KPMG

CARNEGIE INSTITUTION OF WASHINGTON

Financial Statements and Schedule

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Audit Committee
Carnegie Institution of Washington:

We have audited the accompanying financial statements of the Carnegie Institution of Washington (Carnegie), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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 U.S. generally accepted accounting principles; 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 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 of 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 auditors' 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 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 as of June 30, 2014 and 2013, and the results of its operations and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the schedules of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

November 26, 2014

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Financial Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Cash and cash equivalents	$	4,093,370	2,131,428
Accrued investment income		11,988	17,496
Contributions receivable, net (note 2)		11,280,393	14,100,999
Accounts receivable and other assets (note 8)		9,188,678	10,423,327
Bond proceeds (note 7)		49,414,262	15,698
Investments (notes 3 and 14)		984,182,412	856,597,311
Property and equipment, net (notes 4 and 5)		140,153,915	147,278,352
Long term deferred assets (note 6)		17,598,331	13,174,134
Total assets	$	1,215,923,349	1,043,738,745
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 8)	$	11,234,976	9,559,263
Deferred revenue (note 5)		28,055,413	28,235,748
Bonds payable (note 7)		115,064,362	65,685,422
Accrued postretirement benefits (note 9)		23,558,628	20,356,659
Total liabilities		177,913,379	123,837,091
Net assets (notes 10 and 11):			
Unrestricted		306,532,576	272,816,713
Temporarily restricted		676,424,152	592,058,025
Permanently restricted		55,053,242	55,026,916
Total net assets		1,038,009,970	919,901,654
Commitments and contingencies (notes 9, 12, and 13)			
Total liabilities and net assets	$	1,215,923,349	1,043,738,745

See accompanying notes to financial statements.

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Activities

Years ended June 30, 2014 and 2013

	2014				2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues and support:								
External revenue:								
Grants and contracts	$ 35,708,599	—	—	35,708,599	38,545,813	—	—	38,545,813
Contributions and gifts (note 14)	1,022,063	9,412,498	3,500	10,438,061	642,109	9,272,877	1,625	9,916,611
Other income (loss) (note 8)	2,635,418	10,350	—	2,645,768	1,977,861	(1,632,951)	(2,135)	342,775
External revenue	39,366,080	9,422,848	3,500	48,792,428	41,165,783	7,639,926	(510)	48,805,199
Investment income, net (note 3)	45,791,236	124,848,225	22,826	170,662,287	27,452,377	80,256,824	72,162	107,781,363
Net assets released from restrictions (note 10)	49,904,946	(49,904,946)	—	—	49,467,394	(49,467,394)	—	—
Total revenues and other support	135,062,262	84,366,127	26,326	219,454,715	118,085,554	38,429,356	71,652	156,586,562
Expenses:								
Program expenses:								
Terrestrial magnetism	12,858,902	—	—	12,858,902	13,540,172	—	—	13,540,172
Observatories	19,181,747	—	—	19,181,747	18,733,368	—	—	18,733,368
Geophysical laboratory	20,079,387	—	—	20,079,387	21,003,255	—	—	21,003,255
Embryology	11,778,108	—	—	11,778,108	11,643,914	—	—	11,643,914
Plant biology	11,119,082	—	—	11,119,082	11,327,868	—	—	11,327,868
Global ecology	8,432,635	—	—	8,432,635	8,427,241	—	—	8,427,241
Other programs	1,250,486	—	—	1,250,486	757,789	—	—	757,789
Total program expenses	84,700,347	—	—	84,700,347	85,433,607	—	—	85,433,607
Administrative and general expenses	14,205,604	—	—	14,205,604	14,341,283	—	—	14,341,283
Total expenses	98,905,951	—	—	98,905,951	99,774,890	—	—	99,774,890
Change in net assets before pension related changes other than net periodic postretirement benefit cost	36,156,311	84,366,127	26,326	120,548,764	18,310,664	38,429,356	71,652	56,811,672
Pension related changes other than net periodic postretirement benefit cost (note 9)	(2,440,448)	—	—	(2,440,448)	512,635	—	—	512,635
Change in net assets	33,715,863	84,366,127	26,326	118,108,316	18,823,299	38,429,356	71,652	57,324,307
Net assets at beginning of year	272,816,713	592,058,025	55,026,916	919,901,654	253,993,414	553,628,669	54,955,264	862,577,347
Net assets at end of year	$ 306,532,576	676,424,152	55,053,242	1,038,009,970	272,816,713	592,058,025	55,026,916	919,901,654

See accompanying notes to financial statements.

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 118,108,316	57,324,307
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,414,332	10,418,739
Net gains on investments	(165,605,203)	(102,268,501)
Net loss on disposal of property	52,881	134,131
Contributions of stock	(627,653)	(664,933)
Amortization of bond issuance costs, premium, and discount	(19,623)	(21,497)
Contributions and investment income restricted for long-term investment	(1,625)	(1,625)
(Increase) decrease in assets:		
Receivables	4,055,255	7,243,654
Accrued investment income	5,508	30,225
Long-term deferred asset	(4,424,197)	(5,010,195)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,675,713	(1,890,222)
Deferred revenue	(180,335)	(1,434,442)
Accrued postretirement benefits	3,201,969	364,660
Net cash used in operating activities	(33,344,662)	(35,775,699)
Cash flows from investing activities:		
Acquisition of property and equipment	(1,947,827)	(3,224,877)
Construction of facilities and equipment	(1,394,948)	(2,265,362)
Investments purchased	(352,764,270)	(364,529,139)
Proceeds from investments sold or matured	391,412,025	405,700,829
Purchase of investments from bond proceeds	(49,398,564)	—
Proceeds from sales of investments by bond trustee	—	(4)
Net cash (used) provided by investing activities	(14,093,584)	35,681,447
Cash flows from financing activities:		
Proceeds from borrowing	50,000,000	—
Bond issuance costs capitalized	(601,437)	—
Proceeds from contributions and investment income restricted for:		
Investment in endowment	1,625	1,625
Net cash provided by financing activities	49,400,188	1,625
Net increase (decrease) in cash and cash equivalents	1,961,942	(92,627)
Cash and cash equivalents at beginning of year	2,131,428	2,224,055
Cash and cash equivalents at end of year	$ 4,093,370	2,131,428
Supplementary cash flow information:		
Cash paid for interest	$ 3,344,087	3,071,754

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Carnegie Institution of Washington (Carnegie) conducts advanced research and training in the sciences. It carries out its scientific work in six research centers located throughout the United States and at an observatory in Chile. The centers are the Departments of Embryology, Plant Biology, Global Ecology, Terrestrial Magnetism, the Geophysical Laboratory, and the Observatories.

