

Financial Statements

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The Andrew W. Mellon Foundation (the "Foundation") at December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

May 28, 2013

The Andrew W. Mellon Foundation

Balance Sheets

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of dollars)</i>	
ASSETS		
Investments		
Marketable securities	\$ 1,641,132	\$ 1,671,867
Alternative investments	3,862,388	3,536,748
	<u>5,503,520</u>	<u>5,208,615</u>
Receivable (payable) from unsettled securities transactions, net	415	(43,120)
	<u>5,503,935</u>	<u>5,165,495</u>
Cash	192	3,351
Investment and other income receivable	2,641	3,709
Other assets	3,316	3,270
Taxes receivable	6,504	1,585
Property, at cost, less accumulated depreciation of \$25,353 and \$22,816 at December 31, 2012 and 2011, respectively	39,565	42,102
Total assets	<u>\$ 5,556,153</u>	<u>\$ 5,219,512</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	\$ 39,546	\$ 36,547
Accrued expenses, including interest payable . . .	9,297	10,320
Deferred federal excise tax	14,700	9,200
Borrowings under credit facility	40,000	—
Long term debt	<u>274,350</u>	<u>274,350</u>
Total liabilities	377,893	330,417
Net assets (unrestricted)	<u>5,178,260</u>	<u>4,889,095</u>
Total liabilities and net assets	<u>\$ 5,556,153</u>	<u>\$ 5,219,512</u>

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

The Andrew W. Mellon Foundation

Statements of Activities

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of dollars)</i>	
INVESTMENT RETURN		
Gain (loss) on investments		
Realized, net	\$ 307,373	\$ 308,218
Unrealized, net	267,875	(287,292)
Interest	12,572	19,271
Dividends	12,021	16,000
	<u>599,841</u>	<u>56,197</u>
Less: Investment management expenses	(11,424)	(12,869)
Net investment return	<u>588,417</u>	<u>43,328</u>
EXPENSES		
Program grants and contributions, net	258,943	242,772
Grantmaking operations	13,971	13,268
Direct charitable activities	2,194	2,288
Investment operations	6,795	6,208
Interest	9,577	9,533
Current provision for taxes	7,324	7,190
Other expenses	448	373
	<u>299,252</u>	<u>281,632</u>
Change in net assets	289,165	(238,304)
NET ASSETS (UNRESTRICTED)		
Beginning of year	<u>4,889,095</u>	<u>5,127,399</u>
End of year	<u>\$5,178,260</u>	<u>\$4,889,095</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of dollars)</i>	
Cash flow from investment income and operations		
Change in net assets	\$ 289,165	\$ (238,304)
Adjustments to reconcile change in unrestricted net assets to net cash used by investment income and operations		
Realized gain on investments, net	(307,373)	(308,218)
Unrealized (gain) loss on investments, net	(273,375)	293,192
Decrease in investment and other income receivable	1,068	17
(Increase) decrease in other assets	(46)	191
(Increase) decrease in taxes receivable	(4,919)	1,772
Increase (decrease) in grants payable	2,999	(3,170)
Decrease in accrued expenses	(1,023)	(1,657)
Depreciation and amortization expense	2,536	2,643
Increase (decrease) in deferred federal excise tax payable	5,500	(5,900)
Net effect of bond amortization	1,188	707
Total adjustments	<u>(573,445)</u>	<u>(20,423)</u>
Net cash used by investment income and operations	<u>(284,280)</u>	<u>(258,727)</u>
Cash flow from investing activities		
Proceeds from sales of marketable securities		
Short-term	2,523,160	1,767,428
Other	2,965,526	3,511,077
Receipts from alternative investments	526,990	684,043
Purchases of marketable securities		
Short-term	(2,411,591)	(1,831,711)
Other	(2,860,707)	(3,275,023)
Purchases of alternative investments	<u>(502,257)</u>	<u>(596,447)</u>
Net cash provided by investing activities	<u>241,121</u>	<u>259,367</u>
Cash flow from financing activities		
Borrowings under credit facility	50,000	—
Repayment of credit facility borrowings	<u>(10,000)</u>	<u>—</u>
Net cash provided by financing activities	<u>40,000</u>	<u>—</u>
Net (decrease) increase in cash	(3,159)	640
Cash		
Beginning of year	3,351	2,711
End of year	<u>\$ 192</u>	<u>\$ 3,351</u>
<i>Supplemental disclosure of noncash investing activities</i>		
Distributions of securities received from alternative investments	<u>\$ 55,252</u>	<u>\$ 11,204</u>

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

The Andrew W. Mellon Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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; scholarly communications and information technology; performing arts; art history, conservation and museums; and conservation and the environment.

