Carnegie Endowment for International Peace

Consolidated Financial Statements
For the Years Ended June 30, 2018 and 2017

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member
of BDO International Limited, a UK company limited by guarantee.

Carnegie Endowment for International Peace

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For the Years Ended June 30, 2018 and 2017

Carnegie Endowment for International Peace

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Carnegie Endowment for International Peace and Subsidiaries (The Endowment), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and change in net assets, statement of functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Endowment as of June 30, 2018, the change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2017 financial statements of the Endowment were audited by other auditors, whose report dated October 4, 2017, expressed an unmodified opinion on those financial statements.

BDO USA, LLP

October 11, 2018

Consolidated Financial Statements

Carnegie Endowment for International Peace

Consolidated Statements of Financial Position

June 30,		**2018**		2017
Assets				
Current assets				
Cash and cash equivalents	**$**	**8,233,010**	$	7,439,016
Accounts receivable and prepaid expenses		**1,608,845**		904,028
Contributions receivable, net of allowance (Note 2)		**12,015,904**		9,825,209
Total current assets		**21,857,759**		18,168,253
Long-term assets				
Investments (Note 4)		**326,256,600**		305,966,932
Contributions receivable, net of allowance (Note 2)		**5,107,722**		5,377,908
Property and equipment, net (Note 5)		**24,391,606**		24,856,080
Total long-term assets		**355,755,928**		336,200,920
Total assets	**$**	**377,613,687**	$	354,369,173
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expense	**$**	**3,187,397**	$	2,967,999
Bond interest payable (Note 7)		**135,267**		150,873
Note payable (Note 6)		**-**		373,854
Total current liabilities		**3,322,664**		3,492,726
Long-term liabilities				
Note payable (Note 6)		**2,486,527**		2,486,527
Interest rate swap agreement (Note 8)		**7,543,377**		10,269,407
Bonds payable, net (Note 7)		**32,612,872**		32,589,587
Total long-term liabilities		**42,642,776**		45,345,521
Total liabilities		**45,965,440**		48,838,247
Commitments and contingencies (Note 9)				
Net assets				
Unrestricted		**14,017,235**		10,738,090
Temporarily restricted (Note 13)		**297,887,490**		275,150,461
Permanently restricted (Note 14)		**19,743,522**		19,642,375
Total net assets		**331,648,247**		305,530,926
Total liabilities and net assets	**$**	**377,613,687**	$	354,369,173

See accompanying notes to the financial statements.

Carnegie Endowment for International Peace

Consolidated Statements of Activities and Change in Net Assets

Year Ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support:				
Contributions	$ 2,883,101	$ 25,032,686	$ 182,075	$ 28,097,862
Investment income allocation	-	15,328,172	-	15,328,172
Rental income	1,780,972	-	-	1,780,972
Earned revenue – projects	657,326	-	-	657,326
Conference center rental income	165,944	-	-	165,944
Publications	24,231	-	-	24,231
Other	1,550	36,885	-	38,435
Net assets released from restrictions	31,459,124	(31,459,124)	-	-
Total operating revenues and other support	36,972,248	8,938,619	182,075	46,092,942
Operating expenses:				
Salaries	16,086,865	-	-	16,086,865
Payroll taxes and employee benefits	5,050,379	-	-	5,050,379
Consulting and professional fees	4,420,665	-	-	4,420,665
General and administrative	2,488,767	-	-	2,488,767
Travel	1,930,230	-	-	1,930,230
Interest expense	1,459,865	-	-	1,459,865
Property management	1,293,569	-	-	1,293,569
Depreciation and amortization	1,053,615	-	-	1,053,615
Meetings and seminars	793,642	-	-	793,642
Rent	678,058	-	-	678,058
Real estate taxes	586,961	-	-	586,961
Publication expense	577,523	-	-	577,523
Total operating expenses	36,420,139	-	-	36,420,139
Change in net assets from operations	552,109	8,938,619	182,075	9,672,803
Non-operating revenues and expenses:				
Investment income in excess of spending rate	1,006	13,798,410	(80,928)	13,718,488
Fair value gain on interest rate swap	2,726,030	-	-	2,726,030
Change in net assets	3,279,145	22,737,029	101,147	26,117,321
Net assets, beginning of year	10,738,090	275,150,461	19,642,375	305,530,926
Net assets, end of year	$ 14,017,235	$ 297,887,490	$ 19,743,522	$ 331,648,247

See accompanying notes to the financial statements.