For the years ended June 30, 2014 and 2013, Carnegie had investment income, including unrealized and realized gains, of $171 million and $108 million. Carnegie's other sources of income are primarily from gifts and federal grants and contracts.

(b) Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting.

(c) Investments and Cash Equivalents

Carnegie's common stock and equity investments are reported at fair value based on quoted market prices, or with respect to commingled funds, real estate funds, natural resources funds, absolute return funds, and private equity funds, at estimated net assets values, as a practical expedient for fair value, provided by the general partners of limited partnerships or other external investment managers. These estimated values are reviewed and evaluated by Carnegie. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed.

All investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. All changes in fair value are recognized in the statements of activities.

Carnegie considers all highly liquid debt instruments purchased with original maturities of 90 days or less to be cash equivalents. Money market and other highly liquid instruments held by investment managers are reported as investments and bond proceeds.

(d) Income Taxes

Carnegie has been recognized by the Internal Revenue Service as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) except for amounts from unrelated business income. Carnegie is also an educational institution within the meaning of Section 170(b)(1)(A)(ii) of the Code. The Internal Revenue Service has classified Carnegie as other than a private foundation, as defined in Section 509(a) of the Code.

Carnegie has analyzed the tax positions taken and has concluded that as of June 30, 2014 and 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

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(e) Fair Value of Financial Instruments

Financial instruments of Carnegie include cash equivalents, receivables, investments, bond proceeds, accounts payable, and bonds payable. The fair value of investments in common stock and equity securities is based on quoted market prices. The fair value of investments in bond funds, commingled funds, real estate, natural resources, absolute return funds, and private equity is estimated using net asset value or its equivalent as discussed in note 1(c).

The fair value of the California Educational Facilities Authority Refunding Revenue Bonds 2010 Series A, the Maryland Health and Higher Education Facilities Authority Revenue Refunding Bonds Series 2010 and Series 2014 Taxable Bonds is discussed in note 7.

Interest rate and commodity swap agreements are entered into by Carnegie to mitigate the risk of changes in interest rates associated with fixed interest rate indebtedness and changes in the price of crude oil and natural gas. Carnegie recognized derivative financial instruments at fair value.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, establishes, among other things, a hierarchical disclosure framework, which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3 measurements).

Fair value measurements are categorized in one of the following three categories:

Level 1 – Pricing inputs are unadjusted quoted prices available in active markets for identical assets or liabilities.

Level 2 – Pricing inputs are quoted prices for identical assets or liabilities in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The level of a value determined for a financial instrument within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement in its entirety. Determination of what constitutes "observable" input requires judgment by Carnegie. In general, Carnegie considers observable inputs to be market data that are readily available, regularly distributed or updated, reliable and verifiable, and provided by independent sources that are actively involved in the relevant market.

In general, Carnegie includes funds in which its ownership interests are publicly traded in an active market in Level 1. Carnegie classifies investments in Level 2 or 3 if the funds are not publicly traded, but the pricing inputs are directly observable either directly or indirectly and its interests are redeemable. Classification in Level 2 or 3 is based on Carnegie's ability to redeem its interest at or

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near the date of the statement of financial position. If the interest can be redeemed in the near term (within 90 days of June 30), the investment is classified in Level 2, alternatively, Level 3.

The fair values of cash equivalents, receivables, bond proceeds, and accounts payable approximate their carrying values based on their short maturities.

(f) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(g) Property and Equipment

Carnegie capitalizes expenditures for land, buildings and leasehold improvements, telescopes, scientific and administrative equipment, and projects in progress. Routine replacement, maintenance, and repairs are charged to expense.

Depreciation is computed on a straight-line basis, generally over the following estimated useful lives:

Buildings and telescopes	50 years
Scientific and administrative equipment	2–10 years, based on scientific life of equipment

(h) Contributions

Contributions are classified based on the existence or absence of donor-imposed restrictions. Contributions are classified in categories of net assets as follows:

Unrestricted – includes all contributions received without donor-imposed restrictions on use or time.

Temporarily restricted – includes contributions with donor-imposed restrictions as to purpose of gift and/or time period expended.

Permanently restricted – generally includes endowment gifts in which donors stipulated that the corpus be invested in perpetuity. Only the investment income generated from endowments may be spent. Certain endowments require that a portion of the investment income be reinvested in perpetuity.

Contributions include unconditional promises to give. In instances where such promises are to be received after one year or more from the date of the gift, they are recorded at a discounted amount at an appropriate risk-adjusted rate commensurate with the expected collection period (level 3 in the

(Continued)

fair value hierarchy). Amortization of the discount is recorded as additional contribution revenue. Satisfaction of donor-imposed restrictions are reported as releases of restrictions in the statements of activities.

Expirations of temporary restrictions on net assets (i.e. the donor stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Gifts of long-lived assets, such as buildings or equipment, are considered unrestricted when placed in service. Cash gifts restricted for investment in long-lived assets are released from restriction when the asset is acquired or as costs are incurred for asset construction.

(i) Grants

Carnegie records revenues on grants from federal agencies only to the extent that reimbursable expenses are incurred. Accordingly, funds received in excess of reimbursable expenses are recorded as deferred revenue, and expenses in excess of reimbursements are recorded as accounts receivable. Reimbursement of indirect costs is based upon provisional rates, which are subject to subsequent audit by Carnegie's federal cognizant agency, the National Science Foundation.

(j) Allocation of Costs

The costs of providing programs and supporting services have been summarized in the statements of activities. Most expenses are directly charged to the respective program or supporting activity. Certain costs have been allocated among the programs and support services benefited based upon management's estimate of each program's share of the allocated costs. Fundraising expenses of $1,359,931 and $1,364,086 for the years ended June 30, 2014 and 2013, respectively, have been included in administrative and general expenses in the accompanying statements of activities.