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, options 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 vast 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 securities are calculated based on the first-in, first-out identification method. Included in receivable (payable) from unsettled securities transactions in the accompanying Balance Sheets are receivables of \$20.8 million and \$28.0 million from unsettled security sales at December 31, 2012 and 2011, respectively, net of payables from unsettled securities purchases of \$20.4 million and \$71.1 million at December 31, 2012 and 2011, 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 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 2009.

Notes to Financial Statements, (continued)

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 \$16.2 million (6.3% of appropriated grants) in 2012, compared to \$15.6 million (6.7% of appropriated grants) in 2011.

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 2012 and 2011:

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of dollars)</i>	
Program grants and contributions, net . . .	\$258,943	\$242,772
Salaries, pensions and benefits	15,568	14,595
Interest	9,577	9,533
Current provision for taxes	7,324	7,190
Other operating expenses	7,840	7,542
	<u>\$299,252</u>	<u>\$281,632</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 2011 amounts have been reclassified to conform to the 2012 presentation.

2. INVESTMENTS

Investments held at December 31, 2012 and 2011 are summarized as follows:

	2012		2011	
	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>
	<i>(in thousands of dollars)</i>			
Equities	\$1,067,874	\$ 924,253	\$ 997,629	\$ 976,922
Fixed income	441,168	426,838	431,778	435,646
Short-term	132,011	132,009	243,485	243,486
Derivative financial instruments	79	641	(1,025)	(581)
	<u>1,641,132</u>	<u>1,483,741</u>	<u>1,671,867</u>	<u>1,655,473</u>
Alternative investments . . .	<u>3,862,388</u>	<u>3,281,728</u>	<u>3,536,748</u>	<u>3,089,046</u>
	<u>\$5,503,520</u>	<u>\$4,765,469</u>	<u>\$5,208,615</u>	<u>\$4,744,519</u>

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 classification of investments by level within the valuation hierarchy as of December 31, 2011 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	\$ 761,060	\$ 910,807	\$ —	\$1,671,867
Alternative investments . . .	—	288,816	3,247,932	3,536,748
Payable from unsettled securities purchases, net	(43,120)	—	—	(43,120)
	<u>\$ 717,940</u>	<u>\$1,199,623</u>	<u>\$3,247,932</u>	<u>\$5,165,495</u>

Notes to Financial Statements, (continued)

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

	<u>2012</u>	<u>2011</u>	
	<i>Alternative Investments</i>	<i>Marketable Securities</i>	<i>Alternative Investments</i>
	<i>(in thousands of dollars)</i>		
Balance at January 1	\$3,247,932	\$ 715	\$3,242,177
Transfer	41,731	—	(46,606)
Net realized gains	203,246	120	189,010
Income	51,717	—	10,489
Purchases	502,257	570	596,447
Distributions/redemptions	(582,242)	(1,301)	(695,247)
Net unrealized gains (losses)	123,954	(104)	(48,338)
Balance at December 31	<u>\$3,588,595</u>	<u>\$ —</u>	<u>\$3,247,932</u>

Net unrealized gains included in the Statements of Activities for investments designated as Level 3 and held at December 31, 2012 and 2011 were \$123.9 million and \$10.8 million, respectively.

Set forth below is additional information pertaining to alternative investments as of December 31, 2012 and 2011:

	<u>Fair Value 2012</u>	<u>Fair Value 2011</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
		<i>(in thousands of dollars)</i>		
Equity long only (1)	\$ 264,275	\$ 185,382	Quarterly	30-90 Days
Equity long/short (2)	373,246	313,290	Quarterly/ Annually	30-60 Days
Diversified (3)	924,377	822,160	Quarterly/ Annually	45-180 Days
Private partnerships (4)	<u>2,300,490</u>	<u>2,215,916</u>		
	<u>\$3,862,388</u>	<u>\$3,536,748</u>		

- (1) This category includes investments in funds that invest in equity securities and derivatives in domestic and international markets, including emerging markets. The Foundation estimates that approximately 77% of the value of these funds can be redeemed within 18 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 equity securities. The Foundation estimates that approximately 87% of the value of these funds can be redeemed within 18 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, asset backed and derivatives, and includes investments in domestic and international markets. The Foundation estimates that approximately 85% of the value of these funds can be redeemed within 18 months. There are no unfunded commitments in this category.

