KPMG

CARNEGIE INSTITUTION FOR SCIENCE

Financial Statements

June 30, 2023 and 2022

(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:

Opinion

We have audited the financial statements of Carnegie Institution of Washington (d/b/a Carnegie Institution for Science) (Carnegie), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Carnegie as of June 30, 2023 and 2022, and the results of its changes in net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Carnegie and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Carnegie's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Carnegie's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Carnegie's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the accompanying 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Washington, District of Columbia
March 25, 2024

CARNEGIE INSTITUTION FOR SCIENCE

Statements of Financial Position

June 30, 2023 and 2022

(In thousands)

Assets		2023	2022
Cash and cash equivalents	$	48,081	27,917
Restricted cash (note 1)		—	1,395
Contributions receivable, net (note 2)		1,886	2,609
Accounts receivable and other assets, net		15,717	9,418
Bond proceeds (note 7)		53,573	52,862
Investments (notes 3 and 15)		1,016,511	1,043,923
Property and equipment, net (notes 4 and 5)		81,721	104,557
Assets held for sale, net (note 4)		21,086	—
Long term deferred asset (notes 6 and 13)		68,328	62,925
Total assets	$	1,306,903	1,305,606
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 13)	$	13,612	10,782
Deferred revenue (note 5)		46,812	26,886
Bonds payable (note 7)		148,928	148,885
Accrued postretirement benefits (note 8)		22,926	24,107
Total liabilities		232,278	210,660
Net assets (notes 9 and 10):			
Without donor restriction		339,803	361,723
With donor restriction		734,822	733,223
Total net assets		1,074,625	1,094,946
Commitments and contingencies (notes 3, 7, 8, 11, and 12)			
Total liabilities and net assets	$	1,306,903	1,305,606

See accompanying notes to financial statements.

CARNEGIE INSTITUTION FOR SCIENCE

Statements of Activities

Years ended June 30, 2023 and 2022

(In thousands)

	2023			2022		
	Without donor restriction	With donor restriction	Total	Without donor restriction	With donor restriction	Total
Revenue and support:						
External revenue:						
Grants and contracts	$ 21,989	1,873	23,862	17,199	1,857	19,056
Contributions and gifts (note 13)	1,070	38,292	39,362	803	3,224	4,027
Other income (note 4)	1,800	—	1,800	56,727	—	56,727
External revenue	24,859	40,165	65,024	74,729	5,081	79,810
Investment income, net (note 3)	3,445	16,334	19,779	(38,106)	(96,389)	(134,495)
Net assets released from restrictions (note 9)	54,900	(54,900)	—	48,895	(48,895)	—
Total revenue and support	83,204	1,599	84,803	85,518	(140,203)	(54,685)
Expenses (note 11):						
Program expenses:						
Biosphere Sciences and Engineering	35,248	—	35,248	28,801	—	28,801
Observatories	27,980	—	27,980	25,193	—	25,193
Earth and Planets Laboratory	21,654	—	21,654	21,185	—	21,185
Other programs	431	—	431	778	—	778
Total program expenses	85,313	—	85,313	75,957	—	75,957
Administrative and general expenses	21,292	—	21,292	18,845	—	18,845
Total expenses	106,605	—	106,605	94,802	—	94,802
Change in net assets before post retirement – related changes other than net periodic post retirement benefit cost	(23,401)	1,599	(21,802)	(9,284)	(140,203)	(149,487)
Postretirement changes other than service cost (note 8)	2,011	—	2,011	9,040	—	9,040
Other components of postretirement benefit expense (note 8)	(530)	—	(530)	(791)	—	(791)
Change in net assets	(21,920)	1,599	(20,321)	(1,035)	(140,203)	(141,238)
Net assets at beginning of year	361,723	733,223	1,094,946	362,758	873,426	1,236,184
Net assets at end of year	$ 339,803	734,822	1,074,625	361,723	733,223	1,094,946

See accompanying notes to financial statements.