(2) Contributions Receivable

Contributions receivable are summarized as follows as of June 30, 2014 and 2013:

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	$ 5,885,253	8,545,277
One to five years	6,131,319	6,538,600
	12,016,572	15,083,877
Less:		
Allowance for uncollectible amounts	(553,710)	(727,981)
Discount to present value	(182,469)	(254,897)
	$ 11,280,393	14,100,999

Contributions receivable as of June 30, 2014 and 2013 were discounted based on the estimated risk-adjusted rate of return on the pledge date at rates ranging from less than 0.11% to 4.36%.

(3) Investments

Investments at fair value consisted of the following as of June 30, 2014 and 2013:

		2014	2013
Time deposits and money market funds	$	40,705,496	19,370,398
U.S. government bond funds		50,490,623	40,020,714
Common stock – domestic		77,058,163	34,265,328
Domestic equity commingled funds		123,741,229	142,277,493
International equity commingled funds		182,959,261	148,075,922
Real estate funds		107,738,361	86,311,971
Natural resources funds		84,904,539	74,810,701
Absolute return funds		248,484,927	242,507,047
Private equity funds		68,099,813	68,957,737
	$	984,182,412	856,597,311

Investment income, net consisted of the following for the years ended June 30, 2014 and 2013:

		2014	2013
Interest and dividends	$	5,995,572	6,457,780
Net realized gains		73,317,938	61,564,393
Net unrealized gains (losses)		92,287,265	40,704,108
Investment management expenses		(938,488)	(944,918)
	$	170,662,287	107,781,363

The following table represents investments that are measured at fair value on a recurring basis as of June 30, 2014:

	2014	**Level 1**	**Level 2**	**Level 3**
Time deposits and money market funds	$ 40,705,496	40,705,496	—	—
U.S. government bond funds	50,490,623	1,728,392	48,762,231	—
Common stock – domestic	77,058,163	76,644,467	—	413,696
Domestic equity commingled funds	123,741,229	44,526,602	79,214,627	—
International equity commingled funds	182,959,261	39,446,473	143,512,788	—
Real estate funds	107,738,361	—	—	107,738,361
Natural resources funds	84,904,539	—	—	84,904,539
Absolute return funds	248,484,927	—	193,158,191	55,326,736
Private equity funds	68,099,813	—	—	68,099,813
	$ 984,182,412	203,051,430	464,647,837	316,483,145

The following table represents investments that are measured at fair value on a recurring basis as of June 30, 2013:

	2013	**Level 1**	**Level 2**	**Level 3**
Time deposits and money market funds	$ 19,370,398	19,370,398	—	—
U.S. government bond funds	40,020,714	1,622,673	38,398,041	—
Common stock – domestic	34,265,328	33,851,632	—	413,696
Domestic equity commingled funds	142,277,493	56,286,970	85,990,523	—
International equity commingled funds	148,075,922	32,139,000	115,936,922	—
Real estate funds	86,311,971	—	—	86,311,971
Natural resources funds	74,810,701	—	—	74,810,701
Absolute return funds	242,507,047	—	167,451,761	75,055,286
Private equity funds	68,957,737	—	—	68,957,737
	$ 856,597,311	143,270,673	407,777,247	305,549,391

The following table presents Carnegie's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2014 and 2013.

	Common stock domestic	Real estate funds	Natural resources funds	Absolute return funds	Private equity funds	Total
Balance at June 30, 2012	$ 353,172	73,867,059	75,805,372	645,971	68,327,976	218,999,550
Total realized gains (losses), net	—	8,394,777	7,108,715	9,593,624	672,841	25,769,957
Total unrealized gains (losses), net	60,524	5,500,296	(6,854,151)	(104,691)	839,792	(558,230)
Purchases and issuances	—	6,270,402	1,068,070	114,634,799	3,045,610	125,018,881
Settlements	—	(7,720,563)	(2,317,305)	(49,714,417)	(3,928,482)	(63,680,767)
Balance at June 30, 2013	413,696	86,311,971	74,810,701	75,055,286	68,957,737	305,549,391
Total realized gains (losses), net	—	8,418,632	10,271,753	(20,932,553)	(3,672,325)	(5,914,493)
Total unrealized gains (losses), net	—	8,349,288	(7,996,514)	1,204,110	(992,088)	564,796
Purchases and issuances	—	12,804,874	8,809,529	71,094,052	10,561,052	103,269,507
Settlements	—	(8,146,404)	(990,930)	(71,094,159)	(6,754,563)	(86,986,056)
Balance at June 30, 2014	$ 413,696	107,738,361	84,904,539	55,326,736	68,099,813	316,483,145

The following table summarizes the nature and risk of Carnegie's investments in funds, which are valued based on net asset value as a practical expedient for fair value as of June 30, 2014 and 2013:

	Fair value		2014 unfunded commitments	Redemption frequency
	2014	2013		
U.S. government bond funds (a)	$ 48,762,231	38,398,041	—	Monthly
Domestic equity commingled funds (b)	79,214,627	85,990,523	448,506	Bienniel
International equity commingled funds (c)	143,512,788	115,936,922	—	Monthly
Real estate funds (d)	107,738,361	86,311,971	88,690,141	Illiquid
Natural resources funds (e)	84,904,539	74,810,701	14,638,925	Illiquid
Absolute return funds (f)	248,484,927	242,507,047	—	Quarterly to illiquid
Private equity funds (g)	68,099,813	68,957,737	17,010,436	Illiquid
	$ 780,717,286	712,912,942	120,788,008	

There were no transfers of funds between levels during the years ended June 30, 2014 and 2013.

(a) This class is comprised of a single fixed income fund. The fixed income fund is a mutual investment fund intended to mirror a U.S. government bond index. In general, this fund seeks to produce returns that mirror or exceed various benchmarks established for comparable portfolios. The notice period is 30 days or less.

(b) This class is comprised of a single fund which invests in common stocks of biotechnology companies. This fund seeks to produce returns that mirror or exceed various benchmarks established for comparable portfolios.

(c) This class is comprised of two international partnerships which invest in public equity markets internationally and one institutional mutual fund that mirrors an emerging markets index. Of these, one holds a concentrated portfolio of global companies. In general, these funds seek to produce returns that mirror or exceed various benchmarks established for comparable portfolios. The majority of Carnegie's capital in this category can be redeemed on a monthly basis or more frequently; in one case redemptions can occur within a year. The typical notice period is 30 days or less.

