

# **Carnegie Endowment for International Peace**

Financial Report  
June 30, 2015

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## Independent Auditor's Report

Board of Trustees  
Carnegie Endowment for International Peace  
Washington, D.C.

### Report on the Financial Statements

We have audited the accompanying financial statements of Carnegie Endowment for International Peace (the Endowment), which comprise the statements of financial position as of June 30, 2015 and 2014, the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Carnegie Endowment for International Peace as of June 30, 2015 and 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.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2015, the Endowment adopted new accounting guidance related to disclosures for investments that calculate net asset value per share or its equivalent. Prior year disclosures have been revised to reflect the retrospective application of adopting this change in accounting. Our opinion is not modified with respect to this matter.

*McGladrey LLP*

McLean, Virginia  
October 7, 2015

**Carnegie Endowment for International Peace**

**Statements of Financial Position  
June 30, 2015 and 2014**

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Current Assets		
Cash	\$ 4,212,889	\$ 4,063,579
Accounts receivable and prepaid expenses	1,081,558	1,509,600
Net contributions receivable, current portion	7,291,713	8,008,151
<b>Total current assets</b>	<b>12,586,160</b>	<b>13,581,330</b>
Long-Term Assets		
Net contributions receivable, net of current portion	263,243	2,540,760
Investments	310,139,907	303,136,742
Property and equipment, net	25,623,473	25,998,765
Bond issuance costs, net	707,049	730,333
<b>Total long-term assets</b>	<b>336,733,672</b>	<b>332,406,600</b>
<b>Total assets</b>	<b>\$ 349,319,832</b>	<b>\$ 345,987,930</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,600,817	\$ 2,513,171
Bond interest payable	102,528	98,827
Note payable, current portion	322,826	315,396
<b>Total current liabilities</b>	<b>3,026,171</b>	<b>2,927,394</b>
Long-Term Liabilities		
Note payable, net of current portion	3,213,391	3,546,217
Interest rate swap agreement	9,626,295	8,363,920
Bonds payable	33,250,000	33,250,000
<b>Total long-term liabilities</b>	<b>46,089,686</b>	<b>45,160,137</b>
<b>Total liabilities</b>	<b>49,115,857</b>	<b>48,087,531</b>
Commitments and Contingencies (Notes 6, 7, 8, 9, and 11)		
Net Assets		
Unrestricted	8,278,181	7,062,374
Temporarily restricted	278,757,496	278,588,025
Permanently restricted	13,168,298	12,250,000
<b>Total net assets</b>	<b>300,203,975</b>	<b>297,900,399</b>
<b>Total liabilities and net assets</b>	<b>\$ 349,319,832</b>	<b>\$ 345,987,930</b>

See Notes to Financial Statements.

Carnegie Endowment for International Peace

Statement of Activities  
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue and Other Support</b>				
Investment income allocation	\$ -	\$ 14,427,600	\$ -	\$ 14,427,600
Contributions	3,487,829	8,618,379	918,298	13,024,506
Rental income	1,682,535	-	-	1,682,535
Earned revenue – projects	770,371	-	-	770,371
Other	195,299	7,825	-	203,124
Conference center rental income	235,208	-	-	235,208
Publications	51,699	-	-	51,699
	<u>6,422,941</u>	<u>23,053,804</u>	<u>918,298</u>	<u>30,395,043</u>
Net assets released from restrictions	28,277,556	(28,277,556)	-	-
<b>Total operating revenue and other support</b>	<b>34,700,497</b>	<b>(5,223,752)</b>	<b>918,298</b>	<b>30,395,043</b>
<b>Operating Expenses</b>				
Salaries	13,826,886	-	-	13,826,886
Payroll taxes and employee benefits	4,417,229	-	-	4,417,229
Consulting and professional fees	2,634,191	-	-	2,634,191
Travel	2,061,368	-	-	2,061,368
General and administrative	2,032,052	-	-	2,032,052
Interest expense	1,483,660	-	-	1,483,660
Property management	1,151,069	-	-	1,151,069
Depreciation and amortization	1,006,618	-	-	1,006,618
Publication expenses	684,936	-	-	684,936
Rent	539,336	-	-	539,336
Meetings and seminars	1,117,710	-	-	1,117,710
Grants	670,000	-	-	670,000
Real estate taxes	597,260	-	-	597,260
<b>Total operating expenses</b>	<b>32,222,315</b>	<b>-</b>	<b>-</b>	<b>32,222,315</b>
<b>Change in net assets from operations</b>	<b>2,478,182</b>	<b>(5,223,752)</b>	<b>918,298</b>	<b>(1,827,272)</b>
<b>Non-Operating Revenues and Expenses</b>				
Investment gain in excess of spending rate	-	5,393,223	-	5,393,223
Fair value loss on interest rate swap	(1,262,375)	-	-	(1,262,375)
<b>Change in net assets</b>	<b>1,215,807</b>	<b>169,471</b>	<b>918,298</b>	<b>2,303,576</b>
Net Assets, Beginning of Year	<u>7,062,374</u>	<u>278,588,025</u>	<u>12,250,000</u>	<u>297,900,399</u>
Net Assets, End of Year	<u>\$ 8,278,181</u>	<u>\$ 278,757,496</u>	<u>\$ 13,168,298</u>	<u>\$ 300,203,975</u>

See Notes to Financial Statements.

