INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The Andrew W. Mellon Foundation (the "Foundation"), which comprise the balance sheets as of December 31, 2015 and December 31, 2014, and the related statements of activities and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of The Andrew W. Mellon Foundation at December 31, 2015 and December 31, 2014, 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

PricewaterhouseCoopers LLP
New York, NY
May 27, 2016

The Andrew W. Mellon Foundation

Balance Sheets

December 31, 2015 and 2014

	2015	*2014*
	(in thousands of dollars)	
ASSETS		
Investments		
Marketable securities	$ 2,048,555	$ 2,136,246
Alternative investments	4,080,772	4,243,144
	6,129,327	6,379,390
Payable from unsettled securities transactions, net	(1,936)	(132)
	6,127,391	6,379,258
Cash	4,581	3,034
Investment receivable	1,827	975
Other assets	4,104	2,892
Taxes receivable	7,915	6,591
Property, at cost, less accumulated depreciation of $32,530 and $30,143 at December 31, 2015 and 2014, respectively	32,388	34,775
Total assets	$ 6,178,206	$ 6,427,525
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	$ 118,718	$ 47,584
Accrued expenses	4,758	4,674
Deferred federal excise tax	19,100	24,100
Debt	174,350	294,350
Total liabilities	316,926	370,708
Net assets (unrestricted)	5,861,280	6,056,817
Total liabilities and net assets	$ 6,178,206	$ 6,427,525

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

The Andrew W. Mellon Foundation

Statements of Activities
Years Ended December 31, 2015 and 2014

	2015	*2014*
	(in thousands of dollars)	
INVESTMENT RETURN		
Gain (loss) on investments		
Realized, net	$ 362,648	$ 414,882
Unrealized, net	(244,341)	68,337
Interest	3,312	9,146
Dividends	14,220	14,032
	135,839	506,397
Less: Investment management expenses	(11,959)	(12,075)
Net investment return	123,880	494,322
EXPENSES		
Program grants and contributions, net	279,380	238,396
Grantmaking operations	17,951	15,485
Direct charitable activities	950	1,824
Investment operations	9,094	8,271
Interest	1,426	6,275
Current provision for taxes	10,357	9,249
Other expenses	259	417
	319,417	279,917
Change in net assets	(195,537)	214,405
NET ASSETS (UNRESTRICTED)		
Beginning of year	6,056,817	5,842,412
End of year	$5,861,280	$6,056,817

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

The Andrew W. Mellon Foundation

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
	(in thousands of dollars)	
Cash flow from investment income and operations		
Change in net assets	$ (195,537)	$ 214,405
Adjustments to reconcile change in unrestricted net assets to net cash used by investment income and operations		
Realized gain on investments, net	(362,648)	(414,882)
Unrealized loss (gain) on investments, net	249,341	(69,737)
(Increase) decrease in investment receivable	(852)	50
(Increase) decrease in other assets	(1,212)	239
Increase in taxes receivable	(1,324)	(4,869)
Increase in grants payable	71,134	7,799
Increase (decrease) in accrued expenses	84	(4,308)
Depreciation and amortization expense	2,387	2,370
(Decrease) increase in deferred federal excise tax payable	(5,000)	1,400
Net effect of bond amortization	(382)	(562)
Total adjustments	(48,472)	(482,500)
Net cash used by investment income and operations	(244,009)	(268,095)
Cash flow from investing activities		
Proceeds from sales of marketable securities		
Short-term	953,704	1,918,137
Other	746,496	3,218,714
Receipts from alternative investments	751,330	840,549
Purchases of marketable securities		
Short-term	(692,386)	(1,882,915)
Other	(930,001)	(3,327,891)
Purchases of alternative investments	(463,587)	(515,686)
Net cash provided by investing activities	365,556	250,908
Cash flow from financing activities		
Borrowings under nonrevolving credit facilities	—	230,000
Borrowings under revolving credit facility	40,000	40,000
Redemption of 3.95% fixed rate bond	—	(230,000)
Repayment of borrowings under nonrevolving credit facilities	(80,000)	(20,000)
Repayment of borrowings under revolving credit facility	(80,000)	—
Net cash (used) provided by financing activities	(120,000)	20,000
Net increase in cash	1,547	2,813
Cash		
Beginning of year	3,034	221
End of year	$ 4,581	$ 3,034
Supplemental disclosure of noncash investing activities		
Distributions of securities received from alternative investments	$ 58,248	$ 58,867

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

The Andrew W. Mellon Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 alternative investments 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, 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.

Investments reported at net asset value per share as a practical expedient, are no longer included within Level 1, 2 or 3 in the fair value hierarchy.