CARNEGIE INSTITUTION FOR SCIENCE

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	(20,321)	(141,238)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		7,349	8,634
Recovery of allowance for uncollectible accounts		(35)	(35)
Net loss (gains) on investments and bond proceeds		(22,682)	128,816
Net loss (gains) on disposal of property		(202)	(55,296)
Contributions of stock		(263)	(795)
Amortization of bond issuance costs, premium, and discount		38	38
Contributions and investment income restricted for long-term investment in endowment		(37,146)	(198)
Post retirement change other than service cost		(2,011)	(9,040)
Changes in operating assets and liabilities:			
Contributions and accounts receivable		(5,465)	(615)
Long-term deferred asset		(5,478)	(494)
Accounts payable and accrued expenses		(10,307)	(535)
Deferred revenue		19,926	386
Accrued postretirement benefits		830	1,494
Net cash used in operating activities		(75,767)	(68,878)
Cash flows from investing activities:			
Acquisition of property and equipment		(2,556)	(2,157)
Construction of facilities and equipment		(3,027)	(2,417)
Proceeds from sales of property and equipment		187	62,326
Investments purchased		(136,059)	(141,989)
Proceeds from investments sold or matured		252,274	157,844
Purchases of investments from bond proceeds		(53,429)	(11,853)
Net cash provided by investing activities		57,390	61,754
Cash flows from financing activity:			
Proceeds from contributions and investment income restricted for: Investment in endowment		37,146	198
Net cash provided by financing activities		37,146	198
Net increase (decrease) in cash and cash equivalents		18,769	(6,926)
Cash, cash equivalents and restricted cash at beginning of year		29,312	36,238
Cash, cash equivalents and restricted cash at end of year	$	48,081	29,312
Supplementary cash flow information:			
Cash paid for interest	$	2,672	2,672

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Carnegie Institution of Washington, doing business as Carnegie Institution for Science, (Carnegie) conducts advanced research and training in the sciences. Carnegie carries out its scientific work in three research centers located throughout the United States and at an observatory in Chile. The centers are the Observatories, Earth & Planets Laboratory, and Biosphere Sciences & Engineering, formerly known as the Departments of Embryology, Plant Biology and Global Ecology.

(b) Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. general accepted accounting principles.

(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, certain natural resources funds, absolute return funds, and private equity funds, at estimated net asset values (NAV), as a practical expedient for fair value, provided by the general partners of limited partnerships or other external investment managers. These estimated fair 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. See also note 1(e) on other fair value information.

All investments are exposed to various risks, such as interest rate, market, currency, 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 investment returns are presented net with investment expenses. Investment expenses include investment management fees, custodian fees, and other direct internal operating expenses related to Carnegie's investment 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 its tax positions and concluded that as of June 30, 2023 and 2022, there are no uncertain tax positions taken that would require recognition or disclosure in the financial statements.

(e) Fair Value of Financial Instruments

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).

Carnegie uses interest rate swap agreements to mitigate the risk of changes in interest rates associated with fixed interest rate indebtedness and changes in the market. Carnegie recognizes these interest rate swap agreements at fair value.

The fair value hierarchical disclosure framework 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.

(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. Carnegie makes estimates in measurement and reporting including fair value of investments, useful lives of property and equipment, allowances for doubtful pledges, income tax uncertainties, and other contingencies.

(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.

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

Buildings and telescopes	50 Years
Software development	3 Years
Scientific and administrative equipment	2–10 Years

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value amount of an asset may not be recoverable. No impairments were recognized in 2023 or 2022.

(h) Contributions and Net Assets

Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows.

Conditional – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.

Unconditional – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a pledge is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

In instances where unconditional contributions 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. Amortization of the discount is recorded as additional contribution revenue. Allowance is made, if necessary, for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Contributions are classified in categories of net assets as follows:

Without donor restriction – Includes all contributions received without donor-imposed restrictions on use or time, including restricted contributions for which the restrictions were met in the same period the revenue is recognized.

With donor restriction – Includes contributions with donor-imposed restrictions as to purpose of gift and/or time-period expended.

Contributions with donor restriction include endowment gifts in which donors stipulated that the corpus be invested, and only the investment income generated from endowments may be spent. Certain endowments require that a portion of the investment income be reinvested with the original endowment.

Expirations of net assets with donor restriction (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as releases of restrictions in the statements of activities.

Gifts of long-lived assets, such as buildings or equipment, are considered unrestricted when placed in service unless restricted by the donor. Cash gifts restricted for investment in long-lived assets are released from restriction when the asset is placed into service.