**Carnegie Endowment for International Peace**

**Statement of Activities**  
**Year Ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue and Other Support</b>				
Investment income allocation	\$ -	\$ 15,407,848	\$ -	\$ 15,407,848
Contributions	1,116,332	7,218,439	250,000	8,584,771
Rental income	1,684,705	-	-	1,684,705
Earned revenue – projects	612,479	-	-	612,479
Other	10,228	-	-	10,228
Conference center rental income	213,278	-	-	213,278
Publications	67,545	-	-	67,545
	3,704,567	22,626,287	250,000	26,580,854
Net assets released from restrictions	28,911,192	(28,911,192)	-	-
<b>Total operating revenue and other support</b>	<b>32,615,759</b>	<b>(6,284,905)</b>	<b>250,000</b>	<b>26,580,854</b>
<b>Operating Expenses</b>				
Salaries	14,016,878	-	-	14,016,878
Payroll taxes and employee benefits	4,146,551	-	-	4,146,551
Consulting and professional fees	2,283,813	-	-	2,283,813
Travel	2,161,813	-	-	2,161,813
General and administrative	1,916,840	-	-	1,916,840
Interest expense	1,506,430	-	-	1,506,430
Property management	1,152,166	-	-	1,152,166
Depreciation and amortization	893,718	-	-	893,718
Publication expenses	858,838	-	-	858,838
Rent	791,503	-	-	791,503
Meetings and seminars	640,372	-	-	640,372
Grants	568,645	-	-	568,645
Real estate taxes	530,794	-	-	530,794
<b>Total operating expenses</b>	<b>31,468,361</b>	<b>-</b>	<b>-</b>	<b>31,468,361</b>
<b>Change in net assets from operations</b>	<b>1,147,398</b>	<b>(6,284,905)</b>	<b>250,000</b>	<b>(4,887,507)</b>
<b>Non-Operating Revenues and Expenses</b>				
Investment gain in excess of spending rate	8,197	28,480,568	-	28,488,765
Fair value loss on interest rate swap	(278,526)	-	-	(278,526)
<b>Change in net assets</b>	<b>877,069</b>	<b>22,195,663</b>	<b>250,000</b>	<b>23,322,732</b>
Net Assets, Beginning of Year	6,185,305	256,392,362	12,000,000	274,577,667
Net Assets, End of Year	\$ 7,062,374	\$ 278,588,025	\$ 12,250,000	\$ 297,900,399

See Notes to Financial Statements.

**Carnegie Endowment for International Peace**

**Statements of Functional Expenses  
Years Ended June 30, 2015 and 2014**

	2015			
	Program	Management and General	Fundraising	Total
Salaries	\$ 10,219,781	\$ 2,490,712	\$ 1,116,393	\$ 13,826,886
Payroll Taxes and Employee Benefits	3,219,632	951,787	245,810	4,417,229
Consulting and Professional Fees	2,034,211	495,143	104,837	2,634,191
Travel	1,812,975	222,001	26,392	2,061,368
General and Administrative	847,320	1,150,889	33,843	2,032,052
Interest Expense	1,096,609	267,259	119,792	1,483,660
Property Management	850,783	207,348	92,938	1,151,069
Depreciation and Amortization	783,083	142,260	81,275	1,006,618
Publication Expenses	669,177	13,159	2,600	684,936
Rent	539,336	-	-	539,336
Meetings and Seminars	867,243	222,147	28,320	1,117,710
Grants	670,000	-	-	670,000
Real Estate Taxes	441,448	107,589	48,223	597,260
	<b>\$ 24,051,598</b>	<b>\$ 6,270,294</b>	<b>\$ 1,900,423</b>	<b>\$ 32,222,315</b>

	2014			
	Program	Management and General	Fundraising	Total
Salaries	\$ 10,353,494	\$ 2,342,228	\$ 1,321,156	\$ 14,016,878
Payroll Taxes and Employee Benefits	2,953,358	846,043	347,150	4,146,551
Consulting and Professional Fees	1,876,677	265,680	141,456	2,283,813
Travel	1,909,036	200,432	52,345	2,161,813
General and Administrative	895,442	982,594	38,804	1,916,840
Interest Expense	1,112,717	251,725	141,988	1,506,430
Property Management	851,042	192,527	108,597	1,152,166
Depreciation and Amortization	699,652	109,829	84,237	893,718
Publication Expenses	842,811	498	15,529	858,838
Rent	791,503	-	-	791,503
Meetings and Seminars	528,163	105,160	7,049	640,372
Grants	568,645	-	-	568,645
Real Estate Taxes	392,068	88,696	50,030	530,794
	<b>\$ 23,774,608</b>	<b>\$ 5,385,412</b>	<b>\$ 2,308,341</b>	<b>\$ 31,468,361</b>

See Notes to Financial Statements.



**Carnegie Endowment for International Peace**

**Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 2,303,576	\$ 23,322,732
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized (gain) loss on investments	4,513,659	(29,453,584)
Realized gain on investments	(25,461,099)	(14,122,939)
Change in discount applied to contributions receivable	(11,642)	7,980
Allowance applied to contributions receivable	-	(250,000)
Amortization of bond issuance costs	23,284	23,285
Fair value loss on interest rate swap	1,262,375	278,526
Contributions restricted for endowment	(918,298)	(250,000)
Depreciation	983,334	870,433
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and prepaid expenses	428,042	215,682
Contributions receivable	3,005,597	4,603,665
Increase (decrease) in:		
Accounts payable and accrued expenses	87,646	(724,214)
Bond interest payable	3,701	(3,395)
<b>Net cash used in operating activities</b>	<b>(13,779,825)</b>	<b>(15,481,829)</b>
Cash Flows From Investing Activities		
Proceeds from sales of investments	42,069,119	25,941,991
Purchases of investments	(28,124,844)	(9,217,632)
Purchases of furniture and equipment	(608,042)	(1,126,366)
<b>Net cash provided by investing activities</b>	<b>13,336,233</b>	<b>15,597,993</b>
Cash Flows From Financing Activities		
Contributions restricted for endowment	918,298	250,000
Payments on note payable	(325,396)	(297,924)
<b>Net cash provided by (used in) financing activities</b>	<b>592,902</b>	<b>(47,924)</b>
<b>Net increase in cash</b>	<b>149,310</b>	<b>68,240</b>
Cash, Beginning of Year	4,063,579	3,995,339
Cash, End of Year	\$ 4,212,889	\$ 4,063,579
Supplemental Cash Flow Data		
Cash paid during the year for interest	\$ 1,480,820	\$ 1,510,507