Financial instruments such as those described above involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the balance sheet. Market risk represents the potential loss the Foundation faces due to the decrease in the value of financial instruments. Credit risk represents the maximum potential loss the Foundation faces due to possible nonperformance by obligors and counterparties as to the terms of their contracts.

The Foundation invests in a variety of fixed income securities and contractual instruments, which by their nature are interest rate sensitive. Changes in interest rates will affect the value of such securities and contractual instruments.

The Foundation's alternative 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. 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 marketable securities are calculated based on the first-in, first-out identification method. Included in the payable from unsettled securities transactions in the accompanying Balance Sheets are receivables of $0.9 million and $14.2 million from unsettled security sales at December 31, 2015 and 2014, respectively, net of payables from unsettled securities purchases of $2.8 million and $14.3 million at December 31, 2015 and 2014, 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.

Notes to Financial Statements, (continued)

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 2012.

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 expenditures for research and, in 2014, included building operating expenditures for two independent not-for-profit entities. 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 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.

The administrative expenses of distribution, including direct charitable activities, were $18.9 million (6.7% of appropriated grants) in 2015, compared to $17.3 million (7.2% of appropriated grants) in 2014.

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 2015 and 2014:

	2015	*2014*
	(in thousands of dollars)	
Program grants and contributions, net	$279,380	$238,396
Salaries, pensions and benefits	18,839	17,276
Interest	1,426	6,275
Current provision for taxes	10,357	9,249
Other operating expenses	9,415	8,721
	$319,417	$279,917

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 2014 amounts have been reclassified to conform to the 2015 presentation.

Adoption of New Accounting Pronouncement

For the year ended December 31, 2015, the Foundation adopted Accounting Standards Update 2015-07 ("ASU"), Disclosures for Investments in Certain Entities That Calculated Net Asset Value per Share (or Its Equivalent). The ASU removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the practical expedient. The ASU further removed the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the practical expedient. The Foundation retrospectively applied the ASU to its 2014 disclosures.

2. INVESTMENTS

Investments held at December 31, 2015 and 2014 are summarized as follows:

	2015		*2014*	
	Fair Value	*Cost*	*Fair Value*	*Cost*
	(in thousands of dollars)			
Equities	$ 416,075	$ 433,263	$ 578,685	$ 486,173
Commingled funds	1,054,108	1,029,110	895,288	810,686
Fixed income	378,059	380,374	200,692	202,514
Short-term	200,313	200,313	461,581	461,581
Marketable securities	2,048,555	2,043,060	2,136,246	1,960,954
Alternative investments	4,080,772	3,131,156	4,243,144	3,213,848
	$6,129,327	$5,174,216	$6,379,390	$5,174,802

Notes to Financial Statements, (continued)

The classification of investments by level within the valuation hierarchy as of December 31, 2015 is as follows:

	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Asset Value	Total
	(in thousands of dollars)				
Marketable securities	$614,838	$1,433,717	$ —	$ —	$2,048,555
Alternative investments	—	—	—	4,080,772	4,080,772
Payable from unsettled security transactions, net	(1,936)	—	—	—	(1,936)
	$612,902	$1,433,717	$ —	$4,080,772	$6,127,391

The classification of investments by level within the valuation hierarchy as of December 31, 2014 is as follows:

	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Asset Value	Total
	(in thousands of dollars)				
Marketable securities	$906,554	$1,229,692	$ —	$ —	$2,136,246
Alternative investments	—	—	—	4,243,144	4,243,144
Payable from unsettled security transactions, net	(132)	—	—	—	(132)
	$906,422	$1,229,692	$ —	$4,243,144	$6,379,258

Set forth below is additional information pertaining to alternative investments as of December 31, 2015 and 2014:

	Fair Value 2015	Fair Value 2014	Redemption Frequency Ranges	Redemption Notice Period
	(in thousands of dollars)			
Equity long only (1)	$ 219,540	$ 269,943	Monthly to 36 Months	30-90 Days
Equity long/short (2)	301,299	447,770	Quarterly to 36 Months	30-60 Days
Diversified (3)	1,095,505	1,041,427	Quarterly to Annually	60-180 Days
Private partnerships (4)	2,464,428	2,484,004		
	$4,080,772	$4,243,144		

(1) This category includes investments in funds that invest in equity securities and derivatives in domestic and international markets. The Foundation estimates that approximately 83% of the value of these funds can be redeemed within 12 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 in equity securities and investments in derivatives. The Foundation estimates that approximately 83% 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, derivatives, and includes investments in domestic and international markets. The Foundation estimates that approximately 70% of the value of these funds can be redeemed within 12 months. Unfunded commitments at December 31, 2015 were $44 million compared to $43 million at December 31, 2014.
(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, 2015 were $1.16 billion, compared to $947 million at December 31, 2014.