Carnegie Endowment for International Peace

Consolidated Statements of Activities and Change in Net Assets

Year Ended June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support:				
Contributions	$ 3,778,713	$ 15,163,272	$ 4,459,519	$ 23,401,504
Investment income allocation	-	15,613,813	-	15,613,813
Rental income	1,518,876	-	-	1,518,876
Earned revenue – projects	627,556	-	-	627,556
Conference center rental income	187,190	-	-	187,190
Publications	21,283	-	-	21,283
Other	159,916	-	-	159,916
Net assets released from restriction	30,266,941	(30,266,941)	-	-
Total operating revenues and other support	36,560,475	510,144	4,459,519	41,530,138
Operating expenses:				
Salaries	15,283,727	-	-	15,283,727
Payroll taxes and employee benefits	4,891,664	-	-	4,891,664
Consulting and professional fees	3,123,137	-	-	3,123,137
General and administrative	2,252,172	-	-	2,252,172
Travel	1,915,483	-	-	1,915,483
Interest expense	1,523,003	-	-	1,523,003
Property management	1,261,816	-	-	1,261,816
Depreciation and amortization	1,046,393	-	-	1,046,393
Meetings and seminars	1,115,645	-	-	1,115,645
Rent	641,700	-	-	641,700
Real estate taxes	593,936	-	-	593,936
Publication expense	827,582	-	-	827,582
Total operating expenses and other support	34,476,258	-	-	34,476,258
Change in net assets from operations	2,084,217	510,144	4,459,519	7,053,880
Non-operating revenues and expenses:				
Investment income in excess of spending rate	-	20,205,855	-	20,205,855
Fair value gain on interest rate swap	4,432,556	-	-	4,432,556
Change in net assets	6,516,773	20,715,999	4,459,519	31,692,291
Net assets, beginning of year	4,221,317	254,434,462	15,182,856	273,838,635
Net assets, end of year	$ 10,738,090	$ 275,150,461	$ 19,642,375	$ 305,530,926

See accompanying notes to the financial statements.

Carnegie Endowment for International Peace

Consolidated Statements of Functional Expenses

Year Ended June 30, 2018

	Program	Management and General	Fundraising	Total
Salaries	**$ 12,422,434**	**$ 2,494,174**	**$ 1,170,257**	**$ 16,086,865**
Payroll taxes and employee benefits	**3,777,758**	**954,443**	**318,178**	**5,050,379**
Consulting and professional fees	**3,641,904**	**650,298**	**128,463**	**4,420,665**
General and administrative	**980,729**	**1,471,518**	**36,520**	**2,488,767**
Travel	**1,740,891**	**174,603**	**14,736**	**1,930,230**
Interest expense	**1,127,321**	**226,344**	**106,200**	**1,459,865**
Property management	**998,907**	**200,560**	**94,102**	**1,293,569**
Depreciation and amortization	**846,817**	**128,837**	**77,961**	**1,053,615**
Meetings and seminars	**637,162**	**73,663**	**82,817**	**793,642**
Rent	**678,058**	**-**	**-**	**678,058**
Real Estate Taxes	**453,257**	**91,005**	**42,699**	**586,961**
Publication expenses	**568,921**	**1,180**	**7,422**	**577,523**
	$ 27,874,159	**$ 6,466,625**	**$ 2,079,355**	**$ 36,420,139**

Year Ended June 30, 2017

	Program	Management and General	Fundraising	Total
Salaries	$ 11,661,225	$ 2,468,231	$ 1,154,271	$ 15,283,727
Payroll taxes and employee benefits	3,595,923	994,063	301,678	4,891,664
Consulting and professional fees	2,518,709	463,518	140,910	3,123,137
General and administrative	916,469	1,297,112	38,591	2,252,172
Travel	1,650,238	228,954	36,291	1,915,483
Interest expense	1,162,025	245,956	115,022	1,523,003
Property management	962,744	203,776	95,296	1,261,816
Depreciation and amortization	839,614	126,453	80,326	1,046,393
Meetings and seminars	955,987	142,371	17,287	1,115,645
Rent	641,700	-	-	641,700
Real estate taxes	453,163	95,917	44,856	593,936
Publication expenses	824,972	967	1,643	827,582
	$ 26,182,769	$ 6,267,318	$ 2,026,171	$ 34,476,258

See accompanying notes to the financial statements.