See Notes to Financial Statements.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Carnegie Endowment for International Peace (the Endowment) is a nonprofit organization incorporated under the laws of the State of New York. The Endowment is a unique global network of policy research centers in Russia, China, Europe, the Middle East and the United States. Its mission, dating back more than a century, is to advance the cause of peace through analysis and development of fresh policy ideas and direct engagement and collaboration with decision-makers in government, business and civil society. Working together, our centers bring the inestimable benefit of multiple national viewpoints to bilateral, regional and global issues.

The following is a summary of the Endowment's significant accounting policies:

**Basis of accounting:** The accompanying financial statements of the Endowment are presented on the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

**Basis of presentation:** The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, the Endowment is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Financial and credit risk:** The Endowment maintains its cash balances in bank deposit accounts, which, at times, may exceed federally insured limits. The Endowment has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

The Endowment's investments consist of fixed income securities, and funds of funds which invest in common shares of publicly-traded companies, investment funds, limited partnerships, limited liability companies (LLCs), and pooled interests, which invest in a variety of vehicles (limited partnerships, LLCs, investment funds, and non-U.S. corporations). Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Credit risk from financial instruments relates to the possibility that invested assets within a particular industry segment may experience losses due to market conditions. The Endowment has diversified its financial instruments, such that no one industry segment represents a significant concentration of risk.

**Contributions receivable:** Contributions receivable represent unconditional promises to give and are stated at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these contributions are computed using a discount rate commensurate with the risks involved, with the amortization of the discount included in contribution revenue. Contributions past due are individually analyzed for collectability. When all collection efforts have been exhausted, the contribution is written off. Management annually adjusts the allowance account based upon its estimate of those contributions believed to be uncollectible. The allowance for contribution receivables was \$250,000 for each year as of June 30, 2015 and 2014.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Accounts receivable:** Receivables are recorded at original invoice amounts less an estimate made for doubtful receivables. Invoices are billed as services are rendered. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off. There is no allowance for doubtful accounts for accounts receivables, based on management's estimate that all receivables are fully collectible.

**Derivative financial instruments and hedging activities:** The Endowment invests in limited partnerships, LLCs, alternative funds, and pooled interests that invest in various derivative instruments (e.g., options, warrants, futures, swap contracts, etc.). Derivative instruments are typically held to advance fund investment strategies to hedge investment risk to economically meet the objectives of the fund. Derivatives are recorded at estimated fair value, and the resulting gains and losses are reflected as a component of investment income in the statements of activities.

The interest rate swap agreements (see Note 8) are also considered derivative instruments and are to be measured at fair value and recognized in the statements of financial position as either an asset or liability, depending on the rights or obligations under the contracts. The fair value of the interest rate swap agreement is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counter parties. Changes in the fair value of the interest rate swap agreements are reported in non-operating revenues and expenses in the statements of activities.

**Financial instruments with off-balance sheet risk:** In the course of the trading activities entered into by the Endowment's various investment fund managers, certain financial instruments with off-balance sheet risk were acquired, in order to structure portfolio transactions to economically match the investment objectives of the funds and to hedge market risk. The exposure to credit risk associated with non-performance of any of these types of financial instruments is typically limited to the value of such investments reported as assets in the statements of financial position.

**Fair value of financial instruments:** The fair value of all financial instruments approximates carrying value at June 30, 2015 and 2014. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Accounts receivable:* The carrying amount of these accounts approximates fair value because of the short maturity of these instruments.

*Contributions receivable:* Fair value is estimated based on the donor's verifiable pledge. For those due in greater than one year, fair value is estimated by discounting estimated future cash flows at a discount rate commensurate with the risks involved. Fair value is adjusted in consideration of the allowance for possible uncollectible contributions receivable.

*Accounts payable:* The carrying amount of these accounts approximates fair value because of the short maturity of these obligations.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

*Investments in fixed income securities:* Investments in fixed income securities and money market funds are stated at fair market value based on the last sale price; all securities were traded on United States national securities exchanges on June 30, 2015. Securities transactions are recorded on a trade-date basis and are carried at fair value.

*Investments in alternative funds:* Investments in fund of funds, fixed income funds, and event driven funds are stated at fair value based on the applicable percentage ownership of the underlying partnerships' net assets as of the measurement date, as provided by the fund managers. The fair values of certain investments of the underlying limited partnerships and hedge funds that may include private placements and other securities, for which prices are not readily available, are determined by the general partner or sponsor of the respective other investment partnership and may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. Because alternative investments are not readily marketable, the fair value represents the amount the Endowment would expect to receive if it were to liquidate its investment, excluding any redemption charges that may apply.

*Investments in real estate funds:* Investments in real estate funds are stated at fair value based on the applicable percentage of ownership of the underlying partnership's net assets as of the measurement date, as provided by the fund managers.

*Investments in derivatives:* Futures contracts are valued at fair value based on the most recent available closing quotations on an exchange.

*Long-term debt:* The fair value of the notes payable and bonds payable approximates their carrying value, based on the estimated current borrowing rate the Endowment could obtain for similar issuances of debt or due to their variable rate.