(i) Grants

Carnegie recognizes revenue on grants from federal agencies as conditions are met (i.e., as qualifying expenses are incurred). Funds received in excess of reimbursable expenses are recorded as deferred revenue, and expenses in excess of funds received are recorded as accounts receivable. Funds generally are drawn monthly. Reimbursement of indirect costs may be based on provisional rates if final rates are not received. These provisional rates are subject to subsequent audit by Carnegie's federal cognizant agency, the Department of Energy.

(j) Retirement Benefits

Carnegie has a noncontributory, defined contribution, money-purchase retirement plan in which all U.S. personnel are eligible to participate. After one year of service, an individual's benefits are fully vested. The plan has been funded through individually owned annuities issued by Teachers' Insurance and Annuity Association and College Retirement Equities Fund.

Carnegie also provides postretirement medical benefits to all eligible employees (retirees as of that date were grandfathered) who were age 50 or older and employed as of July 1, 2016, retire after age 55 and have at least 10 years of service. Employees under age 40 on July 1, 2016 and who meet the Rule of 75 (age plus years of service equal to at least 75) on or after age 55 may qualify for retiree health. Employees hired on or after July 1, 2016, must meet the Rule of 75 on or after age 60. The service cost component of net periodic benefit cost for pension and other postretirement benefits is presented as employee benefit expense. The other components of net periodic benefit cost, such as interest, unrecognized losses, and amortization of other actuarially determined amounts, are presented outside of expenses as other non-operating activities.

(k) Revenue Recognition – Contracts with Customers and Accounts Receivable

Other revenues are recognized as the services are provided over the fiscal year, and are primarily related to fees for telescope usage, including revenues to support operations of the telescopes and royalty revenue. See note 5.

Payments for telescope usage have been received in advance and are reported as deferred revenue. Such deferred revenue will be amortized over a period of 50 years, with an expected 28.44 years remaining as of June 30, 2023. Other customer receivables are invoiced based upon contractual terms with revenue being recognized as services are performed. Carnegie maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence.

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(l) Reclassification

Carnegie has reclassified certain amounts relating to its prior period results to conform to its current period presentation. These reclassifications have not changed the results of operations of prior periods.

(2) Contributions Receivable

(a) Unconditional

Contributions receivable are summarized as follows as of June 30, 2023 and 2022 (in thousands):

		2023	2022
Unconditional promises expected to be collected in:			
Less than one year	$	810	1,736
One to five years		1,328	977
More than five years		—	150
		2,138	2,863
Less:			
Allowance for uncollectible amounts		(83)	(117)
Discount to present value		(169)	(137)
	$	1,886	2,609

Contributions receivable as of June 30, 2023 and 2022 were discounted based on the estimated risk-adjusted rate of return on the pledge date at rates ranging from 3.59% to 3.92%.

(b) Conditional

As of June 30, 2023, conditional contributions of $25.5 million are available to Carnegie, which are not recorded as revenue nor as a receivable. Revenue related to these contributions will be recognized once the relevant barriers of each contribution are met.

(3) Investments

Investment income, net consisted of the following for the years ended June 30, 2023 and 2022 (in thousands):

		2023	2022
Interest and dividends	$	3,943	4,481
Net realized gains		60,811	81,282
Net unrealized gains (losses)		(40,244)	(215,814)
Investment management expenses		(4,731)	(4,444)
	$	19,779	(134,495)

The following table represents investments that are measured at fair value on a recurring basis as of June 30, 2023 (in thousands):

	June 30, 2023	Level 1	Level 2	Level 3	NAV (1)
Time deposits and money market funds	$ 9,186	9,186	—	—	—
U.S. government bond funds	131,647	131,647	—	—	—
Common stock – domestic	80,547	80,547	—	—	—
Domestic equity commingled funds	144,981	103,288	—	—	41,693
International equity commingled funds	192,043	—	—	—	192,043
Real estate funds	101,161	—	—	—	101,161
Natural resources funds	71,021	—	—	49,276	21,745
Absolute return funds	98,734	—	—	—	98,734
Private equity funds	187,191	—	—	—	187,191
	$ 1,016,511	324,668	—	49,276	642,567

The following table represents investments that are measured at fair value on a recurring basis as of June 30, 2022 (in thousands):