(d) This class includes several real estate funds which invest primarily in U.S. commercial real estate. One fund targets commercial, residential, and industrial real estate in Europe. The fair values of the investments in this category have been estimated using the net asset value of Carnegie's ownership interest in partners' capital. Investments under this category cannot be redeemed. Instead, distributions are made from operating proceeds on a periodic basis, typically monthly or quarterly. Proceeds from assets sold are generally distributed immediately. It is estimated that the underlying assets of these funds will be liquidated over the next one to ten years.

(e) This class includes funds which invest primarily in timber and oil and gas assets. The investment strategy is to acquire, operate, develop, and improve oil and gas and timber producing assets. The fair values of the investments in this category have been estimated using an established forward pricing curve beyond the first two years of production in establishing its valuation within the oil and gas funds. Investments under this category cannot be redeemed. Instead, distributions are made from operating proceeds on a periodic basis, typically quarterly. Proceeds from assets sold may be distributed immediately. It is estimated that the underlying assets of these funds will be liquidated over the next two to fourteen years.

(f) This class is comprised of six separate funds, including: three long/short hedge funds which invest in publicly traded equities, a partnership that invests in fixed income securities; a partnership that invests in distressed fixed income securities; a multi-strategy partnership that invests in value investments, credit investments, event-driven situations, real estate, and distressed credit investments; and a partnership that invests in distressed credit securities and event-driven situations. In general, these funds seek to produce positive absolute returns that do not necessarily correlate with the public markets. The fair values of the investments in this category have been estimated using the net asset value of Carnegie's ownership interest in partners' capital. The majority of Carnegie's capital in this category can be redeemed on an annual basis; in some cases redemptions can occur within a year, with a minimum of typically 90 days notice. Less than one percent is invested in a partnership where, under the current terms, funds are in liquidation and cannot be withdrawn. The underlying assets are expected to be distributed over the next year.

(g) This class is comprised of three separate managers and nine separate private equity funds which invest primarily in leveraged buyouts, venture capital, emerging growth companies, corporate finance, and various niche strategies. Eight of the nine funds are funds of funds, where the manager in turn invests in other private equity funds. Private equity investment transactions may involve acquisitions, leveraged buyouts, reorganizations, privatizations, restructurings, and spin-offs. The fair values of the investments in this category have been estimated using the net asset value of Carnegie's ownership interest in partners' capital. Investments under this category cannot be redeemed. Private capital partnerships span several years that are often divided into commitment and distribution phases. In the first half of the span, capital is drawn down or called as investment opportunities are identified. During the second half of the span, capital is returned to the investment partners in the form of distributions. Such distributions are made on a periodic basis, typically quarterly. It is estimated that the underlying assets of these various funds will be liquidated over the next one to twelve years.

(4) Property and Equipment

Property and equipment consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Buildings and improvements	$ 91,207,967	89,534,072
Scientific equipment	67,682,330	63,148,890
Telescopes	93,969,502	93,969,502
Construction in progress	1,682,899	5,394,050
Administrative equipment	4,164,758	4,078,676
Leased equipment	300,558	300,558
Land	817,117	817,117
Art	76,099	76,099
	259,901,230	257,318,964
Accumulated depreciation	(119,747,315)	(110,040,612)
	$ 140,153,915	147,278,352

Construction in progress consists of scientific equipment as of June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, approximately $63.6 million and $65.6 million, respectively, of property and equipment, net of accumulated depreciation, was located in Las Campanas, Chile.

(5) Magellan Consortium

During the year ended June 30, 1998, Carnegie entered into an agreement (Magellan Agreement) with four universities establishing a consortium to build and operate the Magellan telescopes. The two Magellan telescopes are located on Manqui Peak, Las Campanas in Chile. The first telescope, with a cost of approximately $41.7 million, was placed in service during 2001. The other, with a cost of approximately $30.1 million, was placed in service in 2003.

The university members of the consortium, by contribution to the construction and operating costs of Magellan, acquire rights of access and oversight as described in the Magellan Agreement. Total contributions by the university members for construction, which amounted to $36.0 million, covered approximately 50% of the total construction costs. These monies were used by Carnegie to finance part of the Magellan Telescopes' construction costs. The contributions were recorded as deferred revenue and are being recognized ratably as income over the remaining estimated useful lives of the telescopes. As of June 30, 2014 and 2013, the deferred revenue totaled $25.5 million and $26.1 million, respectively.

(6) Long Term Deferred Asset

Carnegie is a Founder and initial contributor to the GMT Project, which is managed by the Giant Magellan Telescope Organization Corporation (GMTO) that includes institutions from the U.S., Australia and Korea. The GMTO is a nonprofit organization incorporated in 2007 for the purpose of developing and building a state-of-the-art next-generation extremely large telescope. Contributors to the GMTO project acquire rights of access to the telescope upon completion as described in the Founders' Agreement dated March 20, 2009. Beginning in fiscal year 2010, Carnegie began to capitalize cash contributions to the GMTO, primarily received through fundraising efforts, as a deferred long term asset. The asset will be amortized over the expected 50 year life of the telescope beginning at the time it is placed into service. Carnegie's cash contributions to GMTO in fiscal year 2014 and fiscal year 2013 were $4.4 million and $5.0 million, respectively. The deferred long term asset value was $17.6 million and $13.2 million at June 30, 2014 and 2013, respectively which is reported as part of accounts receivable and other assets on statements of financial position.

(7) Bonds Payable

(a) 2010 Maryland Health and Higher Education Facilities Revenue Bonds

On February 4, 2010, the Maryland Health and Higher Education Facilities Authority (MHHEFA) issued $30,580,000 of fixed rate, tax-exempt revenue bonds on behalf of Carnegie. Bond proceeds totaling approximately $30,500,000 were used to refund $30,000,000 in bonds issued in 2002 by MHHEFA and cover the costs of issuance including related fees.

The structure of the 2010 MHHEFA bonds is two term bonds, maturing in 2037 and 2040. The bond due July 1, 2037, bears interest at a fixed coupon rate of 4.25% with sinking fund redemptions as follows:

Due July 1:		
2036	$	6,120,000
2037		6,115,000
	$	12,235,000

The bond due July 1, 2040, bears interest at a fixed coupon rate of 4.50% with sinking fund redemptions as follows:

Due July 1:		
2038	$	6,115,000
2039		6,115,000
2040		6,115,000
	$	18,345,000

The MHHEFA bonds payable outstanding was $30,580,000 as of June 30, 2014 and 2013. The interest expense for the MHHEFA issues was $1,345,512 and $1,345,508 for the years ended June 30, 2014 and 2013.