*Interest rate swap agreement:* The fair value of interest rate swap agreement is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

**Property and equipment:** All acquisitions of property and equipment greater than \$1,500 are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The furniture and equipment is depreciated over lives that range from three to ten years. The building is depreciated over its estimated useful life of 60 years. Building improvements are capitalized and amortized using the straight-line method over the remaining estimated life of the building. Land is recorded at cost.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Valuation of long-lived assets:** The Endowment reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

**Net assets:** The Endowment's resources are classified for accounting and reporting purposes into net asset groups established according to their nature and purpose and based on the existence or absence of donor-imposed restrictions. Accordingly, the Endowment classifies net asset groups as follows:

*Unrestricted:* represents resources available for support of the operations of the Endowment.

*Temporarily restricted:* represents resources received by the Endowment, which are purpose or time restricted by donors.

*Permanently restricted:* represents resources that are donor-restricted endowment funds to be held in perpetuity and valued at the historic dollar value.

**Revenue recognition:** The Endowment recognizes contributions received, including unconditional promises to give, as revenue in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Temporarily restricted contributions that are used according to donor restrictions in the same period as the contributions are recognized as temporarily restricted support and reclassified to unrestricted net assets as net assets released from restrictions in the same period.

Rental income is recognized on the first day of the month for which rent is due.

Earned revenue from projects is recognized when the service to which it relates is performed.

Investments are reflected at fair value. To adjust the carrying value of the investment, unrealized gains and losses are reported in the statements of activities as either operating or non-operating revenues and expenses based upon the endowments spending rate/appropriation. Realized gains and losses from sales of investments are recognized on the trade date on a specific identification basis in the same manner as unrealized gains and losses. Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.

**Functional allocation of expenses:** The Endowment allocates its expenses as program, management and general, or fundraising related. Salaries and benefits, travel, consulting and professional services, and certain other costs are allocated based on actual resources used. Certain expenses, including interest, property management, depreciation and amortization, and real estate taxes have been allocated between program, management and general, and fundraising, based on the salaries directly attributable to those categories.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Income taxes:** The Endowment is exempt from federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been designated by the Internal Revenue Service as a publicly supported organization under Section 509(a)(1) of the Code. The Endowment engages in certain activities that produce unrelated business income, as defined by federal income tax regulations.

The Endowment files income tax returns in the U.S. federal jurisdiction. As of June 30, 2015, and for the year then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, the Endowment is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2011.

**Accounting pronouncement adopted:** In May 2015, the FASB issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statements of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2015. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented.

The Endowment adopted this update for the year ended June 30, 2015, and it was retrospectively applied to the year ended June 30, 2014. Prior year disclosures have been revised to reflect the retrospective application of this update. The impact of adopting this update is reflected in Note 4.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Reclassification:** Certain items in the June 30, 2014, financial statements have been reclassified to comply with the current year presentation. These reclassification had no effect on previously reported change in net assets or net assets.

**Subsequent events:** The Endowment evaluated subsequent events through October 7, 2015, which is the date the financial statements were issued.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 2. Contributions Receivable

At June 30, 2015 and 2014, contributions receivable consist of the following:

	2015	2014
Contributions receivable	\$ 7,985,841	\$ 10,991,438
Less discounts	(180,885)	(192,527)
Less allowance for doubtful accounts	(250,000)	(250,000)
	<u>\$ 7,554,956</u>	<u>\$ 10,548,911</u>
Expected to be collected in less than one year, net	\$ 7,291,713	\$ 8,008,151
Expected to be collected between two to five years, net	263,243	2,540,760
	<u>\$ 7,554,956</u>	<u>\$ 10,548,911</u>

#### Note 3. Investments

Investments consist of the following at June 30, 2015 and 2014:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Alternative investments	\$ 168,424,648	\$ 286,176,048	\$ 163,935,875	\$ 286,138,041
Fixed income securities	7,993,761	8,035,120	8,438,328	8,380,766
Real estate funds	3,758,975	2,165,125	3,799,023	2,275,693
Money market funds	13,854,908	13,763,614	6,342,242	6,342,242
	<u>\$ 194,032,292</u>	<u>\$ 310,139,907</u>	<u>\$ 182,515,468</u>	<u>\$ 303,136,742</u>

Investment income for the years ended June 30, 2015 and 2014, consists of the following:

	2015	2014
Unrealized gains (loss)	\$ (4,513,659)	\$ 29,453,584
Realized gains	25,461,099	14,122,939
Interest and dividends	1,095,112	1,470,947
	<u>22,042,552</u>	<u>45,047,470</u>
Investment income allocation (Note 14)	(14,427,600)	(15,407,848)
Investment fees	(1,774,397)	(1,470,930)
Foreign currency exchange gains (loss)	(447,332)	320,073
<b>Investment income less investment income allocation and investment fees</b>	<u>\$ 5,393,223</u>	<u>\$ 28,488,765</u>

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 4. Fair Value Measurements

Guidance provided by the FASB defines fair value 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 Endowment utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 are listed equities and listed derivatives. As required by the guidance provided by the FASB, the Endowment does not adjust the quoted price for these investments, even in situations where the Endowment holds a large position and a sale could reasonably impact the quoted price.
- Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category are corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.
- Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are generally included in this category are equity and debt positions in private companies and general and limited partnership interests in corporate private equity, debt funds, certain funds of hedge funds, and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, investment levels within the fair value hierarchy are based on the lowest level of input that is significant to the fair value measurement. The Endowment's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in these instruments.

The Endowment's futures variation margin and interest rate swap agreements are classified as Level 2 in the fair value hierarchy, as all significant inputs to the fair value measurement are directly observable, such as the underlying interest rate assumptions.



## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 4. Fair Value Measurements (Continued)

The following tables represent the Endowment's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and 2014:

	2015				
	Total	Investments Measured at NAV	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>					
Fixed income securities:					
U.S. Government and agency obligations (AAA Rated)	\$ 7,975,672	\$ -	\$ 7,975,672	\$ -	\$ -
Other	59,448	-	59,448	-	-
<b>Total fixed income securities</b>	<b>8,035,120</b>	<b>-</b>	<b>8,035,120</b>	<b>-</b>	<b>-</b>
Fund of fund:					
Hedge fund multi-strategy	175,208,720	175,208,720	-	-	-
Private equity multi-strategy	101,011,722	101,011,722	-	-	-
<b>Total fund of fund</b>	<b>276,220,442</b>	<b>276,220,442</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fixed income funds	8,568,479	8,568,479	-	-	-
Money market funds	13,763,614	-	13,763,614	-	-
Real estate funds	2,165,125	2,165,125	-	-	-
Event driven funds	1,440,504	1,440,504	-	-	-
	<b>\$ 310,193,284</b>	<b>\$ 288,394,550</b>	<b>\$ 21,798,734</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities</b>					
Futures variation margin	\$ 53,377	\$ -	\$ 53,377	\$ -	\$ -
Interest rate swap agreement	9,626,295	-	-	9,626,295	-
	<b>\$ 9,679,672</b>	<b>\$ -</b>	<b>\$ 53,377</b>	<b>\$ 9,626,295</b>	<b>\$ -</b>

The Endowment's investment balance of \$ 310,139,907 includes a future variation margin of \$53,377.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 4. Fair Value Measurements (Continued)

	2014				
	Total	Investments Measured at NAV	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>					
Fixed income securities:					
U.S. Government and agency obligations (AAA Rated)	\$ 8,043,769	\$ -	\$ 8,043,769	\$ -	\$ -
Other	336,997	-	336,997	-	-
<b>Total fixed income securities</b>	<b>8,380,766</b>	<b>-</b>	<b>8,380,766</b>	<b>-</b>	<b>-</b>
Fund of fund:					
Hedge fund multi-strategy	177,342,596	177,342,596	-	-	-
Private equity multi-strategy	95,940,672	95,940,672	-	-	-
<b>Total fund of fund</b>	<b>273,283,268</b>	<b>273,283,268</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fixed income funds	11,034,497	11,034,497	-	-	-
Money market funds	6,342,242	-	6,342,242	-	-
Real estate funds	2,275,693	2,275,693	-	-	-
Event driven funds	1,820,276	1,820,276	-	-	-
	<b>\$ 303,136,742</b>	<b>\$ 288,413,734</b>	<b>\$ 14,723,008</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities</b>					
Interest rate swap agreement	\$ 8,363,920	\$ -	\$ -	\$ 8,363,920	\$ -

The Endowment assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Endowment's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers among Levels 1, 2 and 3 during the year.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 4. Fair Value Measurements (Continued)

The following tables provide additional information regarding investments valued based on net asset value or equivalent, which will help describe the nature and risk of the investments by major category:

Investments	2015			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Notice Period
Event driven (a)	\$ 1,440,504	\$ -	Unavailable	N/A
Fund of fund private equity multi-strategy (b)	101,011,722	49,040,139	Annually – unavailable	180 days – N/A
Fund of fund hedge fund multi-strategy (c)	175,208,720	-	Monthly – Quarterly	90 days – 120 days
Fixed income funds (d)	8,568,479	-	Three-year lock-up with 1/3 installments on the 3rd, 4th and 5th anniversary	90 days
Real estate funds	2,165,125	-	Unavailable	N/A
<b>Total</b>	<b>\$288,394,550</b>	<b>\$ 49,040,139</b>		

Investments	2014			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Notice Period
Event driven (a)	\$ 1,820,276	\$ -	Five-year lock-up	90 days
Fund of fund private equity multi-strategy (b)	95,940,672	51,980,971	Annually – unavailable	180 days – N/A
Fund of fund hedge fund multi-strategy (c)	177,342,596	-	Quarterly – daily	10 days – 120 days
Fixed income funds (d)	11,034,497	-	Three-year lock-up with 1/3 installments on the 3rd, 4th and 5th anniversary	90 days
Real estate funds	2,275,693	-	Unavailable	N/A
<b>Total</b>	<b>\$288,413,734</b>	<b>\$ 51,980,971</b>		

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 4. Fair Value Measurements (Continued)

- (a) This category includes hedge funds that invest to profit from economic, political, and government driven events. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments in this category have a five-year lock-up with a 90-day notice period. As of June 30, 2015, investments in this category are no longer subject to a lock up. The manager has begun a liquidation of the remaining investments.
- (b) This category includes a combination of some or all of the other strategies. Managers may have the flexibility to invest across all asset classes and to change their allocations to various strategies and instruments as they see fit. Instruments include a broad range of private asset classes, including buyout, venture, and growth equity, and real assets, natural resources, and others. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments representing approximately 92% and 88% of the value of the investments in this category have no redemptions as of June 30, 2015 and 2014, respectively. Investments representing 7% and 11% of the value of the investments have annual redemptions with 180 days' notice as of June 30, 2015 and 2014, respectively.
- (c) This category includes a combination of some or all of the other strategies. Managers may have the flexibility to invest and to change their allocations to various strategies and instruments as they see fit. Managers usually focus on private investment funds (also referred to as hedge funds). Multi-strategy funds may go long or short and typically use leverage to help diversify their allocations. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments representing approximately 39% and 44% of the value of the investments in this category have monthly redemptions with 100 days' notice as of June 30, 2015 and 2014, respectively. Investments representing 14% and 12% of the value of the investments in this category have quarterly redemptions with 120 days' notice as of June 30, 2015 and 2014, respectively. The remaining investments in this category, approximately 47% and 43%, have quarterly redemptions with 90 days' notice as of June 30, 2015 and 2014, respectively.
- (d) This category includes hedge funds that invest in fixed income and currency markets. Managers have the flexibility to invest in U.S. Treasury securities, securities issued by non-U.S. sovereign jurisdictions, U.S. and non-U.S. corporate debt, U.S. and non-U.S. equities, currencies, commodities, options, swaps, futures contracts, forward contracts, interest rate caps and floors, credit products (including credit default swaps), and other derivative and structured products. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments in this category have a three-year rolling lock-up period with one-third installments redeemable in any 12-month period.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 5. Property and Equipment

