Financial Statements

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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, which comprise the statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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 29, 2020
New York, New York

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THE ANDREW W. MELLON FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

(in thousands of dollars)	**2019**	**2018**
Assets		
Investments	$6,789,698	$6,161,815
Redemptions receivable and prepaid subscriptions	144,849	346,874
	6,934,547	6,508,689
Cash	9,000	5,742
Investment receivable	2,800	2,670
Other assets, including prepaid taxes	21,970	12,115
Property, at cost, less accumulated depreciation of $42,031 and $39,566 at December 31, 2019 and 2018, respectively	25,380	27,240
Total assets	$6,993,697	$6,556,456
Liabilities and Net Assets		
Liabilities		
Grants payable	98,554	96,552
Accrued expenses	8,781	6,103
Deferred federal excise tax	23,300	26,300
Debt	44,350	44,350
Total liabilities	174,985	173,305
Net assets without donor restrictions	6,818,712	6,383,151
Total liabilities and net assets	$ 6,993,697	$6,556,456

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

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

(in thousands of dollars)	**2019**	**2018**
Net investment return	$782,880	$54,136
Expenses		
Program grants	312,953	309,450
Grantmaking operations		
Salaries	12,877	12,017
Employee benefits	4,606	4,141
Other	13,984	10,953
	31,467	27,111
Direct charitable activities		
Salaries	1,208	1,315
Employee benefits	434	454
Other	1,257	1,131
	2,899	2,900
Total expenses	347,319	339,461
Change in net assets	435,561	(285,325)
Net assets without donor restrictions		
Beginning of year	6,383,151	6,668,476
End of year	$6,818,712	$6,383,151

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

(in thousands of dollars)	**2019**	**2018**
Cash flow from operating activities		
Change in net assets	$435,561	$(285,325)
Adjustments to reconcile change in net assets without donor restrictions to net cash used by operating activities		
Gain on investments, net	(770,654)	(46,720)
Increase in investment receivable	(130)	(400)
(Increase) decrease in other assets	(9,855)	2,364
Increase (decrease) in grants payable	2,002	(4,836)
Increase in accrued expenses	2,678	9
Depreciation and amortization expense	961	1,748
Decrease in deferred federal excise tax payable	(3,000)	(8,700)
Total	(777,998)	(56,535)
Net cash used by operating activities	(342,437)	(341,860)
Cash flow from investing activities		
Proceeds from sales of and distributions from investments	1,415,490	1,596,943
Purchases of investments and prepaid subscriptions	(1,069,191)	(1,251,739)
Purchases of fixed assets	(604)	(501)
Net cash provided by investing activities	345,695	344,703
Net increase in cash	3,258	2,843
Cash		
Beginning of year	5,742	2,899
End of year	$9,000	$5,742
Supplemental disclosure of cash flow information		
Taxes paid	$2,554	$3,030
Supplemental disclosure of noncash investing activities		
Change in redemptions receivable	$77,025	$(65,598)
Distributions of securities received from alternative investments	$128,761	$73,352

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

Notes to Financial Statements

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 the following core program areas: higher education and scholarship in the humanities; arts and cultural heritage; and scholarly communications.

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 which is defined by ASC 820 Fair Value Measurement 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 limited marketability funds, which are 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 Statements of Financial Position. 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.

Redemptions receivable represent estimated proceeds to be received from limited marketability funds where the Foundation has requested either a full or partial redemption. Prepaid subscriptions represent payments made by the Foundation to a limited marketability fund in advance of the date upon which the limited marketability fund recognizes subscriptions.

In accordance with its policy, the Foundation has elected to classify short term liquid investments, including cash equivalents, as Investments.

Grants

Grant appropriations include both unconditional and conditional grants. Unconditional grants are expensed when appropriated. Certain grants approved by the Trustees are conditional 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 not recorded as expense until the Foundation determines that the material conditions of the grant are substantially met.

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 2016.

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.

Net Investment Return
Investment return includes income and realized and unrealized gains or losses on all investments, net of external and internal management expenses, the current provision for federal and state taxes and interest expense. 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. 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 and travel, are charged directly to each activity.

Amounts for program grants, grantmaking operations, and direct charitable activities shown on the Statements 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.

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.

