The Andrew W. Mellon Foundation

Financial Statements
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, The Andrew W. Mellon Foundation changed the manner in which it reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

New York, New York
May 31, 2019

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STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017 (in thousands of dollars)

	2018	2017
ASSETS		
Investments	$ 6,161,815	$ 6,650,209
Redemptions receivable and prepaid subscriptions	346,874	156,276
	6,508,689	6,806,485
Cash	5,742	2,899
Investment receivable	2,670	2,270
Other assets, including prepaid taxes	12,115	14,479
Property, at cost, less accumulated depreciation of $39,566 and $37,130 at December 31, 2018 and 2017, respectively	27,240	29,175
Total assets	$ 6,556,456	$ 6,855,308

LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	96,552	101,388
Accrued expenses	6,103	6,094
Deferred federal excise tax	26,300	35,000
Debt	44,350	44,350
Total liabilities	173,305	186,832
Net assets without donor restrictions	6,383,151	6,668,476
Total liabilities and net assets	$ 6,556,456	$ 6,855,308

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

STATEMENTS OF ACTIVITIES

Years ended December 31, 2018 and 2017 (in thousands of dollars)

	2018	2017
Net investment return	$ 54,136	$ 962,855
EXPENSES		
Program grants and contributions, net	309,450	282,294
Grantmaking operations		
Salaries	12,017	9,777
Employee benefits	4,141	3,580
Other	10,953	8,424
	27,111	21,781
Direct charitable activities		
Salaries	1,315	1,318
Employee benefits	454	482
Other	1,131	1,252
	2,900	3,052
Total expenses	339,461	307,127
Change in net assets	(285,325)	655,728
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of year	6,668,476	6,012,748
End of year	$ 6,383,151	$ 6,668,476

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017 (in thousands of dollars)

	2018	2017
Cash flow from operating activities		
Change in net assets	$ (285,325)	$ 655,728
Adjustments to reconcile change in net assets without donor restrictions to net cash used by operating activities		
Gain on investments, net	(46,720)	(979,781)
Increase in investment receivable	(400)	(68)
Decrease (increase) in other assets	2,364	(2,178)
Decrease in grants payable	(4,836)	(17,971)
Increase in accrued expenses	9	1,263
Depreciation and amortization expense	1,748	2,069
(Decrease) increase in deferred federal excise tax payable	(8,700)	12,100
Total adjustments	(56,535)	(984,566)
Net cash used by operating activities	(341,860)	(328,838)
Cash flow from investing activities		
Proceeds from sales of and distributions from investments	1,596,943	1,343,173
Purchases of investments and prepaid subscriptions	(1,251,739)	(965,099)
Purchases of fixed assets	(501)	(899)
Net cash provided by investing activities	344,703	377,175
Cash flow from financing activities		
Borrowings under revolving credit facility	—	65,000
Repayment of borrowings under revolving credit facility	—	(65,000)
Net repayment of borrowings under credit facilities	—	(50,000)
Net cash used by financing activities	—	(50,000)
Net increase (decrease) in cash	2,843	(1,663)
Cash		
Beginning of year	2,899	4,562
End of year	$ 5,742	$ 2,899
Supplemental disclosure of cash flow information		
Taxes paid	$ 3,030	$ 7,048
Supplemental disclosure of noncash investing activities		
Change in redemptions receivable	$ (65,598)	$ (106,088)
Distributions of securities received from alternative investments	$ 73,352	$ 70,358

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 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.

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 2015.

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.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

New Accounting Pronouncements

Effective January 1, 2018, the Foundation adopted Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities and applied the changes retrospectively. The standard requires the classification of net assets into two categories: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. In addition, realized and unrealized investment gains and losses, interest, dividends, investment expenses, the provision for federal and state taxes and interest expense are now included in net investment return. The standard also required additional disclosures surrounding the Foundation's liquidity. Additionally, in 2018 the Foundation changed the presentation of expenses in the Statement of Activities whereby natural expense categories are now included within their functional areas. This change has been retroactively applied to the 2017 Statement of Activities. There is no impact on net assets or to changes in net assets from these changes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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. 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 standard is effective for the Foundation in fiscal year 2019. The Foundation is currently assessing the impact this standard will have on its financial statements.

2. Investments

Investments held at December 31, 2018 and 2017 are summarized as follows (in thousands of dollars):

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Public equity	$ 211,293	$ 198,375	$ 352,085	$ 284,299
Fixed income	415,162	422,181	405,719	407,725
Short term	323,531	323,531	170,568	170,568
	949,986	944,087	928,372	862,592
Limited marketability funds				
Private equity	2,851,291	1,901,627	2,681,027	1,741,707
Diversified strategies	1,159,256	1,016,070	1,420,094	1,188,838
Public equity	1,199,686	980,860	1,618,434	1,127,853
	5,210,233	3,898,557	5,719,555	4,058,398
Redemptions receivable and prepaid subscriptions	346,874	346,874	156,276	156,276
Payable from unsettled security transactions	(474)	(474)	(879)	(879)
Receivable from unsettled security transactions	2,070	2,070	3,161	3,161
	$ 6,508,689	$ 5,191,114	$ 6,806,485	$ 5,079,548