The 2010 MHHEFA bonds are secured solely by Carnegie's credit. There are no financial covenants or stand-by credit facilities associated with the bonds.

The bonds are subject to redemption and purchase prior to maturity, beginning on July 1, 2020, at the option of MHHEFA upon the direction of Carnegie.

The fair value of long-term debt approximated $32,536,167 for 2010 MHHEFA bonds as of June 30, 2014 compared to carrying value of $30,580,000. Fair value was based on Level 2 inputs, see definition in Footnote 1 (e). The market price utilized reflects the rate the Institution would have to pay a credit worthy third party to assume its obligation and does not reflect an additional liability to the Institution.

(b) 2010 California Educational Facilities Authority Revenue Bonds

On March 24, 2010, the California Educational Facilities Authority (CEFA) issued fixed rate, tax-exempt revenue bonds with a par value of $34,525,000 on behalf of Carnegie. Bond proceeds totaling approximately $36,400,000 were used to: a) refund $17,500,000 of 1993 Series B bonds issued by CEFA on behalf of Carnegie for the purpose of financing the Magellan telescope project and the renovation of facilities of the Observatories at Pasadena; b) refund $18,300,000 of 2006 CEFA Refunding Revenue Bonds that, in turn, were used to finance the Magellan telescope project and the renovation of facilities of the Observatories at Pasadena; and c) cover the costs of issuance including related fees.

The structure of the 2010 CEFA bond is a single fixed-rate bond, maturing in 2040, with a par value of $34,525,000. The bond bears interest at a fixed coupon rate of 5.00% with sinking fund redemptions as follows:

Due July 1:		
2036	$	6,905,000
2037		6,905,000
2038		6,905,000
2039		6,905,000
2040		6,905,000
	$	34,525,000

The CEFA bonds payable outstanding was $34,525,000 as of June 30, 2014 and 2013. The interest expense for the CEFA issue was $1,726,250 and $1,726,245 for the years ended June 30, 2014 and 2013.

The 2010 CEFA bonds are secured solely by Carnegie's credit. There are no financial covenants or stand-by credit facilities associated with the bonds.

The 2010 California bonds are subject to redemption and purchase prior to maturity, beginning on July 1, 2020, at the option of CEFA upon the direction of Carnegie.

The fair value of long-term debt approximated $37,575,974 for 2010 CEFA bond as of June 30, 2014 compared to carrying value of $34,525,000. Fair value was based on Level 2 inputs, see definition in footnote 1 (e). The market price utilized reflects the rate the Institution would have to pay a credit worthy third party to assume its obligation and does not reflect an additional liability to the Institution.

(c) Series 2014 Taxable Bonds

On May 15, 2014 Carnegie issued fixed rate, taxable bonds with a par value of $50,000,000. Bond proceeds totaling $50,000,000 will be used to: a) finance a portion of the Institution's participation in the Giant Magellan Telescope project; b) other institutional purposes to include capital projects and operations in support of Carnegie's scientific mission; and c) cover the costs of issuance including related fees.

The structure of the 2014 Series taxable bond is a single fixed-rate bond, maturing in 2054, with a par value of $50,000,000. The bond bears interest at a fixed coupon rate of 4.241% with sinking fund redemptions as follows:

Due July 1:		
2050	$	10,000,000
2051		10,000,000
2052		10,000,000
2053		10,000,000
2054		10,000,000
	$	50,000,000

The Series 2014 bonds payable outstanding was $50,000,000 as of June 30, 2014. The interest expense for the Series 2014 issue was $270,953 for the years ended June 30, 2014.

The Series 2014 bonds are secured solely by Carnegie's credit. There are no financial covenants or stand-by credit facilities associated with the bonds.

The Series 2014 bonds are subject to redemption prior to maturity in whole or in part, on any date, at the option of the Issuer.

The fair value of long-term debt approximated $50,875,000 for Taxable Bond Series 2014 as of June 30, 2014 compared to carrying value of $50,000,000. Fair value was based on Level 3 inputs, see definition in footnote 1 (e). The market price utilized reflects the rate the Institution would have to pay a credit worthy third party to assume its obligation and does not reflect an additional liability to the Institution.

(d) Line of credit

Carnegie has entered into an unsecured revolving credit facility with a maximum principal amount of $15 million from a commercial bank. Borrowings under the credit facility bear interest at a floating London Interbank Offered Rate (LIBOR) plus a credit spread of 1.25%. Carnegie did not draw any funds from this line of credit facility in 2013 or 2014. The credit facility expires May 30, 2015.

(8) Interest Rate and Commodity Swap Agreements

(a) 2010 Maryland Health and Higher Education Facilities Authority Revenue Bonds

On February 11, 2010, Carnegie entered into a basis swap with Barclays Capital. A basis swap is an interest rate swap, which involves the exchange of two floating rate financial instruments. Under this agreement, Barclays Capital pays Carnegie 68% of three-month LIBOR and Carnegie pays Barclays Capital the Securities Industry and Financial Markets Association Benchmark (SIFMA) minus 0.08% on a notional amount of $22,935,000, which matches the amortization structure of the 2010 MHHEFA bonds (see note 7(a)), reducing on the dates and in the amounts as follows:

Due July 1:		
2036	$	4,590,000
2037		4,586,250
2038		4,586,250
2039		4,586,250
2040		4,586,250

Carnegie may terminate and cash settle this transaction upon meeting a three business day notice requirement, with both parties obligated to pay any amounts owed on the termination date.

In addition to this basis swap, on February 26, 2010, Carnegie entered into a fixed to floating interest rate swap where Carnegie receives 3.6895% and pays SIFMA on a notional amount of $7,645,000. This transaction matches the amortization structure of the 2010 bonds (see note 7(a)), reducing on the dates and in the amounts as follows:

Due July 1:		
2036	$	1,530,000
2037		1,528,750
2038		1,528,700
2039		1,528,700
2040		1,528,700

Under this agreement, Carnegie may terminate and cash settle the transaction upon meeting a three-day business notice requirement and Barclays Capital owns the right to cancel the swap with Carnegie after ten years and upon meeting a 30-calendar day notice requirement.