New Accounting Pronouncements
In June 2018, the FASB issued Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made ("ASU 2018-08"). This standard provides additional guidance for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) subject to other guidance and for determining whether a contribution is conditional or unconditional. The Foundation adopted ASU 2018-08 in 2019 using a modified prospective basis of application and the adoption did not have a material impact on the Foundation's financial statements. The amendments in ASU 2018-08 were applied only to portions of grant expense not yet recognized before the effective date in accordance with prior guidance, and no prior period results were restated.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 with early adoption permissible. The Foundation adopted this standard in the current year and the adoption did not have a material impact on the Foundation's financial statements.

In November 2016, the FASB issued ASU No. ASU 2016-18 that addresses the presentation, disclosure, and cash flow classification of restricted cash and requires that the statement of cash flow explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile these amounts on the statement of financial position to the statement of cash flows and disclose the nature of the restrictions. The guidance is effective for the Foundation for fiscal years beginning after December 15, 2018. The Foundation adopted this standard in the current year and the adoption did not have a material impact on the Foundation's financial statements.

2. Investments

Investments held at December 31, 2019 and 2018 are summarized as follows:

(in thousands of dollars)	2019		2018	
	Fair Value	Cost	Fair Value	Fair Value
Public equity	$259,758	$227,232	$211,293	$198,375
Fixed income	442,589	433,853	415,162	422,181
Short term	443,973	443,973	323,531	323,531
	1,146,320	1,105,058	949,986	944,087
Limited marketability funds				
Private equity	3,074,633	2,015,243	2,851,291	1,901,627
Diversified strategies	1,341,531	1,129,259	1,159,256	1,016,070
Public equity	1,225,911	859,378	1,199,686	980,860
	5,642,075	4,003,880	5,210,233	3,898,557
Redemptions receivable and prepaid subscriptions	144,849	144,849	346,874	346,874
Payable from unsettled security transactions	(362)	(362)	(474)	(474)
Receivable from unsettled security transactions	1,665	1,665	2,070	2,070
	$6,934,547	$5,255,090	$6,508,689	$5,191,114

The classification of investments by level within the valuation hierarchy as of December 31, 2019 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	$259,743	$15	$—	$—	$259,758
Fixed income	—	442,589	—	—	442,589
Short term	443,973	—	—	—	443,973
Limited marketability funds					
Private equity	—	—	—	3,074,633	3,074,633
Diversified strategies	—	—	—	1,341,531	1,341,531
Public equity	—	—	—	1,225,911	1,225,911
	$703,716	$442,604	$—	$5,642,075	6,788,395
Redemptions receivable					144,849
Payable from unsettled security transactions					(362)
Receivable from unsettled security transactions					1,665
					$6,934,547

The classification of investments by level within the valuation hierarchy as of December 31, 2018 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	$211,270	$23	$—	$—	$211,293
Fixed income	—	415,162	—	—	415,162
Short term	323,531	—	—	—	323,531
Limited marketability funds					
Private equity	—	—	—	2,851,291	2,851,291
Diversified strategies	—	—	—	1,159,256	1,159,256
Public equity	—	—	—	1,199,686	1,199,686
	$534,801	$415,185	$—	$5,210,233	6,160,219
Redemptions receivable and prepaid subscription					346,874
Payable from unsettled security transactions					(474)
Receivable from unsettled security transactions					2,070
					$6,508,689

Set forth below is additional information pertaining to limitedmarketability funds valued at net asset value as of December 31, 2019 and 2018:

(in thousands of dollars)	Fair Value		Redemption Frequency Ranges	Redemption Notice Period
	2019	2018		
Private equity (1)	$3,074,633	$2,851,291	Not Applicable	Not Applicable
Diversified (2)	1,341,531	1,159,256	For 7% of Diversified investments redemption not permitted during life of the fund. Quarterly to 12 Months	Not Applicable 15–90 Days
Public equity (3)	1,225,911	1,199,686	Monthly to 36 Months	10–90 Days
	$5,642,075	$5,210,233		

(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, 2019 were $1.31 billion compared to $1.20 billion at December 31, 2018.

(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 and derivatives, and includes investments in domestic and international markets. The Foundation estimates that approximately 60% of the value of these funds can be redeemed within 12 months. Unfunded commitments at December 31, 2019 were $51 million compared to $42 million at December 31, 2018.

(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 88% of the value of these funds can be redeemed within 12 months. There are no unfunded commitments in this category.

3. Debt

Debt at December 31, 2019 and 2018 consists of $44.4 million of Variable Rate Bonds ("Bonds") with a balloon payment of principal due at the maturity date of December 1, 2032. Interest for the 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 2019 and 2018 for the Bonds was 2.27% and 1.96%, respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was $1.0 million and $868 thousand in 2019 and 2018, respectively.