Carnegie Endowment for International Peace

Consolidated Statements of Cash Flows

June 30,		2018		2017
Cash flows from operating activities:				
Change in net assets	**$**	**26,117,321**	$	31,692,291
Adjustments to reconcile change in net assets used in operating activities:				
Realized and unrealized gain on investments		**(29,384,696)**		(35,817,897)
Change in discount applied to contributions receivables		**406,556**		110,745
Change in allowance applied to contributions receivables		**(50,000)**		-
Amortization of bond issuance costs		**23,285**		23,285
Fair value gain on interest rate swap		**(2,726,030)**		(4,432,556)
Loss on disposal of property and equipment		**-**		27,302
Contributions restricted for endowment		**(182,075)**		(1,401,267)
Depreciation		**1,030,330**		1,023,108
Donated securities		**(115,885)**		(795,944)
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable and prepaid expenses		**(704,817)**		707,251
Contributions receivable		**(2,277,065)**		(5,808,959)
Increase (decrease) in:				
Accounts payable and accrued expenses		**219,398**		155,018
Bond interest payable		**(15,606)**		39,157
Net cash used in operating activities		**(7,659,284)**		(14,478,466)
Cash flows from investing activities:				
Proceeds from sales of investments		**66,439,022**		60,767,219
Purchase of investments		**(57,343,994)**		(43,417,469)
Purchase of property and equipment		**(565,856)**		(940,855)
Net cash provided by investing activities		**8,529,172**		16,408,895
Cash flows from financing activities:				
Proceeds from donated securities		**115,885**		795,944
Contributions restricted for endowment		**182,075**		1,401,267
Payments on note payable		**(373,854)**		(353,011)
Net cash (used in) provided by financing activities		**(75,894)**		1,844,200
Net change in cash and cash equivalents		**793,994**		3,774,629
Cash and cash equivalents, beginning of year		**7,439,016**		3,664,387
Cash and cash equivalents, end of year	**$**	**8,233,010**	$	7,439,016
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$**	**1,451,183**	$	1,511,080

See accompanying notes to the financial statements.

1. The Organization and Summary of Significant Accounting Policies

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, India 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.

In 2006, Carnegie launched a revolutionary plan to build the first global think tank. Since then it has transformed a hundred-year-old American institution into one well-equipped for the challenges of a globalized world. Today, Carnegie has research centers in Beijing, Beirut, Brussels, Moscow, New Delhi, and Washington. The network is supervised by an international board of trustees, and its research activities are overseen by a global management group.

The scholars of each center are drawn from the region and write in the local languages, while collaborating closely with colleagues across the world. The result provides capitals and global institutions with a deeper understanding of the circumstances shaping policy choices worldwide as well as a flow of new approaches to policy problems.

During 2018, the Endowment established the Carnegie Europe Foundation. This private foundation provides a locally registered platform to work in coordination with Carnegie Europe. Carnegie's research center in New Delhi was established in 2013 as a separate Indian nonprofit organization with the objective of conducting public policy research on national, regional, and global issues in India.

Consolidation Policy

The consolidated financial statements include the accounts of Carnegie Endowment for International Peace, Carnegie Europe Foundation and Carnegie India (collectively referred to as the Endowment). All significant intercompany transactions and accounts are eliminated in consolidation.

Basis of accounting

The accompanying consolidated financial statements of the Endowment are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation

The Endowment follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") ASC 950-205, "Not-for-Profit Entities". As required by the Not-for Profit Entities Topic of the Codification, the Endowment is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents

Cash and cash equivalents include all short-term, highly-liquid instruments purchased with an original maturity of three months or less.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management of the Endowment to make estimates and assumptions related to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

Concentrations of credit risk

The Endowment maintains its cash balances in bank deposit accounts, which, at times, may exceed Federal Deposit Insurance Corporation limits up to $250,000. The Endowment has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash. Amounts on deposit in excess of federally insured limited at June 30, 2018 approximate $5,665,635.

The Endowment's investment portfolio includes fixed income securities, exchange traded funds 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 consolidated financial statements.

Credit risk from consolidated 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 consist mainly of amounts due from corporations and other not-for-profit organizations. Historically, the Endowment has not experienced significant losses related to accounts and contributions receivable and, therefore, believes that the credit risk related to these receivables is minimal.

The consolidated financial statements and transactions of the Endowment’s foreign operations are maintained in both the relevant local currencies and U.S. dollars. Where local currencies are used, assets and liabilities are translated into U.S. dollars at current exchange rates in effect at the date on the consolidated statement of financial position in accordance with authoritative guidance issued by the FASB. Revenue is translated at the current exchange rates on the date of the commitment. Expenses are translated at the current exchange rates in effect at the time of payment. Gains and losses from foreign currency transactions are included in the change in net assets.

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 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 $50,000 and $0 as of June 30, 2018 and 2017, respectively.

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.

Investments

Investments are carried at fair value. To adjust the carrying value of the investments, 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.

The Endowment reports certain investments using the net asset value (NAV) per share as determined by external investment manager under the so called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. The Endowment uses the NAV as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments in exchange traded funds, fixed income securities and money market funds

Investments in exchange traded funds, fixed income securities and money market funds are stated at fair market value based on the last sale price. Securities transactions are recorded on a trade-date basis and are carried at fair value.

Investments in alternative funds

Investments in funds 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.

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 and change in net assets.