	June 30, 2022	Level 1	Level 2	Level 3	NAV (1)
Time deposits and money market funds	$ 13,687	13,687	—	—	—
U.S. government bond funds	137,080	137,080	—	—	—
Common stock – domestic	41,941	41,941	—	—	—
Domestic equity commingled funds	151,354	74,625	—	—	76,729
International equity commingled funds	176,559	—	—	—	176,559
Real estate funds	113,614	—	—	—	113,614
Natural resources funds	99,512	—	—	70,805	28,707
Absolute return funds	145,175	—	—	—	145,175
Private equity funds	165,001	1	—	—	165,000
	$ 1,043,923	267,334	—	70,805	705,784

(1) Certain investments are measured at fair value using NAV as a practical expedient for fair value and have not been classified in the fair value hierarchy. The NAV amounts have been presented to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following table summarizes the nature and risk of Carnegie's investments in funds, which are valued based on NAV as a practical expedient for fair value as of June 30, 2023 and 2022 (in thousands):

		Fair value		2023	
		2023	**2022**	**Unfunded commitments**	**Redemption frequency**
Domestic equity commingled funds (a)	$	41,693	76,729	6,427	Illiquid
International equity commingled funds (b)		192,043	176,559	—	Monthly
Real estate funds (c)		101,161	113,614	33,231	Illiquid
Natural resources funds (d)		21,745	28,707	7,049	Illiquid
Absolute return funds (e)		98,734	145,175	—	Annually
Private equity funds (f)		187,191	165,000	69,796	Illiquid
	$	642,567	705,784	116,503	

(a) This class comprises two funds, one of which invests in common stocks of biotechnology companies and other invests the majority of its portfolio in publicly traded common stocks. These funds seek to produce returns that mirror or exceed various benchmarks established for comparable portfolios. The notice period is 90 days or less and redemptions can me made once every two years at the end of the calendar year for the first fund and the second fund is subject to a five-year lockup from the initial investment date.

(b) This class comprises five international partnerships that invest in public equity markets internationally and one institutional mutual fund that resembles an emerging markets index. 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. The notice period is 30 days or less.

(c) This class includes several real estate funds that invest primarily in U.S. commercial real estate. One fund targets commercial, residential, and industrial real estate in the United Kingdom. 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.

(d) This class includes funds that invest primarily in oil and gas assets. The investment strategy is to acquire, operate, develop, and improve oil and gas assets. 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.

(e) This class comprises several separate funds, and include partnerships that invest in publicly traded equities, fixed income securities, distressed fixed income securities, value investments, credit investments, event-driven situations, real estate, distressed credit investments, and event-driven situations. In general, these funds seek to produce positive absolute returns that do not necessarily correlate with the public markets. 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 five 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 couple of years.

(f) This class comprises several separate managers and private equity funds that invest primarily in leveraged buyouts, venture capital, emerging growth companies, and various niche strategies. Private equity investment transactions may involve acquisitions, leveraged buyouts, reorganizations, privatizations, restructurings, and spin-offs. Investments under this category cannot be redeemed. Distributions are made as investments are exited. It is estimated that the underlying assets of these various funds will be liquidated over the next one to twelve years.

Level 3 Investments

Carnegie's activity for its natural resources funds measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2023 and 2022 included purchases of approximately $0 and $1,324,000, respectively. There were no transfers in or out of Level 3 during the years then ended.

Level 3 investments are valued by investment managers using common valuation techniques. Carnegie reviews these valuation methods and evaluates the appropriateness of these valuations each year. Natural resource funds are primarily oil and gas funds. The fair value of these funds, as provided by investment managers to approximate fair value, have been estimated using proven reserves and relies on pricing visible in the NYMEX five-year strip for oil and natural gas and then for subsequent years utilizes a flat price assumption.

Input	2023 Range	2022 Range
Visible forward prices for oil/natural gas (NYMEX) thru FY 2028	$59.78/$2.98 to $70.65/$3.94	$68.12/$4.20 to $101.07/5.66
Flat price assumption for subsequent years	$60.03/$3.70	$68.49/4.19
Discount rate	10 %	10 %

Carnegie has unfunded commitments related to these Level 3 investments of approximately $6.31 million and $9.7 million as of June 30, 2023 and June 30, 2022, respectively.