3. DEBT

Debt outstanding as of December 31, 2015 and 2014 is as follows:

	2015	*2014*
	(in thousands of dollars)	
Nonrevolving lines of credit, due June 30, 2017	$130,000	$210,000
Variable Rate bonds, due December 1, 2032	44,350	44,350
Secured revolving line of credit, due March 18, 2018 . .	—	40,000
	$174,350	$294,350

On February 26, 2014, the Foundation entered into two nonrevolving credit agreements that permitted the Foundation to borrow up to an aggregate $230 million and that mature on June 30, 2017. The interest rate on borrowings is LIBOR plus 35 basis points. The Foundation drew down these nonrevolving lines of credit in full on July 31, 2014 and used the proceeds to redeem its 3.95% fixed rate bonds, due on August 1, 2014. Prior to December 31, 2015, the Foundation repaid $100 million of the nonrevolving lines of credit.

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 2015 and 2014 for the Variable Rate bonds was 0.14% and 0.13%, respectively. Interest incurred, exclusive of amortization of deferred bond issuance costs and fees, was $63 thousand and $60 thousand in 2015 and 2014, respectively.

On April 30, 2014, the Foundation entered into a two year secured revolving line of credit agreement ("Credit Agreement") which permits the Foundation to borrow up to $145 million. At December 31, 2015, no borrowings were outstanding under the Credit Agreement. Borrowings under the Credit Agreement are to be used to pay grants or other qualifying distributions. One of the Foundation's managed accounts valued at $396 million, as of December 31, 2015, has been pledged to secure borrowings under the Credit Agreement. The pledged account is included in Marketable Securities in the accompanying Balance Sheet.

On March 18, 2016, the Credit Agreement was amended to extend the maturity date to March 18, 2018. The interest rate on borrowings under the amended Credit Agreement is LIBOR plus 35 basis points and the annual commitment fee is 0.075%. On March 22, 2016, the Foundation borrowed $47 million under the Credit Agreement that remains outstanding.

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 was subject to the two percent rate in 2015 and 2014. Certain income defined as unrelated business income by the Code may be subject to tax at ordinary corporate rates. Taxes paid, net of refunds, in 2015 and 2014 were $11.7 million and $14.1 million, respectively.

The current and deferred provision (benefit) for taxes for 2015 and 2014 are as follows:

	2015	*2014*
	(in thousands of dollars)	
Current provision (benefit)		
Federal excise tax on net investment income	$ 9,319	$9,571
Federal and state taxes on unrelated business income . .	1,038	(322)
	$ 10,357	$9,249
Deferred (benefit) provision		
Change in unrealized appreciation (1)	$ (5,000)	$1,400

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

5. GRANTS, CONTRIBUTIONS, AND COMMITMENTS

The following table of grant activity by major program area includes all grant appropriations approved during 2015. In addition, in 2015, the Foundation made one program-related investment for $1.2 million, which is included in Other Assets in the accompanying Balance Sheets. Grants payable and committed at December 31, 2014 have been adjusted to reflect a cancellation of $35 thousand.

	Payable and Committed December 31, 2014	2015 Grants and Commitments Appropriated	Paid	Payable and Committed December 31, 2015
		(in thousands of dollars)		
Higher Education and Scholarship in the Humanities	$15,900	$129,934	$ 85,771	$ 60,063
Diversity	500	19,298	12,948	6,850
Scholarly Communications	4,297	41,291	32,980	12,608
Arts and Cultural Heritage	34,576	79,081	63,368	50,289
International Higher Education and Strategic Projects	325	11,375	11,144	556
Public Affairs	—	550	550	—
Conservation and the Environment	2,865	—	649	2,216
Program grants and commitments — totals	58,463	281,529	207,410	132,582
Contributions and matching gifts	—	1,277	1,277	—
	$58,463	$282,806	$208,687	$132,582

Grant and grant commitment activity is summarized below.

	2015	2014
	(in thousands of dollars)	
Grants payable		
Grants payable at January 1	$ 47,584	$ 39,785
Grant expense	279,821	239,640
Less: Grants paid	(208,687)	(231,841)
Grants payable at December 31	$ 118,718	$ 47,584
Net grant expense		
Unconditional grants	$ 223,182	$ 185,974
Conditional grants meeting conditions for expense	56,639	53,666
	279,821	239,640
Less: Grant refunds	(441)	(1,244)
Net grant expense at December 31	$ 279,380	$ 238,396
Grant commitments		
Grant commitments at January 1	$ 10,879	$ 9,297
Less commitments cancelled	—	(35)
Conditional grants appropriated	59,624	55,283
Less: Grants meeting conditions for expense	(56,639)	(53,666)
Grant commitments at December 31	$ 13,864	$ 10,879

6. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through May 27, 2016, the date the financial statements were issued, and believes no additional disclosures are required in its financial statements.