The interest rate swap agreements (see Notes 8) are also considered derivative instruments and are to be measured at fair value and recognized in the consolidated 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 consolidated statements of activities and change in net assets.

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 consolidated statements of financial position.

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 and is not depreciated.

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.

Bond issuance costs

Bond issuance costs are amortized over the life of the bonds. Unamortized bond issuance costs are recorded as a reduction of bonds payable, and amortization is reported with interest expense.

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
Unrestricted net assets are those net assets that are not subject to donor-imposed stipulation and available for support of the operations of the Endowment.

Temporarily restricted
Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Endowment is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and the restriction removed by actions of the Endowment pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Permanently restricted
Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Endowment is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Endowment. Generally, the donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. These are to be held in perpetuity and valued at the historic dollar value.

Revenue recognition

Contribution revenue

The Endowment recognizes revenue in accordance with FASB ASC 958-605 *Not-for-Profit Entities – Revenue Recognition.*

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as unrestricted contributions.

Contributions are reported at fair value, which is net of estimated uncollectible amounts. The Endowment uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions, including multi-year pledges and split interest agreements, to be received after one year, are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Conditional promises to give, including those received under multi-year grant agreements, are recognized as revenue when the conditions on which they depend have been substantially met.

Rental Income

Certain tenant leases contain rental abatement provisions and escalation clauses. Rental income is recognized on a straight-line basis over the lease term. As a result, rental income is recognized in excess of the cash payments received in the initial years of the lease, resulting in the recognition of a rental abatement asset in the accompanying consolidated statements of financial position. The rental abatement asset will be reduced as cash payments received exceed rental income recognized.

Earned Revenue

Earned revenue is typically generated from projects with U.S. government agencies. Federally funded expenditures have not yet met the Single Audit threshold. Earned revenue is recognized when the service to which it relates is performed.

Other revenues

Other revenues include conferences, publication, and others which are recognized when earned.

Donated securities

The Endowment received donated securities in the amounts of $115,885 and $795,944, respectively in the fiscal years ended June 30, 2018 and 2017. Donated securities are valued based on the average high and low prices on the date the securities were received.

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.

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. In accordance with FASB ASC 740 *Income Taxes*, the Endowment recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. With a few exceptions, The Endowment is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015. Management has evaluated the Endowment's tax positions and has concluded that the Endowment has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Valuation of long-lived assets

The Endowment reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the 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 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. No indicators of impairment were identified as of June 30, 2018 and 2017.

Fair value of financial instruments

The carrying amounts of cash, accounts receivable and prepaid expenses, and accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. Investments are generally reported at fair value.

Reclassification

Certain amounts presented in the 2017 financial statements have been reclassified to conform to the 2018 presentations, with no effects on the change in net assets, as previously reported.

Recent accounting pronouncements not yet adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* This update supersedes previously issued guidance on revenue recognition and will apply to virtually all industries. The core principle of this new guidance is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies the performance obligation. The new standard will be effective for public entities (including not-for-profit entity that is a conduit bond obligor) for annual reporting periods beginning after December 15, 2017. The Endowment is evaluating the effect that adoption of this new standard will have on the Endowment's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall* (Subtopic 825-10). This update requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income ("OCI") the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available for sale ("AFS") debt securities in combination with other deferred tax assets. The Update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The Update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The new standard will be effective for public entities (including not-for-profit entity that is a conduit bond obligor) for annual reporting periods beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument-specific credit risk and the fair value disclosure exemption provided to nonpublic entities. The Endowment is evaluating the effect that adoption of this new standard will have on the Endowment's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*). This update requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern. This guidance is effective for public entities (including not-for-profit entity that is a conduit bond obligor) for fiscal years beginning after December 15, 2018. Early adoption is permitted. In transition, a lessee and a lessor will recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to identifying and classifying leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The Endowment is evaluating the effect that adoption of this new standard will have on the Endowment's consolidated financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities.* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities and change in net assets, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Endowment's consolidated financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. The Endowment is currently evaluating the impact this ASU will have on the Endowment's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*, C*larifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after June 15, 2018. The ASU is effective for transaction in which entity severs as resource provider to annual periods beginning after December 15, 2018. The Endowment is currently evaluating the impact of this ASU on the Endowment's consolidated financial statements.

2. Contribution Receivable

At June 30, 2018 and 2017 contributions receivable are expected to be received as follows:

		2018		2017
Contributions receivable	**$**	**18,056,989**	$	15,679,924
Less discounts to present value		**(883,363)**		(476,807)
Less allowance for doubtful accounts		**(50,000)**		-
	$	**17,123,626**	$	15,203,117
Current portion	**$**	**12,015,904**	$	9,825,209
Long-term portion		**5,107,722**		5,377,908
	$	**17,123,626**	$	15,203,117

The Endowment received one conditional grant for $613,380 and recognized revenue of $400,000 for the year ended June 30, 2018. The remaining revenue will be recognized when the condition of the grant is met. Revenue is only recognized when the conditions have been met.