(4) Property and Equipment

Property and equipment consisted of the following as of June 30, 2023 and 2022 (in thousands):

		2023	2022
Buildings and improvements	$	56,891	88,546
Telescopes		93,970	93,970
Scientific equipment		77,480	78,617
Administrative equipment		6,186	6,171
Construction in progress		4,169	3,023
Software development		1,455	—
Land		579	579
Leased equipment		103	103
Art		174	174
		241,007	271,183
Accumulated depreciation		(159,286)	(166,626)
	$	81,721	104,557

As of June 30, 2023, construction in progress consists of $3.41 million of scientific equipment, and $0.76 million other equipment and improvements. As of June 30, 2022, construction in progress consists of $1.67 million of scientific equipment, and $1.35 million other equipment and improvements.

As of June 30, 2023 and 2022, approximately $50.2 million and $49.5 million, respectively, of property and equipment, net of accumulated depreciation, was located in Las Campanas, Chile.

Effective May 14, 2021, Carnegie identified and classified certain assets associated with its headquarters building in Washington D.C. as held for sale and stopped depreciating those assets with the effective date. On October 1, 2021, Carnegie sold its headquarters building for $65.0 million and recognized proceeds of $55 million which are reported as other income on the statement of activities.

Effective September 13, 2022, Carnegie identified and classified certain assets associated with its Maxine Singer building in Baltimore, Maryland as held for sale and stopped depreciating those assets with the effective date.

(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 aggregated net book value of the two telescopes was $41.91 million as of June 30, 2023.

The university members of the consortium, by contribution to the construction and operating costs of Magellan, acquired 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, 2023 and 2022, the deferred revenue for the consortium totaled $19.3 million and $20 million, respectively.

(6) Long Term Deferred Asset

Carnegie is a founder and initial contributor to the Giant Magellan Telescope (GMT) project, which is managed by the Giant Magellan Telescope Organization Corporation (GMTO) that includes institutions from the United States, 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 GMT 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 long term deferred 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 years 2023 and 2022 were $5.6 million and $0.6 million, respectively. The long term deferred asset value was $67.8 million and $62.2 million at June 30, 2023 and 2022, respectively.

(7) Debt

(a) Bonds Payable

Bonds payable consisted of the following as of June 30, 2023 and 2022 (in thousands):

		2023	2022
2014 Taxable bonds	$	50,000	50,000
2020 Taxable bonds		100,000	100,000
Bond issue cost		(1,072)	(1,115)
	$	148,928	148,885

On May 15, 2014, Carnegie issued unsecured 2014 Series fixed rate taxable bond with a par value of $50.0 million, maturing in 2054. Proceeds were used to finance a portion of the GMT project (note 6), and other capital projects and operations in support of Carnegie's scientific mission. The bond bears interest at a fixed rate of 4.241% with sinking fund redemptions of $10,000,000 on each July 1, 2050 through 2054. 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. There are no financial covenants or stand-by credit facilities associated with the bonds.

On June 9, 2020, Carnegie issued unsecured 2020 Series fixed rate taxable bonds with a par value of $100.0 million, maturing in 2049. $65.1 million of proceeds were used in July 2020 to redeem the CEFA 2010 revenue bonds and MHHEFA 2010 revenue bonds in full and any associated swaps terminated in concert with this transaction. Proceeds were also used to fund certain capital needs and to pay the cost of issuing the bonds. The bonds bear interest at a fixed rate of 3.224% with sinking fund redemptions due on each July 1, 2042 through 2049. The Series 2020 bonds are subject to redemption prior to maturity in whole or in part, on any date, at the option of issuer. There are no financial covenants or stand-by credit facilities associated with the bonds. All prior bond redemptions occurred by July 8, 2020. The proceeds from the Series 2020 bonds are invested in cash equivalents and are considered level 1 in the fair value hierarchy as of June 30, 2023 and 2022.

Interest expense paid aggregated $2.7 million for the years ended June 30, 2023 and 2022.

(8) Employee Benefit Plans

(a) Retirement Plan

Contributions made by Carnegie, described in note 1(j), totaled approximately $5.5 million and $5.0 million for the years ended June 30, 2023 and 2022, respectively.