Property and equipment and accumulated depreciation as of June 30, 2015 and 2014, and depreciation expense for the years then ended, are as follows:

Asset Category	2015				
	Estimated Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Building	60 years	\$ 25,713,560	\$ 7,701,721	\$ 18,011,839	\$ 568,565
Furniture and equipment	3 – 10 years	4,583,691	3,346,649	1,237,042	414,769
Land		6,374,592	-	6,374,592	-
		<u>\$ 36,671,843</u>	<u>\$ 11,048,370</u>	<u>\$ 25,623,473</u>	<u>\$ 983,334</u>

  

Asset Category	2014				
	Estimated Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Building	60 years	\$ 25,610,240	\$ 7,133,156	\$ 18,477,084	\$ 560,863
Furniture and equipment	3 – 10 years	4,215,249	3,068,160	1,147,089	309,570
Land		6,374,592	-	6,374,592	-
		<u>\$ 36,200,081</u>	<u>\$ 10,201,316</u>	<u>\$ 25,998,765</u>	<u>\$ 870,433</u>

#### Note 6. Note Payable and Related Interest Rate Swap

The Endowment has an unsecured promissory note that currently bears an interest rate of 5.49%. The Endowment makes monthly payments of principal and interest, with all outstanding principal amounts being due upon maturity. On June 19, 2008, the Endowment amended the note, extending the original maturity from December 31, 2008, to December 31, 2018. Effective on January 1, 2009, the note bears an interest rate equal to the Eurodollar rate plus 0.63%. In anticipation of amending the promissory note, the Endowment entered into a forward interest rate swap agreement on June 5, 2008, with Bank of America, effective December 1, 2008, to reduce the impact of changes in interest rates on the promissory note. Under the agreement, the notional principal amount is the balance of the promissory note, with the Endowment receiving floating payments of one-month London InterBank Offered Rate (LIBOR) plus 0.63% and paying a fixed rate of 5.49% (see Note 8). The agreement expires on December 1, 2018. Interest expense relating to the promissory note totaled \$205,561 and \$222,676 for the years ended June 30, 2015 and 2014, respectively. The note contains a number of financial and non-financial covenants.

Future minimum principal payments on this promissory note at June 30, 2015, are as follows:

#### Year Ending June 30,

2016	\$ 322,826
2017	353,010
2018	373,854
2019	2,486,527
<b>Total</b>	<u><u>\$ 3,536,217</u></u>

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 7. Bonds Payable

On May 10, 2006, the District of Columbia issued \$33,250,000 of variable District of Columbia Revenue Bonds (Carnegie Endowment for International Peace Issue) due on November 1, 2045. The 2006 bonds were issued by the District of Columbia at the request of the Endowment, to provide funds to redeem the 1996 bonds. The 2006 bonds bear interest at a weekly auction rate and have an original interest rate of 3.55%. Due to changing market conditions, effective April 22, 2008, the Endowment converted its 2006 bonds from auction rate securities to variable demand notes in a weekly rate mode. The Endowment cancelled the underlying insurance on the auction rate securities and obtained a letter of credit to support the variable demand notes. The unamortized insurance premium was expensed. Legal, accounting, consulting, printing costs, and other expenses associated with the 2006 issuance and 2008 conversion amounted to \$1,320,258 and are being amortized using the straight-line method over the term of the bonds. Amortization expense totaled \$23,284 for the years ended June 30, 2015 and 2014, respectively, and accumulated amortization at June 30, 2015 and 2014, totaled \$613,209 and \$589,925, respectively.

The bonds are secured with a letter of credit, and collateralized by all income, earnings, and cash proceeds of the Endowment. The total of the letter of credit is \$33,621,672, with an outstanding balance of zero at June 30, 2015 and 2014.

Future minimum principal payments on the bonds at June 30, 2015, are as follows:

#### Year Ending June 30,

2016	\$	-
2017		-
2018		-
2019		-
Thereafter		33,250,000
<b>Total</b>		<u><u>\$ 33,250,000</u></u>

Interest expense related to the variable rate demand bonds totaled \$173,544 and \$177,842 for the years ended June 30, 2015 and 2014, respectively. As discussed in Note 8, the Endowment executed an interest rate swap agreement related to the bonds. The rate in effect at June 30, 2015 and 2014, was 3.75%. The bonds contain a number of financial and non-financial covenants.