The Endowment applies the fair value guidance for discounting contributions receivable. Accordingly, contributions receivable are valued using rates on publicly traded debt for assets with similar maturities. The discount rate on contributions receivable was 4% at both June 30, 2018 and 2017.

3. Investment Income

Investment income for the years ended June 30, 2018 and 2017, consists of the following:

		2018		2017
Realized and unrealized gain	**$**	**29,384,696**	$	35,817,897
Interest and dividends		**1,051,384**		2,105,866
		30,436,080		37,923,763
Investment income allocation (Note 14)		**(15,328,172)**		(15,613,813)
Investment fees		**(974,930)**		(2,068,381)
Foreign currency exchange loss		**(414,490)**		(35,714)
Net investment income	**$**	**13,718,488**	$	20,205,855

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Endowment reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the use of observable inputs when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- **Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Endowment has the ability to access.

- **Level 2** - Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
  - If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- **Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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, 2018:

		Fair Value Hierarchy Level			
	Total	Level 1	Level 2	Level 3	NAV **
Investments:					
Fixed income securities:					
U.S. Government and agency obligations (AAA Rated)	$ 9,352,168	$ 9,352,168	$ -	$ -	$ -
India Government and agency obligations (AAA Rated)	1,694,343	1,694,343	-	$ -	$ -
Total fixed income securities	11,046,511	11,046,511	-	-	-
Domestic Equities	1,783,997	1,783,997	-	-	-
Fund of fund:					
Hedge fund multi-strategy	182,358,828	-	-	-	182,358,828
Private equity multi-strategy	108,688,696	-	-	-	108,688,696
Total fund of fund	291,047,524	-	-	-	291,047,524
Fixed income funds	8,088,504	-	-	-	8,088,504
Money market funds	11,559,305	11,559,305	-	-	-
Other*	552,624	552,624	-	-	-
Real estate funds	1,802,526	-	-	-	1,802,526
Event driven funds	535,024	-	-	-	535,024
Total investments	$ 326,416,015	$ 24,942,437	$ -	$ -	$ 301,473,578
Liabilities:					
Futures variation margin*	$ 159,415	$ 159,415	$ -	$ -	$ -
Interest rate swap agreement	7,543,377	-	7,543,377	-	-
Total fair value liabilities	$ 7,702,792	$ 159,415	$ 7,543,377	$ -	$ -

* Netted with investments on the consolidated statement of financial position

**Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statement of financial position.

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, 2017:

		Fair Value Hierarchy Level			
	Total	Level 1	Level 2	Level 3	NAV **
Investments:					
Fixed income securities:					
U.S. Government and agency obligations (AAA Rated)	$ 8,907,675	$ 8,907,675	$ -	$ -	$ -
India Government and agency obligations (AAA Rated)	743,670	743,670	-	-	-
Total fixed income securities	9,651,345	9,651,345	-	-	-
Domestic Equities	1,587,729	1,587,729	-	-	-
Fund of fund:					
Hedge fund multi-strategy	173,754,841	-	-	-	173,754,841
Private equity multi-strategy	98,869,572	-	-	-	98,869,572
Total fund of fund	272,624,413	-	-	-	272,624,413
Fixed income funds	8,073,080	-	-	-	8,073,080
Money market funds	11,532,708	11,532,708	-	-	-
Real estate funds	1,437,264	-	-	-	1,437,264
Event driven funds	1,338,277	-			1,338,277
Total investments	$ 306,244,816	$ 22,771,782	$ -	-	$ 283,473,034
Liabilities:					
Futures variation margin*	$ 8,909	$ 8,909	$ -	$ -	$ -
Other*	268,975	268,975	-	-	-
Interest rate swap agreement	10,269,407	-	10,269,407	-	-
Total fair value liabilities	$ 10,547,291	$ 277,884	$ 10,269,407	$ -	$ -

* Netted with investments on the consolidated statement of financial position

* *Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statement of financial position.

In accordance with the guidance for fair value measurements, the Endowment maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, the Endowment estimates prices based on available historical and near-term future price information that reflects its market assumptions.

For contracts with unique characteristics, the Endowment estimates fair value using a discounted cash flow approach deemed appropriate in the circumstances and applied consistently from period to period.

Changes in fair value levels

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. The Endowment's management evaluates the significance of transfers between levels based upon the nature of the investment. For the year ended June 30, 2018, there were no material transfers in or out of Level 3.