(b) Postretirement Benefits Plan

Cash payments made by Carnegie for the postretirement medical benefits, as detailed in note 1(j), totaled $0.6 million and $0.7 million for the years ended June 30, 2023 and 2022 respectively.

Postretirement benefits expense for the years ended June 30, 2023 and 2022 consists of the following (in thousands):

		2023	2022
Service cost – benefits earned during the year	$	923	1,437
Interest cost on projected benefit obligation		1,056	809
Amortization of prior service costs		(5)	(18)
Unrecognized losses		(522)	—
Postretirement benefit expense	$	1,452	2,228

The 2023 postretirement benefits expense was approximately $0.8 million more than the cash payments of $0.6 million and 2022 postretirement benefits expense was approximately $1.5 million more than the cash payments of $0.7 million. The postretirement benefit 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, 2023 and 2022 follows (in thousands):

		2023	2022
Change in benefit obligation:			
Benefit obligation at beginning of year	$	24,107	31,650
Service cost		923	1,437
Interest cost		1,056	809
Actuarial (gain) loss		(2,538)	(9,056)
Contributions (net of retiree contributions)		(622)	(733)
Benefit obligation at end of year		22,926	24,107
Change in plan assets:			
Fair value of plan assets at beginning of year			—
Contributions to the plan		634	763
Benefits paid		(634)	(763)
Funded status of the plan	$	22,926	24,107

Pension related changes other than net periodic postretirement benefit cost consisted of the following as of June 30, 2023 and 2022 (in thousands):

		2023	2022
Unrecognized net actuarial gain (loss)	$	2,538	9,058
Unrecognized prior service costs		(5)	(18)
Amortization of net gain/loss		(522)	—
	$	2,011	9,040

The unrecognized net loss and prior service costs that have not been recognized as a component of net periodic postretirement benefit cost as of June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Unrecognized net actuarial (loss) gain	$	12,389	10,385
Unrecognized prior service costs		—	(5)
	$	12,389	10,380

The present value of the benefit obligation as of June 30, 2023 and 2022 was determined using an assumed discount rate of 4.91% and 4.47%, respectively. The present value of the net periodic postretirement benefit cost for the years ended June 30, 2023 and 2022 was determined using an assumed discount rate of 4.47% and 2.77%, respectively. Carnegie's policy is to fund postretirement benefits as claims and administrative fees are paid.

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

Carnegie expects to contribute approximately $0.9 million to its postretirement benefit plan during the year ending June 30, 2024.

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

2024	$	944
2025		994
2026		1,024
2027		1,070
2028–2032		7,770

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.

(9) Net Assets

(a) Without Donor Restrictions

Net assets without donor restrictions consisted of the following as of June 30, 2023 and 2022 (in thousands):

		2023	2022
Board-designated quasi-endowments	$	145,402	149,073
Undesignated		194,401	212,650
	$	339,803	361,723

(b) With Donor Restrictions

Net assets with donor restrictions were available to support the following donor-restricted purposes as of June 30, 2023 and 2022 (in thousands):

		2023	2022
Endowment assets available for future appropriation	$	606,267	638,113
Specific research programs		88,096	54,492
Equipment acquisition and construction		3,330	3,508
Operation of Maxine Singer building		15,000	15,000
General support (Carnegie endowment)		22,129	22,110
	$	734,822	733,223

Endowment assets available for future appropriation are those net assets that will be released from restriction based upon board approved appropriation each year. These are comprised of all endowment funds (See Note 10). The other line items include non-endowment restrictions as well as the endowment original gift of $94 million and $58 million as of June 30, 2023 and 2022, respectively, which cannot be spent.

(c) Net Assets Released from Restrictions

During 2023 and 2022, Carnegie met donor-imposed requirements on certain gifts and, therefore, released net assets with donor restriction as follows (in thousands):

		2023	2022
Appropriation of endowment assets	$	48,562	44,596
Specific research programs		6,161	4,240
Equipment acquisition and construction		177	59
	$	54,900	48,895

(10) 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

(Continued)

interpretation, Carnegie classifies as net assets with donor restriction the original value of gifts donated to the permanent endowment and subsequent gifts to the endowment. The remaining portion of the endowment fund 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 making a determination to appropriate or accumulate donor-restricted endowment fund: the duration, preservation, and purposes of the fund; general economic conditions, including inflation; expected total return from investments; other resources; and investment and spending policies.