(Continued)

The basis swap and fixed to floating interest rate swap agreements described above are derivative instruments that are recorded at fair value. The estimated fair value as of June 30, 2014 and 2013 were liabilities of $2,130,703 and $2,251,862, respectively. These amounts are included in accounts payable and accrued expenses in 2014 and 2013 on the accompanying statements of financial position. The change in fair value for the years ended June 30, 2014 and 2013 was a loss of $121,159 and a loss of $395,012, respectively, and is reported as other income (loss).

(b) 2010 California Educational Facilities Authority Refunding Revenue Bonds

On March 17, 2010, Carnegie entered into a basis swap with Barclays Capital. A basis swap is an interest rate swap, which involves the exchange of two floating rate financial instruments. Under this agreement, Barclays Capital pays Carnegie 68% of three-month LIBOR and Carnegie pays Barclays Capital SIFMA minus 0.111% on a notional amount of $25,893,750, which matches the amortization structure of the 2010 bonds (see note 7(b)), reducing on the dates and in the amounts as follows:

Due July 1:		
2036	$	5,178,750
2037		5,178,750
2038		5,178,750
2039		5,178,750
2040		5,178,750

Carnegie may terminate and cash settle this transaction upon meeting a three business day notice requirement, with both parties obligated to pay any amounts owed on the termination date.

In addition to this basis swap, on March 17, 2010, Carnegie entered into a fixed to floating interest rate swap where Carnegie receives 3.737% and pays SIFMA on a notional amount of $8,631,250. This transaction matches the amortization structure of the 2010 bonds (see note 7(b)), reducing on the dates and in the amounts as follows:

Due July 1:		
2036	$	1,726,250
2037		1,726,250
2038		1,726,250
2039		1,726,250
2040		1,726,250

Under this agreement, Carnegie may terminate and cash settle the transaction upon meeting a three-day business notice requirement and Barclays Capital owns the right to cancel the swap with Carnegie after ten years and upon meeting a 30-calendar day notice requirement.

The basis swap and fixed to floating interest rate swap agreements described above are derivative instruments that are recorded at fair value. The estimated fair value as of June 30, 2014 and 2013 were liabilities of $2,219,525 and $2,349,310, respectively. These amounts are included in accounts payable and accrued expenses in 2014 and 2013 on the accompanying statements of financial position. The change in fair value for the years ended June 30, 2014 and 2013 was a loss of $129,785 and a loss of $465,083, respectively, and is reported as other income (loss).

(c) Commodity Swaps

Carnegie entered into a series of fixed-floating commodity swap agreements with J. Aron & Company, fixed price payer, for NYMEX West Texas Intermediate Crude Oil (WTI-Oil) and NYMEX Natural Gas.

Under the series of fixed-floating commodity swap agreements, for WTI-Oil, the floating price for each determination period is the average of the closing settlement price(s) on the NYMEX for the Nearby Light Crude Futures Contract. For natural gas, the floating price for each determination period is the average of the closing settlement prices for the pricing days of the NYMEX Natural Gas Henry Hub Futures Contract for the reference month.

If, with respect to each determination period, the fixed price exceeds the floating price, the fixed price payer shall pay Carnegie the difference between the two such amounts multiplied by the quantity, and if the floating price exceeds the fixed price, Carnegie will pay the fixed price payer the difference between the two amounts multiplied by the quantity. If the prices are equal, no payment shall be made.

The commodity swap agreements described above are derivative instruments that are recorded at fair value. The estimated fair value as of June 30, 2014 and 2013 was a receivable of $527,064 and $1,926,077, respectively. These amounts are included in accounts receivable and other assets, in the accompanying statements of financial position. The change in fair value for the years ended June 30, 2014 and 2013 was a loss of $1,399,013 and a loss of $2,337,896, respectively, and is reported as other income (loss).

For the valuation of interest rate and commodity swaps as of June 30, 2014, Carnegie used pricing models based on significant observable inputs as of the valuation date (Level 2) of the fair value hierarchy, including prices of instruments with similar maturities and characteristics, interest rate yield curves, measures of interest rate volatility, and oil and natural gas pricing. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and Carnegie. See note 1(e) for definitions of the fair value hierarchy.

The following table represents the basis and interest rate swap liabilities and the commodity swap receivables that are measured at fair value on a recurring basis as of June 30, 2014 and 2013:

	Fair value measurements at June 30, 2014		
	Level 1	**Level 2**	**Level 3**
Basis and interest rate swaps	$ —	(4,350,228)	—
Commodity swaps	—	527,064	—

	Fair value measurements at June 30, 2013		
	Level 1	**Level 2**	**Level 3**
Basis and interest rate swaps	$ —	(4,601,172)	—
Commodity swaps	—	1,926,072	—

(9) Employee Benefit Plans

(a) Retirement Plan

Carnegie has a noncontributory, defined contribution, money-purchase retirement plan in which all U.S. personnel are eligible to participate. After one year of participation, an individual's benefits are fully vested. The Plan has been funded through individually owned annuities issued by Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF). Contributions made by Carnegie totaled approximately $4.9 million and $5.0 million for the years ended June 30, 2014 and 2013.

(b) Postretirement Benefits Plan

Carnegie provides postretirement medical benefits to all employees who retire after age 55 and have at least 10 years of service. Cash payments made by Carnegie for these benefits totaled $803,249 and $730,270 for the years ended June 30, 2014 and 2013, respectively.

The expense for postretirement benefits for the years ended June 30, 2014 and 2013 consists of the following:

	2014	**2013**
Service cost – benefits earned during the year	$ 762,431	880,842
Interest cost on projected benefit obligation	951,978	837,318
Amortization of prior service costs	(18,000)	(18,000)
Amortization of gain	(131,639)	(92,575)
Postretirement benefit expense	$ 1,564,770	1,607,585

(Continued)

The 2014 postretirement benefits expense was approximately $761,521 more than the cash payments of $803,249 and the 2013 postretirement benefits expense was approximately $877,295 more than the cash payments of $730,290. The postretirement benefits expense was allocated among program and supporting services expenses in the accompanying statements of activities.