The major categories of the Foundation's investments that are valued at net asset value, including general information related to each category, are as follows at June 30, 2018:

	2018			
Investments	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Event driven funds (a)	$ 535,024	$ -	None	N/A
Private equity multi-strategy (b)	108,688,696	71,171,796	Annually - unavailable	180 days - N/A
Hedge fund multi-strategy (c)	182,358,828	-	Monthly - Quarterly	90 days - 120 days
Fixed income funds (d)	8,088,504	-	Three-year lock-up with 1/3 installments on the 3rd, 4th and 5th anniversary	90 days
Real estate fund (e)	1,802,526	652,854	None	N/A
	$ 301,473,578	$ 71,824,650		

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, 2017, 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 95% of the value of the investments in this category have no redemptions as of June 30, 2018. Investments representing 5% of the value of the investments have annual redemptions with 180 days' notice as of June 30, 2018.

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 36% of the value of the investments in this category have monthly redemptions with 100 days' notice as of June 30, 2018. Investments representing 17% of the value of the investments in this category have quarterly redemptions with 120 days' notice as of June 30, 2018. The remaining investments in this category, approximately 48%, have quarterly redemptions with 90 days' notice as of June 30, 2018.

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 1/3 installments redeemable in any 12-month period.

e) The purpose of the funds is to acquire equity interests, manage, and ultimately dispose of investments in multifamily rental properties. The assets consist primarily of consolidated interests in entities owning income properties that meet specified criteria. The valuation estimates 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.

Fair Value on a Nonrecurring Basis

The Endowment's financial instruments that are not measured at fair value on a recurring basis as of June 30, 2018 and 2017 consisted of note payable, bond payable and contribution receivables. The fair values of note payable and bond payable in 2018 and 2017 approximate the carrying value because the variable rates on the bond and note payable reflect current market rates for similar ones. Contribution receivables is recorded at net present value which approximate the fair values. Management has classified these accounts as Level 2.

5. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Building	**$ 26,302,981**	$ 25,934,047
Furniture and equipment	**5,328,415**	5,300,096
Land	**6,374,592**	6,374,592
Total property and equipment	**38,005,988**	37,608,735
Less: accumulated depreciation	**(13,614,382)**	(12,752,655)
Property and equipment, net	**$ 24,391,606**	$ 24,856,080

Depreciation expenses on property and equipment totaled $1,030,330 and $1,023,108 for the years ended June 30, 2018 and 2017, respectively.

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 lnterBank Offered Rate (LIBOR) plus 0.63% and paying a fixed rate of 5.49% (see Note 8).

As of June 30, 2018 and 2017, the outstanding balance of the note payable was $2,486,527 and $2,860,381, respectively. The agreement expires on December 1, 2018. Management expects to extend the promissory note for an additional five-year term prior to the current expiration date. The Endowment is in compliance with debt covenants.

Interest expense relating to the promissory note totaled $147,634 and $169,273 for the years ended June 30, 2018 and 2017, respectively. The note contains a number of financial and non-financial covenants.

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 and loaned to 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 $23,285 for the years ended June 30, 2018 and 2017, and accumulated amortization at June 30, 2018 and 2017, totaled $683,130 and $659,845, respectively. Bonds payable are presented net of unamortized issuance costs of $637,128 and $660,413 on the consolidated statements of financial position as of June 30, 2018 and 2017, 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 which is available to withdraw. There is no outstanding balance as June 30, 2018 and 2017.

Future minimum principal payments on the bonds at June 30, 2018, are as follows:

2019	$	-
2020		-
2021		-
2022		-
2023		-
Thereafter		33,250,000
		33,250,000
Less: Unamortized debt issuance costs		(637,128)
Total	$	32,612,872

Interest expense related to the variable rate demand bonds totaled $526,607 and $403,602 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, was 3.75%. The Endowment was in compliance with the financial and non-financial covenants related to the bonds.

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.

During the year ended June 30, 2018, the Endowment paid out $1,247,207 on the swap and received $461,583 from Morgan Stanley on the swap, with the net of $785,624 included in the 2006 bond interest expense. During the year ended June 30, 2017, the Endowment paid out $1,247,208 on the swap and received $297,080 from Morgan Stanley on the swap, with the net of $950,128 included in the 2006 bond interest expense. At June 30, 2018 and 2017, a liability of $7,509,928 and $10,133,879, respectively, was recognized as the fair value of the interest rate swap agreement held with Morgan Stanley. At June 30, 2018 and 2017, a liability of $33,449 and $135,528, respectively, was recognized for the Bank of America swap.

9. Lease Commitments

The Endowment has a lease expiring on July 31, 2019, for office space for its operations in Moscow. The terms of the lease are 29,000 rubles (or $462) per square meter per year, with the Endowment renting 438 square meters.

The Endowment has a lease expiring on December 31, 2018, for office space for its operations in Beirut. The terms of the lease are $238 per square meter per year, with the Endowment renting 687 square meters.