- (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, 2012 were \$907 million, compared to \$956 million at December 31, 2011.

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, 2012, approximately \$3.7 million in assets and \$3.2 million in liabilities related to these financial instruments are included in derivative financial instruments. At December 31, 2011, approximately \$477 thousand in assets and \$1.6 million in liabilities related to these financial instruments were 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, 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. At December 31, 2011, the Foundation had open foreign currency contracts with notional amounts of approximately \$94.4 million in assets and \$94.2 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, 2012, 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").

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, 2012 and 2011 was \$242.6 million and \$247.9 million, respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs, for the Fixed Rate Bonds was \$9.1 million for both 2012 and 2011.

Notes to Financial Statements, (continued)

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 2012 for the Variable Rate Bonds was 0.17% and in 2011 was 0.22%. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was \$75 thousand and \$98 thousand in 2012 and 2011, 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, 2012 and 2011, there were no borrowings outstanding under the 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. At December 31, 2012, borrowings of \$40 million 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 is LIBOR plus 35 basis points and the annual commitment fee is 0.10%. One of the Foundation's managed accounts valued at \$158.9 million, as of December 31, 2012, has been pledged to secure borrowings under the Credit Agreement. The pledged account is included in Marketable Securities in the accompanying Balance Sheet. The \$40 million of borrowings were fully repaid on February 15, 2013. On March 26, 2013, the Foundation borrowed \$65 million under the Credit Agreement, which was fully repaid on May 28, 2013.

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 2012 and 2011. 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 state and federal taxes on unrelated business income and a deferred provision on the change in unrealized appreciation of investments. 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 current tax provision for 2011 comprises \$6.5 million for federal excise tax on net investment income and \$698 thousand in state and federal taxes on unrelated business income. The change in unrealized appreciation in 2012 and 2011 reflected on the Statement of Activities includes a deferred tax provision of \$5.5 million in 2012 and a deferred tax benefit of \$5.9 million in 2011 based on change in net unrealized appreciation of investments at two percent. Taxes paid; net of refunds, in 2012 and 2011 were \$12.2 million and \$5.4 million, respectively.

5. GRANTS, CONTRIBUTIONS, AND COMMITMENTS

The following table of grant activity by major program area includes all grant appropriations approved during 2012.

	<i>Payable and Committed December 31, 2011</i>	<i>2012 Grants and Commitments</i>		<i>Payable and Committed December 31, 2012</i>
		<i>Appropriated</i>	<i>Paid</i>	
		<i>(in thousands of dollars)</i>		
Higher Education and Scholarship	\$22,145	\$132,561	\$135,566	\$19,140
Scholarly Communications and Information Technology	3,074	29,169	28,804	3,439
Performing Arts	9,472	50,268	49,238	10,502
Art History, Conservation and Museums	15,734	27,717	30,868	12,583
Conservation and the Environment	1,392	13,843	11,925	3,310
Other (1)	—	470	470	—
Program grants and commitments — totals	51,817	254,028	256,871	48,974
Contributions and matching gifts	—	1,235	1,235	—
	<u>\$51,817</u>	<u>\$255,263</u>	<u>\$258,106</u>	<u>\$48,974</u>

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

Grant and grant commitment activity is summarized below.

	<i>2012</i>	<i>2011</i>
	<i>(in thousands of dollars)</i>	
Grants payable		
Grants payable at January 1	\$ 36,547	\$ 39,717
Grant expense	261,105	243,679
Less: Grants paid	(258,106)	(246,849)
Grants payable at December 31	<u>\$ 39,546</u>	<u>\$ 36,547</u>
Net grant expense		
Unconditional grants	\$ 226,221	\$ 202,330
Conditional grants meeting conditions for expense	34,884	41,349
	261,105	243,679
Less: Grant refunds	(2,162)	(907)
Net grant expense at December 31 . . .	<u>\$ 258,943</u>	<u>\$ 242,772</u>
Grant commitments		
Grant commitments at January 1	\$ 15,270	\$ 27,171
Conditional grants appropriated	29,042	29,448
Less: Grants meeting conditions for expense	(34,884)	(41,349)
Grant commitments at December 31 . .	<u>\$ 9,428</u>	<u>\$ 15,270</u>

Notes to Financial Statements, (continued)

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 2012 and 2011, Ithaka charged \$768 thousand and \$760 thousand, respectively, 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 28, 2013 and believes no additional disclosures are required in its financial statements.