The reconciliation of the Plan's funded status to amounts recognized in the financial statements as of June 30, 2014 and 2013 follows:

		2014	2013
Change in benefit obligation:			
Benefit obligation at beginning of year	$	20,356,659	19,991,999
Service cost		762,431	880,842
Interest cost		951,978	837,318
Actuarial loss		2,290,809	(623,210)
Benefits paid		(803,249)	(730,290)
Benefit obligation at end of year		23,558,628	20,356,659
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Contribution to plan		803,249	730,290
Benefits paid		(803,249)	(730,290)
Fair value of plan assets at end of year		—	—
Funded status	$	(23,558,628)	(20,356,659)

Pension related changes other than net periodic postretirement benefit cost consisted of the following as of June 30, 2014 and 2013:

		2014	2013
Unrecognized net actuarial gain (loss)	$	(2,422,448)	530,635
Unrecognized prior service cost		(18,000)	(18,000)
	$	(2,440,448)	512,635

The unrecognized net gain and prior service costs that have not been recognized as a component of net periodic postretirement benefit cost as of June 30, 2014 and 2013:

		2014	2013
Unrecognized net actuarial loss	$	(1,362,705)	(3,785,153)
Unrecognized prior service cost		(149,000)	(167,000)
	$	(1,511,705)	(3,952,153)

(Continued)

The net gain and prior service cost that will be amortized into net periodic benefit cost over the next fiscal year:

		2014	2013
Unrecognized net actuarial loss	$	—	(131,639)
Unrecognized prior service cost		18,000	18,000
	$	18,000	(113,639)

The present value of the benefit obligation as of June 30, 2014 and 2013 was determined using an assumed discount rate of 4.30% and 4.75%, respectively. The present value of the net periodic postretirement benefit cost for the years ended June 30, 2014 and 2013 was determined using an assumed discount rate of 4.75% and 4.25%, respectively. Carnegie's policy is to fund postretirement benefits as claims and administrative fees are paid.

For measurement purposes, a 9% annual rate of increase in medical claims was assumed for 2014; the rate of increase was assumed to decrease at 0.5% per year, eventually reaching 5% in 2024. The healthcare cost trend rate assumption has a significant effect on the amounts reported. A one-percentage point change in assumed annual healthcare cost trend rate would have the following effects:

		One-percentage point increase	One-percentage point decrease
Effect on total of service and interest cost components	$	399,284	(303,083)
Effect on postretirement benefit obligation		4,137,634	(3,269,047)

The measurement date used to determine postretirement benefit obligations is June 30.

Carnegie expects to contribute $723,932 to its postretirement benefit plan during the year ended June 30, 2015.

The following benefit payments (net of retiree contributions), which reflect expected future service, are expected to be paid in future years ending June 30:

2015	$	723,932
2016		809,602
2017		863,994
2018		930,020
2019–2023		6,737,459

The prescription drug benefits offered by Carnegie are determined to not be actuarially equivalent to Medicare Plan D, and the effects of the Medicare Prescription Drug Improvement and Modernization Act, excluding the subsidy, do not have a significant impact on the per capita claims cost.

(Continued)

(10) Net Assets

(a) Unrestricted Net Assets

Unrestricted net assets consisted of the following as of June 30, 2014 and 2013:

		2014	2013
Board-designated quasi-endowments	$	124,443,474	104,564,745
Undesignated		182,089,102	168,251,968
	$	306,532,576	272,816,713

(b) Temporarily Restricted Net Assets

Temporarily restricted net assets were available to support the following donor-restricted purposes as of June 30, 2014 and 2013:

		2014	2013
Endowment assets available for future appropriation	$	630,454,654	547,812,195
Specific research programs		33,978,863	28,477,122
Equipment acquisition and construction		874,063	918,830
Passage of time		11,116,572	14,849,878
	$	676,424,152	592,058,025

(c) Permanently Restricted Net Assets

Permanently restricted net assets consisted of endowed gifts, the income from which is available to support the following donor-restricted purposes as of June 30, 2014 and 2013:

		2014	2013
Specific research programs	$	15,174,731	15,151,405
Operation of maxine singer building		15,000,050	15,000,050
Equipment acquisition and construction		2,764,719	2,764,719
General support (Carnegie endowment)		22,113,742	22,110,742
	$	55,053,242	55,026,916

(Continued)

(d) Net Assets Released from Restrictions

During 2014 and 2013, Carnegie met donor-imposed requirements on certain gifts and, therefore, released temporarily restricted net assets as follows:

		2014	2013
Appropriation of endowment assets	$	42,302,875	40,934,787
Specific research programs		6,922,931	8,043,309
Equipment acquisition and construction		69,772	364,298
Passage of time		609,368	125,000
	$	49,904,946	49,467,394

(11) Endowment

Carnegie's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments to support the purposes of Carnegie. Net assets associated with endowment funds are classified and reported based on the existence or absences of donor-imposed restrictions.

(a) Interpretation of Relevant Law

Effective January 23, 2008, the District of Columbia enacted the Uniform Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, Carnegie is required to act prudently when making decisions to spend or accumulate donor-restricted endowment funds. As a result of this interpretation, Carnegie classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and subsequent gifts to the endowment. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Carnegie in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Carnegie considers the following factors in make a determination to appropriate or accumulate donor-restricted endowment fund:

1) The duration and preservation of the fund

2) The purposes of the organization and the donor-restricted endowment fund

3) General economic conditions, including the possible effects of inflation

4) The expected total return from income and the appreciation of investments

5) Other resources of the organization

6) The investment and spending policies of the organization

(b) Return Objectives and Risk Parameters

Carnegie's Board of Trustees has adopted an investment policy, including return objectives, for its endowment. This policy has identified: an appropriate risk posture; stated expectations and objectives; asset allocation guidelines; and criteria to monitor and evaluate the performance results of the Endowment fund's managers. Carnegie expects the Endowment fund to provide an average rate of return of approximately 8-9% annually, while recognizing that performance in any given year may vary from this goal.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, Carnegie relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Carnegie employs a diversified asset allocation strategy that allocates investments among four broad asset classes: common stock, alternative assets, fixed income, and cash. Common stock is subdivided into domestic and international categories. Alternative assets are subdivided into absolute return partnerships, natural resources, and private equity funds.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The current Board-approved spending rule requires that the amounts appropriated for spending from the endowment be comprised of: a) 70% of the previous year's budget, adjusted for inflation, and b) 30% of the most recent year-end endowment value, adjusted for debt, and then multiplied by the determined spending rate, currently 5.00%, and adjusted for inflation. The rule functions to smooth annual contributions from the endowment in support of the operating budget. In establishing this policy, Carnegie considered the long-term expected return on its funds. Carnegie expects the current spending and investment policies to grow its endowment at an average of 3-4% annually.

