental disclosure of cash flow information		
Taxes paid	$ 7,048	$ 6,081
Supplemental disclosure of noncash investing activities		
Reinvestment and distributions of securities received from alternative investments	$ 106,088	$ 41,606
Change in redemption proceeds receivable	$ (106,088)	$ (41,606)

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 and are reported separately in the leveling table in Note 2.

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.

Redemption proceeds receivable represents estimated proceeds to be received from limited marketability funds where the Foundation has requested either a full or partial redemption.

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 2014.

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 and diversity initiatives. 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 $24.6 million (8.6% of appropriated grants) in 2017, compared to $21.6 million (7.5% of appropriated grants) in 2016.

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 2017 and 2016 (in thousands of dollars):

	2017	2016
Program grants and contributions, net	$ 282,294	$ 296,917
Salaries, pensions and benefits	23,278	21,722
Interest	1,247	1,632
Current provision for taxes	5,390	6,096
Other operating expenses	12,115	9,773
	$ 324,324	$ 336,140

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 2016 amounts have been reclassified to conform to the 2017 presentation.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 the Foundation in fiscal year 2018. The Foundation is currently assessing the impact this standard will have on its financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers. This standard provides a single, comprehensive revenue recognition model for all contracts to improve comparability within and across industries. The standard contains principles that an entity will apply to determine the measurement of revenue and the timing of when it is recognized. The standard is effective for the Foundation in fiscal year 2018. The Foundation is currently assessing the impact this standard will have on its financial statements.

2. Investments

Investments held at December 31, 2017 and 2016 are summarized as follows (in thousands of dollars):

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Public equity	$ 352,085	$ 284,299	$ 332,791	$ 313,524
Fixed income	405,719	407,725	393,662	395,595
Short-term	170,568	170,568	127,258	127,258
	928,372	862,592	853,711	836,377
Limited marketability funds				
Private equity	2,681,027	1,741,707	2,389,648	1,651,190
Public equity	1,618,434	1,127,853	1,394,708	1,188,819
Diversified strategies	1,420,094	1,188,838	1,520,150	1,329,704
	5,719,555	4,058,398	5,304,506	4,169,713
Redemption proceeds receivable	156,276	156,276	50,188	50,188
Payable from unsettled security transactions	(879)	(879)	(5,132)	(5,132)
Receivable from unsettled security transactions	3,161	3,161	1,361	1,361
	$6,806,485	$5,079,548	$6,204,634	$5,052,507

The classification of investments by level within the valuation hierarchy as of December 31, 2017 is as follows (in thousands of dollars):

	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Asset Value	Total
Public equity	$352,022	$ 63	$—	$ —	$ 352,085
Fixed income	—	405,719	—	—	405,719
Short term	170,568	—	—	—	170,568
Limited marketability funds					
Private equity	—	—	—	2,681,027	2,681,027
Public equity	—	—	—	1,618,434	1,618,434
Diversified strategies	—	—	—	1,420,094	1,420,094
	$522,590	$405,782	$—	$5,719,555	6,647,927
Redemption proceeds receivable					156,276
Payable from unsettled security transactions					(879)
Receivable from unsettled security transactions					3,161
					$6,806,485

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 Asset 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
Public equity	—	—	—	1,394,708	1,394,708
Diversified strategies	—	—	—	1,520,150	1,520,150
	$ 457,762	$395,949	$—	$5,304,506	6,158,217
Redemption proceeds receivable					50,188
Payable from unsettled security transactions					(5,132)
Receivable from unsettled security transactions					1,361
					$6,204,634

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, 2017 and 2016 (in thousands of dollars):

	Fair Value			
	2017	2016	Redemption Frequency Ranges	Redemption Notice Period
Private equity (1)	$ 2,681,027	$ 2,389,648	Not applicable	Not applicable
Public equity (2)	1,618,434	1,394,708	Monthly to 36 Months	6-90 Days
Diversified (3)	1,420,094	1,520,150	For 9% of Diversified investments redemption not permitted during life of the fund	Not applicable
			Quarterly to 24 Months	44-90 Days
	$ 5,719,555	$ 5,304,506		

(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, 2017 were $1.23 billion compared to $1.26 billion at December 31, 2016.

(2) 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 66% 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 and derivatives, and includes investments in domestic and international markets. The Foundation estimates that approximately 31% of the value of these funds can be redeemed within 12 months. Unfunded commitments at December 31, 2017 were $49 million compared to $81 million at December 31, 2016.

3. Debt

Debt outstanding as of December 31, 2017 and 2016 is as follows (in thousands of dollars):

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

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 average interest rate applicable in 2017 and 2016 for the Variable Rate bonds was 1.09% and 0.56% respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was $485 thousand and $249 thousand in 2017 and 2016, respectively.

The Foundation maintains a secured revolving line of credit agreement ("Credit Agreement") which permits the Foundation to borrow up to $110 million and which matures on March 17, 2019. At December 31, 2017 and December 31, 2016 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 with a fair value of $415 million, as of December 31, 2017, has been pledged to secure borrowings under the Credit Agreement. The pledged account is included in Investments in the accompanying Balance Sheet.

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

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 2017 and 2016. 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 2017 and 2016 are as follows (in thousands of dollars):

	2017	2016
Current provision		
Federal excise tax on net investment income	$ 3,333	$ 4,336
Federal and state taxes on unrelated business income	2,057	1,760
	$ 5,390	$ 6,096
Deferred provision		
Change in unrealized appreciation (1)	$ 12,100	$ 3,800

(1) The deferred tax provision 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 2017. In addition, in 2017, the Foundation approved one program- related investment for $1.0 million. Program – related investments are included in Other Assets in the accompanying Balance Sheets (in thousands of dollars):

	Payable and Committed December 31, 2016	2017 Grants and Commitments Appropriated	2017 Grants and Commitments Paid	Payable and Committed December 31, 2017
Higher Education and Scholarship in the Humanities	$ 58,214	$ 118,457	$ 128,031	$ 48,640
Arts and Cultural Heritage	41,154	79,605	88,563	32,196
Scholarly Communications	12,638	47,686	44,118	16,206
Diversity	9,057	23,996	27,499	5,554
International Higher Education and Strategic Projects	431	13,159	11,984	1,606
Public Affairs and Contributions	—	875	875	—
Matching gifts	—	1,050	1,050	—
	$ 121,494	$ 284,828	$ 302,120	$ 104,202

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

	2017	2016
Grants payable		
Grants payable at January 1	$ 119,359	$ 118,718
Grant expense	284,149	299,021
Less: Grants paid	(302,120)	(298,380)
Grants payable at December 31	$ 101,388	$ 119,359
Net grant expense		
Unconditional grants	$ 255,003	$ 236,680
Conditional grants meeting conditions for expense	29,146	62,341
	284,149	299,021
Less: Grant refunds	(1,855)	(2,104)
Net grant expense at December 31	$ 282,294	$ 296,917
Grant commitments		
Grant commitments at January 1	$ 2,135	$ 13,864
Conditional grants appropriated	29,825	50,612
Less: Grants meeting conditions for expense	(29,146)	(62,341)
Grant commitments at December 31	$ 2,814	$ 2,135

6. Subsequent Events

The Foundation has evaluated subsequent events through May 23, 2018, the date the financial statements were issued, and believes no additional disclosures are required in its financial statements.