#### Note 8. Interest Rate Swap Agreement

The Endowment exercised the 1996 bonds optional redemption on May 15, 2006, and issued variable bonds on May 10, 2006, to fund the redemption (see Note 7). On March 22, 2005, the Endowment entered into a forward interest rate swap agreement with Morgan Stanley Capital Services, Inc. (Morgan Stanley), effective May 15, 2006, to reduce the impact of changes in interest rates on its contemplated issue of floating rate bonds in May 2006. On July 7, 2005, and then again on May 2, 2006, the Endowment amended the interest rate swap agreement. Under the amended agreement, the notional principal amount is \$33,250,000, the fixed rate is 3.751%, and the agreement expires on November 1, 2045. The agreement effectively changes the Endowment's interest rate swap exposure on the issuance of its floating rate bonds in May 2006 to a fixed 3.751%. The Endowment is exposed to credit loss in the event of non-performance by Morgan Stanley to the interest rate swap agreement. However, the Endowment does not anticipate non-performance by the counter party.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 8. Interest Rate Swap Agreement (Continued)

During the year ended June 30, 2015, the Endowment paid out \$1,247,208 on the swap and received \$142,652 from Morgan Stanley on the swap, with the net of \$1,104,556 included in the 2006 bond interest expense. During the year ended June 30, 2014, the Endowment paid out \$1,247,208 on the swap and received \$141,297 from Morgan Stanley on the swap, with the net of \$1,105,911 included in the 2006 bond interest expense. At June 30, 2015 and 2014, a liability of \$9,237,355 and \$7,858,106, respectively, was recognized as the fair value of the interest rate swap agreement held with Morgan Stanley. At June 30, 2015 and 2014, a liability of \$388,940 and \$505,814, respectively, was recognized for the Bank of America swap discussed in Note 6.

#### Note 9. Lease Commitments

The Endowment has a lease expiring on August 31, 2016, for office space for its operations in Moscow. The terms of the lease are 28,350 rubles (or \$510) per square meter per year, with the Endowment renting 438 square meters.

The Endowment has a lease expiring on December 31, 2015, for office space for its operations in Beirut. The terms of the lease are \$212 per square meter per year, with the Endowment renting 687 square meters. The lease is expected to be renewed for another three-year term, with a 12% increase.

The Endowment has a non-cancelable lease expiring on February 23, 2019, for office space for its operations in Brussels. The terms of the lease are 66,000 Euros (or \$73,793) per year, adjusted annually for cost of living index, with the Endowment renting 574 square meters.

Rent expense under these operating leases for the years ended June 30, 2015 and 2014, totaled \$539,336 and \$791,503, respectively. Future minimum lease payments relating to these non-cancelable leases are as follows:

#### Year Ending June 30,

2016	\$	379,397
2017		112,855
2018		73,793
2019		49,196
<b>Total</b>	<b>\$</b>	<b>615,241</b>

#### Note 10. Leasing Arrangements as Lessor

The Endowment receives rental income from leasing approximately 36,000 square feet of space to 13 tenants in its headquarters building in Washington, D.C. The tenants pay the Endowment a base rent plus a percentage of the operating costs of the building. Individual tenants' square footage leased ranges from 1,088 square feet up to 4,855 square feet. The building's financing and zoning limits use to certain types of institutions and professional offices. Lease terms of the tenants are typically one to ten years, with current lease terms of individual tenants up for renewal varying from October 31, 2015, to April 30, 2019. Rental income under these leases was \$1,682,535 and \$1,684,705 for the years ended June 30, 2015 and 2014, respectively.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 10. Leasing Arrangements as Lessor (Continued)

Future minimum rental payments to be received at June 30, 2015, are as follows:

Year Ending June 30.

2016	\$	864,876
2017		655,582
2018		351,034
2019		84,190
<b>Total</b>	<b>\$</b>	<b><u>1,955,682</u></b>

#### Note 11. Retirement Plan

The Endowment has a defined contribution pension plan (the Plan) for all qualified employees. The Endowment contributes to the Plan 15% of each covered employee's salary, up to statutory limits. Employees may contribute to the Plan at their option. Contributions to the Plan are fully vested to the employee upon payment to the Plan. Each participant in the Plan will receive, on the stipulated retirement or termination date, an annuity for the value of the account. Pension costs amounted to \$1,351,115 and \$1,310,473 for the years ended June 30, 2015 and 2014, respectively.

#### Note 12. Related Party Transactions

During the years ended June 30, 2015 and 2014, Trustees of the Endowment gave unrestricted contributions of \$2,090,337 and \$2,054,637, respectively, to support the Endowment's operations.



## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 13. Restricted Net Assets

Temporarily restricted net assets due to time and purpose and changes therein consist of the following as of and for the years ended June 30, 2015 and 2014. Net assets were released from restriction by satisfying the program restrictions.

	2015			
	Beginning Balance	Additions	Released From Restriction	Ending Balance
Endowment funds	\$ 243,225,767	\$ 18,200,185	\$ (14,339,131)	\$ 247,086,821
Global Vision	18,387,028	1,560,295	(3,445,977)	16,501,346
Russia Eurasia Program	4,927,242	1,871,481	(1,503,771)	5,294,952
Middle East Program	3,138,096	1,747,768	(1,891,523)	2,994,341
Nuclear Policy Program	2,101,557	2,569,775	(2,027,659)	2,643,673
Democracy Rule of Law Program	2,438,537	324,375	(1,444,841)	1,318,071
Asia Program	1,856,857	888,759	(1,670,896)	1,074,720
Miscellaneous	1,234,248	578,943	(888,724)	924,467
Energy & Climate Program	603,647	420,400	(586,291)	437,756
South Asia Program	417,796	181,874	(271,135)	328,535
Europe Program	257,250	103,172	(207,608)	152,814
The Endowment's Programs	<u>\$ 278,588,025</u>	<u>\$ 28,447,027</u>	<u>\$ (28,277,556)</u>	<u>\$ 278,757,496</u>