(e) Appropriation of Endowment Assets for Next Fiscal Year

For fiscal 2015, Carnegie has appropriated $41,374,000 of its Endowment Funds assets to be distributed for spending. In accordance with the endowment spending policy described above, this amount is calculated based upon an endowment spending rate of five percent (5%). Additional amounts required to fulfill debt obligations of Carnegie are also authorized for expenditure.

(f) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Carnegie to retain as a fund of perpetual duration. No such deficiencies existed as of June 30, 2014 or 2013.

Net asset classification by type of endowment as of June 30, 2014 and 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2014				
Donor-restricted endowment funds	$ —	630,454,654	55,053,242	685,507,896
Board-designated endowment funds	124,443,474	—	—	124,443,474
	$ 124,443,474	630,454,654	55,053,242	809,951,370
June 30, 2013				
Donor-restricted endowment funds	$ —	547,812,195	55,026,915	602,839,110
Board-designated endowment funds	104,564,745	—	—	104,564,745
	$ 104,564,745	547,812,195	55,026,915	707,403,855

(Continued)

Changes in endowment net assets for the years ended June 30, 2014 and 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2012	$ 93,573,064	509,840,478	54,955,263	658,368,805
Investment return:				
Investment income	326,014	1,965,155	1,767	2,292,936
Net appreciation (realized and unrealized gains and losses)	12,594,505	76,941,349	68,260	89,604,114
Total investment return	12,920,519	78,906,504	70,027	91,897,050
Contributions	10,000	—	1,625	11,625
Appropriation of assets for expenditure	(1,938,838)	(40,934,787)	—	(42,873,625)
Endowment net assets, June 30, 2013	104,564,745	547,812,195	55,026,915	707,403,855
Investment return:				
Investment income	470,070	3,088,037	496	3,558,603
Net appreciation (realized and unrealized gains and losses)	21,159,310	121,857,297	22,331	143,038,938
Total investment return	21,629,380	124,945,334	22,827	146,597,541
Contributions	10,000	—	3,500	13,500
Appropriation of assets for expenditure	(1,760,651)	(42,302,875)	—	(44,063,526)
Endowment net assets, June 30, 2014	$ 124,443,474	630,454,654	55,053,242	809,951,370

(12) Lease Arrangements

Carnegie leases a portion of the land it owns in Las Campanas, Chile to other organizations. These organizations have built and operate telescopes on the land. Most of the lease arrangements are not specific and some are at no cost to the other organizations. The value of the no-cost leases could not be determined and is not considered significant and, accordingly, contributions have not been recorded in the financial statements.

Carnegie also leases a portion of one of its laboratories to another organization for an indefinite term. Rents to be received under the agreement are approximately $393,600 annually, adjusted for CPI increases.

Carnegie leases land and buildings for various research departments. The monetary terms of the leases are considerably below fair value; however, these terms were developed considering other nonmonetary transactions between Carnegie and the lessors. The substance of the transactions indicates arm's-length terms between Carnegie and the lessors.

(13) Contingencies

Costs charged to the federal government under cost-reimbursement grants and contracts are subject to government audit. Therefore, all such costs are subject to adjustment. Management believes that adjustments, if any, would not have a significant effect on the financial statements.

(14) Related-Party Transactions

Carnegie recorded contributions from its trustees, officers, and directors of approximately $1.0 million and $1.2 million for the years ended June 30, 2014 and 2013, respectively.

A trustee of Carnegie is also the Chairman of an investment entity with which Carnegie has invested $74.2 million and $65.0 million in six of its investment funds, as of June 30, 2014 and 2013, respectively. Carnegie paid approximately $447 thousand and $ 454 thousand in fees to these funds for the year ended June 30, 2014 and 2013, respectively.

(15) Subsequent Events

Carnegie has evaluated subsequent events through the date the financial statements were issued, November 26, 2014.

Schedule

CARNEGIE INSTITUTION OF WASHINGTON

Schedules of Expenses

Years ended June 30, 2014 and 2013

	2014			2013		
	Carnegie funds	**Federal and private grants**	**Total expenses**	**Carnegie funds**	**Federal and private grants**	**Total expenses**
Personnel costs:						
Salaries	$ 21,079,733	9,675,736	30,755,469	21,004,408	10,094,971	31,099,379
Fringe benefits and payroll taxes	13,704,238	4,729,876	18,434,114	12,766,477	4,947,679	17,714,156
Total personnel costs	34,783,971	14,405,612	49,189,583	33,770,885	15,042,650	48,813,535
Fellowship grants and awards	2,647,656	2,625,131	5,272,787	2,845,079	1,966,595	4,811,674
Depreciation	10,414,332	—	10,414,332	10,418,739	—	10,418,739
General expenses:						
Educational and research supplies	2,793,335	2,180,857	4,974,192	2,643,746	2,917,635	5,561,381
Building maintenance and operation	3,562,155	407,889	3,970,044	3,268,568	667,617	3,936,185
Travel and meetings	1,504,293	1,666,124	3,170,417	1,582,124	1,830,098	3,412,222
Professional and contract services	3,270,777	1,409,211	4,679,988	3,043,525	1,614,813	4,658,338
Communications	371,936	92,931	464,867	418,455	118,154	536,609
Administrative and general	2,037,444	585,379	2,622,823	3,227,205	316,431	3,543,636
Interest	2,591,349	—	2,591,349	2,679,718	—	2,679,718
Subcontracts	—	8,073,893	8,073,893	—	8,829,721	8,829,721
Equipment	3,281,857	2,182,664	5,464,521	3,559,333	2,646,599	6,205,932
Fundraising expense	1,358,781	1,150	1,359,931	1,350,430	13,656	1,364,086
Total general expenses	20,771,927	16,600,098	37,372,025	21,773,104	18,954,724	40,727,828
Total direct costs	68,617,886	33,630,841	102,248,727	68,807,807	35,963,969	104,771,776
Indirect costs:						
Grants and contracts	(8,876,792)	8,876,792	—	(11,746,345)	11,746,345	—
Total costs	59,741,094	42,507,633	102,248,727	57,061,462	47,710,314	104,771,776
Capitalized scientific equipment and facilities	(3,342,776)	—	(3,342,776)	(4,996,886)	—	(4,996,886)
Total expenses	$ 56,398,318	42,507,633	98,905,951	52,064,576	47,710,314	99,774,890

See accompanying independent auditors' report.