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 subscriptions					346,874
Payable from unsettled security transactions					(474)
Receivable from unsettled security transactions					2,070
					$6,508,689

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
Diversified strategies				1,420,094	1,420,094
Public equity				1,618,434	1,618,434
	$522,590	$405,782	$—	$5,719,555	6,647,927
Redemptions receivable and prepaid subscriptions					156,276
Payable from unsettled security transactions					(879)
Receivable from unsettled security transactions					3,161
					$6,806,485

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, 2018 and 2017 (in thousands of dollars):

	Fair Value			
	2018	2017	Redemption Frequency Ranges	Redemption Notice Period
Private equity (1)	$ 2,851,291	$ 2,681,027	Not applicable	Not applicable
Diversified (2)	1,159,256	1,420,094	For 10% of Diversified investments redemption not permitted during life of the fund.	Not applicable
			Quarterly to 24 Months	15-90 Days
Public equity (3)	1,199,686	1,618,434	Monthly to 36 Months	6-90 Days
	$ 5,210,233	$ 5,719,555		

(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, 2018 were $1.20 billion compared to $1.23 billion at December 31, 2017.

(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 41% of the value of these funds can be redeemed within 12 months. Unfunded commitments at December 31, 2018 were $42 million compared to $49 million at December 31, 2017.

(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 77% 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, 2018 and 2017 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 2018 and 2017 for the Bonds was 1.96% and 1.09%, respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was $868 thousand and $485 thousand in 2018 and 2017, respectively.

The Foundation maintains a revolving line of credit ("Credit Agreement") which permits the Foundation to borrow up to $110 million as of December 31, 2018. The interest rate on borrowings under the Credit Agreement is LIBOR plus 35 basis points. The Credit Agreement expired on April 17, 2019. On April 17, 2019, the Foundation entered into a new revolving line of credit which permits the Foundation to borrow up to $200 million and which matures on April 17, 2021. The interest rate on borrowings under the new revolving line of credit is LIBOR plus 40 basis points.

At December 31, 2018 and December 31, 2017, no borrowings were outstanding under the Credit Agreement. Borrowings under the Credit Agreement are to be used to pay grants or other qualifying distributions.

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 2018 and 2017. 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 2018 and 2017 are as follows (in thousands of dollars):

	2018	2017
Current provision		
Federal excise tax on net investment income	$ 4,689	$ 3,333
Federal and state taxes on unrelated business income	1,157	2,057
	$ 5,846	$ 5,390
Deferred (benefit) provision		
Change in unrealized appreciation (1)	$(8,700)	$12,100

(1) The deferred tax provision (benefit) is reflected on the Statement of Activities and represents the change in net investment return 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 2018. Program–related investments, once paid, are included in Other Assets in the accompanying Statements of Financial Position (in thousands of dollars):

	Payable and Committed December 31, 2017	2018 Grants and Commitments Appropriated	2018 Grants and Commitments Paid	Payable and Committed December 31, 2018
Higher Education and Scholarship in the Humanities	$ 48,640	$138,693	$151,893	$35,440
Arts and Cultural Heritage	32,196	75,148	74,706	32,638
Scholarly Communications	16,206	37,552	36,127	17,631
Diversity	5,554	23,921	24,763	4,712
International Higher Education and Strategic Projects	1,606	17,852	13,756	5,702
Public Affairs	—	2,146	2,146	—
Strategic Initiatives	—	15,496	12,496	3,000
Matching gifts	—	953	953	—
	$104,202	$ 311,761	$316,840	$99,123

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

	2018	2017
Grants payable		
Grants payable at January 1	$ 101,388	$ 119,359
Grant expense	312,004	284,149
Less: Grants paid	(316,840)	(302,120)
Grants payable at December 31	96,552	101,388
Grants committed at December 31	2,571	2,814
Grants payable and committed at December 31	$ 99,123	$ 104,202
Net grant expense		
Unconditional grants	$ 300,333	$ 255,003
Conditional grants meeting conditions for expense	11,671	29,146
	312,004	284,149
Less: Grant refunds	(2,554)	(1,855)
Net grant expense at December 31	$ 309,450	$ 282,294

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, 2018 to meet its cash needs are estimated as follows (in thousands of dollars):

Cash and short term investments	$ 329,273
Investment receivable	2,670
Public equity investments	211,293
Fixed income investments	415,162
Redemptions receivable and prepaid subscriptions	343,392
Private equity and diversified strategies limited marketabilty investments	1,401,179
	$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 $616 million in 2018. The Foundation's annual cash disbursements are comprised of capital calls, grants, and other operating expenses. These disbursements totaled $890 million in 2018.

As more fully described in Note 3 in the notes to the financial statements, the Foundation also maintains a $110 million line of credit, which was increased to $200 million on April 17, 2019.

7. Subsequent Events

The Foundation has evaluated subsequent events through May 31, 2019, the date the financial statements were issued, and believes no additional disclosures are required in its financial statements.