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 $77,092) per year, adjusted annually for cost of living index, with the Endowment renting 574 square meters.

The Endowment has a lease expiring on October 15, 2018, for office space for its operations in India. The terms of the lease are 9,600,000 rupees (or $140,040) per year, with the Endowment renting 2,500 square feet. The Endowment has entered into a new lease starting on August 6, 2018. The term of the new lease are 6,000,000 rupees (or $87,525) per year.

Rent expense under these operating leases for the years ended June 30, 2018 and 2017, totaled $678,058 and $641,700, respectively.

Future minimum lease payments relating to these non-cancelable leases at June 30, 2018 are as follows:

2019	$	437,643
2020		104,383
2021		7,294
	$	549,320

10. Leasing Arrangements as Lessor

The Endowment receives rental income from leasing approximately 36,000 square feet of space to 11 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 7,473 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 through December 31, 2024. Rental income under these leases was 1,780,972 and $1,518,876 for the years ended June 30, 2018 and 2017, respectively.

Future minimum rental payments to be received at June 30, 2018, are as follows:

2019	$	866,878
2020		713,801
2021		603,636
2022		539,530
2023		428,075
Thereafter		308,401
	$	3,460,321

11. Retirement Plan

The Endowment has a defined contribution pension plan (the Plan) for all qualified employees. The Endowment contributes 15% of each covered employee's salary, up to statutory limits, to the Plan. 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 $1,444,075 and $1,427,545 for the years ended June 30, 2018 and 2017, respectively.

12. Related Party Transactions

During the years ended June 30, 2018 and 2017, trustees of the Endowment gave contributions of $3,032,368 and $5,122,660, respectively, to support the Endowment's operations.

13. Temporarily 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, 2018 and 2017. Net assets were released from restriction by satisfying the program and time restrictions.

	2018			
	Beginning Balance	Additions, Net of Investment Return	Released From Restrictions	Ending Balance
Original Endowment Funds	$ 234,927,741	$ 26,787,181	$ (15,064,288)	$ 246,650,634
Global Vision	13,317,802	1,188,120	(724,001)	13,781,921
Junior Fellow Chair	6,838,949	660,339	(362,417)	7,136,871
Russia Eurasia Program	4,089,081	2,314,192	(2,127,235)	4,276,038
Middle East Program	3,664,314	7,156,513	(2,733,391)	8,087,436
Nuclear Policy Program	1,145,311	1,550,365	(1,297,409)	1,398,267
Democracy Rule of Law Program	1,968,056	904,988	(1,297,399)	1,575,645
Cyber Policy Initiative	713,849	722,944	(837,085)	599,708
Asia Program	2,396,666	7,552,057	(2,155,295)	7,793,428
Energy & Climate Program	328,599	151,000	(398,756)	80,843
South Asia Program	2,375,042	1,705,718	(1,269,690)	2,811,070
Technology & International Affairs Program	-	400,000	(93,176)	306,824
Visiting Distinguished Statesman John Kerry Program	1,374,113	1,528,678	(1,264,418)	1,638,373
Geoeconomics & Strategy Program	558,533	150,174	(411,325)	297,382
Europe Program	707,351	1,045,208	(805,272)	947,287
US program	672,770	275,960	(567,967)	380,763
Time restrictions	72,284	102,716	(50,000)	125,000
	$ 275,150,461	$ 54,196,153	$ (31,459,124)	$ 297,887,490

	2017			
	Beginning Balance	Additions, Net of Investment Return	Released From Restrictions	Ending Balance
Original Endowment Funds	$ 217,627,899	$ 32,801,721	$ (15,501,879)	$ 234,927,741
Global Vision	13,246,005	1,672,279	(1,600,482)	13,317,802
Junior Fellow Chair	6,015,411	873,538	(50,000)	6,838,949
Russia Eurasia Program	4,861,099	1,651,800	(2,423,818)	4,089,081
Middle East Program	2,498,722	2,988,152	(1,822,560)	3,664,314
Nuclear Policy Program	2,341,429	911,741	(2,107,859)	1,145,311
Democracy Rule of Law Program	2,432,788	899,269	(1,364,001)	1,968,056
Cyber Policy Initiative	114,521	870,001	(270,673)	713,849
Asia Program	1,650,528	2,433,872	(1,687,734)	2,396,666
Energy & Climate Program	305,536	408,461	(385,398)	328,599
South Asia Program	2,205,239	1,963,226	(1,793,423)	2,375,042
Technology & International Affairs Program	-	100,000	(100,000)	-
Visiting Distinguished Statesman John Kerry Program	-	1,604,920	(230,807)	1,374,113
Geoeconomics & Strategy Program	-	650,000	(91,467)	558,533
Europe Program	258,965	811,915	(363,529)	707,351
US program	831,007	290,074	(448,311)	672,770
Time restrictions	45,313	51,971	(25,000)	72,284
	$ 254,434,462	$ 50,982,940	$ (30,266,941)	$ 275,150,461