	2014			
	Beginning Balance	Additions	Released From Restriction	Ending Balance
Endowment funds	\$ 217,951,824	\$ 40,556,649	\$ (15,282,706)	\$ 243,225,767
Global Vision	19,810,926	2,430,048	(3,853,946)	18,387,028
Russia Eurasia Program	5,193,669	1,618,063	(1,884,490)	4,927,242
Middle East Program	4,062,818	772,836	(1,697,558)	3,138,096
Democracy Rule of Law Program	2,874,987	763,645	(1,200,095)	2,438,537
Nuclear Policy Program	2,537,416	1,216,652	(1,652,511)	2,101,557
Asia Program	2,257,135	1,173,390	(1,573,668)	1,856,857
Miscellaneous	965,120	960,261	(691,133)	1,234,248
Energy & Climate Program	435,410	639,780	(471,543)	603,647
South Asia Program	254,925	482,500	(319,629)	417,796
Europe Program	48,132	493,031	(283,913)	257,250
The Endowment's Programs	<u>\$ 256,392,362</u>	<u>\$ 51,106,855</u>	<u>\$ (28,911,192)</u>	<u>\$ 278,588,025</u>

Permanently restricted net assets represent donor-restricted contributions in which the donor has stipulated that the principal be maintained intact in perpetuity.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 13. Restricted Net Assets (Continued)

Permanently restricted net assets consist of the following as of June 30, 2015 and 2014:

	2015
Original Endowment	\$ 10,000,000
El-Erian Endowment for Carnegie Middle East Center	1,000,000
Endowed Chair	865,839
Mellon Jr. Fellows Program	500,000
The David and Lucile Packard Foundation	500,000
Charles Kaye Endowment	250,000
George and Pamela M. Siguler	52,459
	<u>\$ 13,168,298</u>
	2014
Original Endowment	\$ 10,000,000
El-Erian Endowment for Carnegie Middle East Center	1,000,000
Mellon Jr. Fellows Program	500,000
The David and Lucile Packard Foundation	500,000
Charles Kaye Endowment	250,000
	<u>\$ 12,250,000</u>

#### Note 14. Endowments

The Endowment is subject to the enacted New York version of the Uniform Prudent Management of Institutional Funds Act (NYPMIFA). The Board of Trustees has interpreted NYPMIFA as requiring permanently restricted net assets to include the original value of the gifts donated and additions made to the permanent endowment in accordance with the donor gift instrument. The remaining portion of the endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the donor gift instruments and the standard of prudence prescribed by NYPMIFA.

The Endowment maintains a \$10 million permanently restricted fund, consisting of the original sums received from Andrew Carnegie and accumulated income thereon. The terms of the gift instrument stipulated that the principal may never be expended; however, the income is expendable. The Endowment reports the original sums received from Andrew Carnegie as permanently restricted net assets. Accumulated income on this gift is reported as temporarily restricted net assets.

The Endowment adopted an investment policy and a spending rate policy designed to provide a relatively predictable and growing stream of revenues to the operating budget. The Endowment follows an investment policy that attempts to maximize annualized returns, net of costs, over rolling ten-year periods, while adhering to the Endowment's risk parameters.

## Carnegie Endowment for International Peace

### Notes to Financial Statements

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#### Note 14. Endowments (Continued)

The investment income allocation from the Endowment for operating expenditures has two components: 70% of the previous year's appropriation increased by an inflation factor, and 30% of the average market value of the portfolio for the 90-day period preceding the end of the fiscal year from two years prior, multiplied by 5%. The fiscal year ended June 30, 2013, is the first of a board approved capital campaign to strengthen and grow the operations in DC and abroad. During this capital campaign, the Board of Trustees has authorized an additional annual investment allocation with the expectation that the funds raised will far exceed the additional investment allocation. In fiscal year 2015, the additional investment allocation was \$1,625,000.

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Endowment and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Endowment
- The investment policies of the Endowment

Endowment funds consist of the following as of June 30, 2015:

	Temporarily Restricted	Permanently Restricted	Total
Original Endowment	\$ 247,086,821	\$ 10,000,000	\$ 257,086,821
El-Erian Endowment for Carnegie Middle East Center	367,339	1,000,000	1,367,339
Mellon Jr. Fellows Program	150,737	500,000	650,737
The David and Lucile Packard Foundation	58,482	500,000	558,482
Charles Kaye Endowment	13,820	250,000	263,820
George and Pamela M. Siguler	358	52,459	52,817
Endowed Chair	30,812	865,839	896,651
Donor-restricted endowment funds	<u>\$ 247,708,369</u>	<u>\$ 13,168,298</u>	<u>\$ 260,876,667</u>

## Carnegie Endowment for International Peace

### Notes to Financial Statements

#### Note 14. Endowments (Continued)

Endowment funds consisted of the following as of June 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Original Endowment	\$ 243,225,767	\$ 10,000,000	\$ 253,225,767
El-Erian Endowment for Carnegie Middle East Center	292,170	1,000,000	1,292,170
Mellon Jr. Fellows Program	145,246	500,000	645,246
The David and Lucile Packard Foundation	13,035	500,000	513,035
Charles Kaye Endowment	-	250,000	250,000
Donor-restricted endowment funds	<u>\$ 243,676,218</u>	<u>\$ 12,250,000</u>	<u>\$ 255,926,218</u>

Endowment fund activity for the year ended June 30, 2015, consists of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 243,676,218	\$ 12,250,000	\$ 255,926,218
Investment return:			
Realized and unrealized gain on investments	18,459,751	-	18,459,751
Amounts appropriated for expenditure	(14,427,600)	-	(14,427,600)
Contributions	-	918,298	918,298
Endowment net assets, end of year	<u>\$ 247,708,369</u>	<u>\$ 13,168,298</u>	<u>\$ 260,876,667</u>

Endowment fund activity for the year ended June 30, 2014, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 218,254,845	\$ 12,000,000	\$ 230,254,845
Investment return:			
Realized and unrealized gain on investments	40,829,221	-	40,829,221
Amounts appropriated for expenditure	(15,407,848)	-	(15,407,848)
Contributions	-	250,000	250,000
Endowment net assets, end of year	<u>\$ 243,676,218</u>	<u>\$ 12,250,000</u>	<u>\$ 255,926,218</u>