(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 a real rate of return of approximately 5% 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, real estate, 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 comprises 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%, 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 to keep pace with inflation annually.

(e) Appropriation of Endowment Assets for Next Fiscal Year

For fiscal year 2024, Carnegie has appropriated $57.6 million 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 material deficiencies existed as of June 30, 2023 or 2022.

(Continued)

(g) *Endowment Net Asset Classification*

Net asset classification by type of endowment as of June 30, 2023 and 2022 is as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
June 30, 2023:				
Donor-restricted endowment funds	$	—	701,060	701,060
Board-designated endowment funds		145,402	—	145,402
	$	145,402	701,060	846,462
June 30, 2022:				
Donor-restricted endowment funds	$	—	696,336	696,336
Board-designated endowment funds		149,073	—	149,073
	$	149,073	696,336	845,409

Original gifts for donor-restricted endowment funds (in millions) are $95.4 and $58.2 as of June 30, 2023 and 2022, respectively.

Changes in endowment net assets for the years ended June 30, 2023 and 2022 were as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2021	$	175,409	837,093	1,012,502
Investment return:				
Investment income		34	(39)	(5)
Net gains		(20,198)	(96,358)	(116,556)
Total investment return		(20,164)	(96,397)	(116,561)
Contributions		—	237	237
Fund reclassifications		—	—	—
Appropriation of assets for expenditures		(6,172)	(44,597)	(50,769)
Endowment net assets, June 30, 2022		149,073	696,336	845,409

		Without donor restrictions	With donor restrictions	Total
Investment return:				
Investment income	$	(207)	(963)	(1,170)
Net gains		3,038	17,112	20,150
Total investment return		2,831	16,149	18,980
Contributions		—	37,137	37,137
Fund reclassifications		—	—	—
Appropriation of assets for expenditures		(6,502)	(48,562)	(55,064)
Endowment net assets, June 30, 2023	$	145,402	701,060	846,462

(11) Expenses and Allocation of Costs

Most expenses are directly charged to the respective program or supporting activity. Certain costs have been allocated among the programs based upon management's estimate of each program's share of the allocated costs. General operations cost as presented in the table below include professional and contract services, building maintenance and operation and indirect costs. Science expenses below represent educational and research supplies, subcontracts, and non-capitalized equipment.

The composition of expenses for the year ended June 30, 2023 are as follows:

Program activities		Personnel costs and fellowships	General operations costs	Depreciation and interest	Science expenses	Travel and meetings	Total expenses
Biosphere sciences and engineering	$	21,545	4,789	3,721	4,470	723	35,248
Observatories		15,759	4,237	5,190	1,898	896	27,980
Earth and planets laboratory		14,578	1,860	2,147	2,408	661	21,654
Other programs		306	91	—	2	32	431
Total program		52,188	10,977	11,058	8,778	2,312	85,313
Support activities							
Admin and general		8,952	8,833	1,635	239	1,633	21,292
Total supporting		8,952	8,833	1,635	239	1,633	21,292
Total expenses	$	61,140	19,810	12,693	9,017	3,945	106,605

The composition of expenses for the year ended June 30, 2022 are as follows:

Program activities		Personnel costs and fellowships	General operations costs	Depreciation and interest	Science expenses	Travel and meetings	Total expenses
Biosphere sciences and engineering	$	16,810	4,027	3,612	4,094	258	28,801
Observatories		15,402	2,336	5,887	1,169	399	25,193
Earth and planets laboratory		14,581	1,632	2,624	2,032	316	21,185
Other programs		355	383	—	35	5	778
Total program		47,148	8,378	12,123	7,330	978	75,957
Support activities							
Admin and general		8,662	7,671	1,856	104	552	18,845
Total supporting		8,662	7,671	1,856	104	552	18,845
Total expenses	$	55,810	16,049	13,979	7,434	1,530	94,802

(12) Liquidity

As of June 30, 2023 and 2022, Carnegie has $291.5 million and $290.0 million in financial assets, respectively, to meet cash needs within one year for general expenditures or day-to-day cash needs for the organization. The liquidity is primarily from investments, but also includes cash and accounts receivable. These assets are reduced by amounts not available for general use within one year due to restrictions on their use including donor and board restrictions. These assets available are as follows:

		2023	2022
Cash	$	48,081	27,917
Investments		1,016,511	1,043,923
Accounts receivable		15,717	9,418
Total financial assets		1,080,309	1,081,258
Restrictions on use of assets:			
Endowment funds restricted for future purposes		(701,060)	(696,336)
Board restricted endowment funds		(145,402)	(149,073)
Total restrictions		(846,462)	(845,409)
FY24/23 board approved endowment allocation		57,642	54,177
Financial assets available to meet cash needs for general expenditures within one year	$	291,489	290,026

(Continued)

As part of Carnegie's liquidity management, it structures financial assets to be available as its general expenditures, liabilities, or other obligations come due. Carnegie's investment and liquidity allocation is reviewed frequently and approved by the investment committee. Although Carnegie does not intend to spend from the board restricted endowment funds, amounts from these funds could be released from restriction with board approval.

(13) Lease Arrangements

Accounting for Leases as Lessee

During fiscal year 2022, Carnegie signed a 4.45 year lease agreement for office space in downtown Washington, DC office, which expires on April 30, 2026. As a result of the lease agreement, Carnegie recorded a right-of-use asset and liability of $0.6 million and $0.9 million, respectively, as of June 30, 2023, which are included in long term deferred asset and accounts payable and accrued expenses on the statement of financial position. Carnegie elected to discount the office lease liability using a risk-free rate of 2.5%. Total rent expense was approximately $0.4 million for the year ended June 30, 2023, and it is included in administrative and general expenses on the statement of statement of activities.

Accounting for Leases as a Lessor

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 $200,000 annually, adjusted for inflationary increases.

(14) 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.

(15) Related Party Transactions

A trustee of Carnegie is also the chairman of an investment entity with which Carnegie has invested $49.3 million and $70.8 million in eight of its investment funds, as of June 30, 2023 and 2022, respectively. Carnegie paid approximately $1.5 million and $1.2 million in management and incentive fees and interest to these funds for the years ended June 30, 2023 and 2022, respectively.

(16) Subsequent Events

Carnegie has evaluated subsequent events through the date the financial statements were issued, March 25, 2024 and determined no adjustments or disclosures were required, except for the sale of a building outlined below.

On November 13, 2023, Carnegie sold its Maxine Singer building located in Baltimore Maryland for $35.0 million.

CARNEGIE INSTITUTION FOR SCIENCE

Schedules of Expenses

Years ended June 30, 2023 and 2022

(Dollars in 000's)

	2023			2022		
	Carnegie funds	Federal and private grants	Total expenses	Carnegie funds	Federal and private grants	Total expenses
Personnel costs:						
Salaries	$ 40,775	7,357	48,132	36,298	5,872	42,170
Fringe benefits and payroll taxes	11,343	1,665	13,008	12,307	1,339	13,646
Total personnel costs	52,118	9,022	61,140	48,605	7,211	55,816
Fellowship grants and awards	—	—	—	—	—	—
Depreciation	7,349	—	7,349	8,634	—	8,634
General expenses:						
Educational and research supplies	3,779	996	4,775	3,260	909	4,169
Building maintenance and operation	4,173	—	4,173	3,479	3	3,482
Travel and meetings	3,374	571	3,945	1,303	227	1,530
Professional and contract services	9,601	923	10,524	7,827	360	8,187
Communications	551	122	673	613	7	620
Administrative and general	4,364	83	4,447	3,628	127	3,755
Interest	5,345	—	5,345	5,344	—	5,344
Subcontracts	1,401	—	1,401	—	1,045	1,045
Equipment	6,875	1,095	7,970	6,039	948	6,987
Fund-raising expense	—	—	—	—	—	—
Total general expenses	39,463	3,790	43,253	31,493	3,626	35,119
Total direct costs	98,930	12,812	111,742	88,732	10,837	99,569
Indirect costs:						
Grants and contracts	(3,859)	3,859	—	(4,090)	4,090	—
Total costs	95,071	16,671	111,742	84,642	14,927	99,569
Capitalized scientific equipment and facilities	(5,097)	(40)	(5,137)	(4,767)	—	(4,767)
Total expenses	$ 89,974	16,631	106,605	79,875	14,927	94,802