The Foundation maintains a $200 million committed revolving line of credit and a $100 million uncommitted line of credit ("Credit Agreements") which mature on April 17, 2021. At December 31, 2019 and December 31, 2018 no borrowings were outstanding under the Credit Agreements. Subsequent to December 31, 2019, the Foundation borrowed $200 million from its committed line of credit which remains outstanding. Borrowings under the Credit Agreements are to be used to pay grants or other qualifying distributions. The interest rate on borrowings under the Credit Agreements is LIBOR plus 40 basis points.

The Foundation is in compliance with the financial covenants, as applicable, in its Bonds and Credit Agreements as of December 31, 2019 and 2018.

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 2019 and 2018. Under the provisions of the Tax Cut and Jobs Act of 2017 the Foundation is entitled to a refund of $6.1 million for certain alternative minimum taxes paid in prior years. This refund was recorded in the current provision as a federal unrelated business tax benefit in 2019, and is included within Other assets on the Statements of Financial Position and within Net investment return on the Statements of Activities.

In December 2019, the Further Consolidated Appropriations Act was enacted. This act, among other matters, set the excise tax rate for private foundations at 1.39% starting in 2020.

Certain income defined as unrelated business income by the Code may be subject to tax at ordinary corporate rates. The current and deferred provision (benefit) for taxes for 2019 and 2018 are as follows:

(in thousands of dollars)	2019	2018
Current (benefit) provision		
Federal excise tax on net investment income	$4,877	$4,689
Federal and state taxes on unrelated business income	(7,143)	1,157
	$(2,266)	$5,846
Deferred (benefit)		
Change in unrealized appreciation (1)	$(3,000)	$(8,700)

(1) The deferred tax (benefit) is reflected in Net investment return on the Statement of Activities and represents the change in net investment return at 1.39%, the excise tax rate effective in 2020 compared to 2% in the prior period. The effect of using the lower excise tax rate of 1.39% reduced the deferred federal excise tax liability by $10.3 million in 2019.

5. Grants

Grant payable activity consisted of the following:

(in thousands of dollars)	2019	2018
Grants payable at January 1	$96,552	$101,388
Grant expense	312,953	312,004
Less: Grants paid	(310,951)	(316,840)
Grants payable at December 31	$98,554	$96,552

Conditional grants were $5.51 million at December 31, 2019.

Grants payable at December 31, 2019 are to be paid in future years as follows:

(in thousands of dollars)	
Year Payable	
Within one year	$87,811
Two years	5,580
Three years	2,082
Four years	1,469
Five years	1,219
Thereafter	393
	$98,554

6. Liquidity

As part of its cash management strategy, the Foundation seeks to maintain sufficient liquidity to meet all of its financial obligations for the following year. The Foundation's financial assets available for use within one year as of December 31, 2019 and December 31, 2018 to meet its cash needs are estimated as follows:

(in thousands of dollars)	2019	2018
Cash and short term investments	$452,973	$329,273
Investment receivable	2,800	2,670
Public equity investments	259,758	211,293
Fixed income investments	442,589	415,162
Redemptions receivable and prepaid subscriptions	109,025	343,392
Public equity and diversified strategies limited marketability investments	1,873,447	1,401,179
	$3,140,592	$2,702,969

The Foundation also receives distributions each year from its private equity limited marketability funds. These distributions, which are a source of liquidity, totaled $524 million and $616 million in 2019 and 2018, respectively. The Foundation's annual cash disbursements are comprised of capital calls, grants, and other operating expenses. These disbursements totaled $776 million and $890 million in 2019 and 2018, respectively.

As more fully described in Note 3 in the notes to the financial statements, the Foundation also maintains lines of credit.

7. Subsequent Events

In connection with the outbreak of the COVID-19 virus, the Foundation is monitoring developments and the directives of federal, state, and local officials to determine what precautions and procedures it may need to follow to maintain its operational capability. The Foundation's investments have experienced declines in fair value from December 31, 2019; however, the Foundation believes it can continue to operate effectively and meet all its financial obligations. However, due to the uncertainty and difficulty in predicting the ultimate outcome and severity of the impact of COVID-19 on the Foundation, the economy, and the financial markets, it is possible that the ultimate impact of these uncertainties may be material to the Foundation's financial position.

The Foundation has evaluated subsequent events through May 29, 2020, the date the financial statements were issued, and believes no additional disclosures are required in its financial statements.