14. Endowments

The Endowment is subject to the enacted New York version of the Uniform Prudent Management of Institutional Funds Act (NYUPMIFA). The Codification defines an endowment as an established fund of cash, securities, or other assets to provide income for the maintenance of a nonprofit organization. Management has interpreted the NYUPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, The Endowment classifies as permanently restricted net assets (a) the original value of permanently restricted contributions and (b) the discounted value of future permanently restricted contributions, net of allowance for uncollectible pledges.

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 until appropriated for use

The endowment consists of numbers of funds established for a variety of purposes and includes investments pooled for endowment as well as certain contributions receivable which are permanently restricted to endowment. Its endowment includes both donor- restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees has interpreted NYUPMIFA 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 NYUPMIFA. In accordance with NYUPMIFA, the Foundation considers the following factors 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

Return Objectives and Risk Parameters

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.

Strategies Employed for Achieving Objectives

To achieve its long-term investment objective, the Endowment 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). The Endowment targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objective within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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, was the first of a board approved capital campaign to strengthen and grow the operations in D.C. 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.

For the years ended June 30, 2018 and 2017, the additional investment allocation was $1,320,051 and $1,376,795, respectively.

Endowment funds consist of the following as of June 30, 2018:

	Temporarily Restricted	Permanently Restricted	Total
Original Endowment	**$ 246,650,634**	**$ 10,000,000**	**$ 256,650,634**
Tata Education & Development Trust	**28,179**	**3,938,620**	**3,966,799**
James C. Gaither Junior Fellow Fund	**367,568**	**2,595,223**	**2,962,791**
Endowed Chair	**203,323**	**1,230,839**	**1,434,162**
El-Erian Endowment for Carnegie Middle East Center	**417,444**	**1,000,000**	**1,417,444**
The David and Lucile Packard Foundation	**144,785**	**500,000**	**644,785**
Charles Kaye	**58,215**	**302,459**	**360,674**
George and Pamela M. Siguler	**25,915**	**165,490**	**191,405**
Michael Abramowitz and Susan Baer	**1,594**	**10,891**	**12,485**
Donor-restricted endowment funds	**$ 247,897,657**	**$ 19,743,522**	**$ 267,641,179**

Endowment funds consisted of the following as of June 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Original Endowment	$ 234,927,741	$ 10,000,000	$ 244,927,741
Tata Education & Development Trust	14,460	4,019,548	4,034,008
James C. Gaither Junior Fellow Fund	286,200	2,468,582	2,754,782
Endowed Chair	155,344	1,230,839	1,386,183
El-Erian Endowment for Carnegie Middle East Center	353,912	1,000,000	1,353,912
The David and Lucile Packard Foundation	95,183	500,000	595,183
Charles Kaye	34,504	250,000	284,504
George and Pamela M. Siguler	17,579	162,515	180,094
Michael Abramowitz and Susan Baer	634	10,891	11,525
Donor-restricted endowment funds	$ 235,885,557	$ 19,642,375	$ 255,527,932

Changes in endowment composition by net asset classification are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 218,003,251	$ 15,182,856	$ 233,186,107
Investment return:			
Realized and unrealized gain on investments	33,496,119	-	33,496,119
Contributions	-	4,459,519	4,459,519
Amounts appropriated for expenditure (Note 3)	(15,613,813)	-	(15,613,813)
Endowment net assets, June 30, 2017	235,885,557	19,642,375	255,527,932
Investment return:			
Realized and unrealized gain on investments	**27,340,272**	**(80,928)**	**27,259,344**
Contributions	**-**	**182,075**	**182,075**
Amounts appropriated for expenditure (Note 3)	**(15,328,172)**	**-**	**(15,328,172)**
Endowment net assets, June 30, 2018	**$ 247,897,657**	**$ 19,743,522**	**$ 267,641,179**

Income earned on investments in the permanently restricted net assets class is reported in the accompanying consolidated statement of activities and change in net assets as increases in temporarily restricted or permanently restricted net assets, depending on the nature of donor-imposed restrictions on such earnings. For all endowment funds with negative unrestricted net assets, all earnings are reflected as unrestricted net assets, until the net assets are replenished. At such time, such earnings from these funds will thereafter be reflected as temporarily restricted net assets

15. Subsequent Events

Subsequent events have been evaluated by management through October 11, 2018, the date the consolidated financial statements were available to be issued. There were no events noted that required adjustment or to disclosure in these consolidated financial statements.