CARNEGIE INSTITUTION OF WASHINGTON

Financial Statements and Schedule

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Audit Committee
Carnegie Institution of Washington:

We have audited the accompanying statements of financial position of the Carnegie Institution of Washington (Carnegie) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Carnegie's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Carnegie Institution of Washington as of June 30, 2007 and 2006, and its changes in net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 8 to the financial statements, Carnegie adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* as of June 30, 2007.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedules of expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 20, 2007

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Financial Position

June 30, 2007 and 2006

Assets		2007	2006
Cash and cash equivalents	$	1,896,601	677,851
Accrued investment income		265,104	236,931
Contributions receivable, net (note 2)		4,928,969	6,262,208
Accounts receivable and other assets		12,685,334	13,821,588
Bond proceeds held by trustee (note 6)		122,106	292,688
Investments (notes 3 and 13)		838,384,075	729,555,134
Property and equipment, net (notes 4, 5, and 6)		164,296,421	163,103,621
Total assets	$	1,022,578,610	913,950,021
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 7)	$	10,308,534	5,513,044
Deferred revenue (note 5)		34,987,592	37,305,764
Bonds payable (note 6)		65,248,695	65,194,134
Accrued postretirement benefits (note 8)		14,327,973	17,958,000
Total liabilities		124,872,794	125,970,942
Net assets (note 9):			
Unrestricted:			
Invested in property and equipment, net		64,182,240	66,712,191
Held for managed investment		705,600,951	603,409,368
Undesignated		45,175,534	32,507,942
Total unrestricted net assets		814,958,725	702,629,501
Temporarily restricted		27,990,125	30,765,782
Permanently restricted		54,756,966	54,583,796
Total net assets		897,705,816	787,979,079
Commitments and contingencies (notes 8, 10, 11, and 12)			
Total liabilities and net assets	$	1,022,578,610	913,950,021

See accompanying notes to financial statements.

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Activities

Years ended June 30, 2007 and 2006

	2007				2006			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues and support:								
External revenue:								
Grants and contracts	$ 31,280,089	—	—	31,280,089	30,590,596	—	—	30,590,596
Contributions and gifts (note 13)	1,967,795	2,200,622	128,209	4,296,626	906,375	5,964,402	1,513,670	8,384,447
Net losses on disposals of property	(22,822)	—	—	(22,822)	(9,290)	—	—	(9,290)
Other income (note 7)	7,075,827	—	—	7,075,827	5,615,663	—	—	5,615,663
Net external revenue	40,300,889	2,200,622	128,209	42,629,720	37,103,344	5,964,402	1,513,670	44,581,416
Investment income, net (note 3)	135,374,238	5,523,675	44,961	140,942,874	117,798,640	5,664,924	39,430	123,502,994
Net assets released from restrictions (note 9)	10,499,954	(10,499,954)	—	—	6,007,638	(6,007,638)	—	—
Matching of endowment (note 9)	—	—	—	—	(2,578,635)	(10,942,603)	13,521,238	—
Total revenues and other support	186,175,081	(2,775,657)	173,170	183,572,594	158,330,987	(5,320,915)	15,074,338	168,084,410
Expenses:								
Program expenses:								
Terrestrial magnetism	11,083,178	—	—	11,083,178	10,667,105	—	—	10,667,105
Observatories	17,816,485	—	—	17,816,485	21,191,344	—	—	21,191,344
Geophysical laboratory	13,096,369	—	—	13,096,369	13,101,603	—	—	13,101,603
Embryology	8,635,996	—	—	8,635,996	10,374,852	—	—	10,374,852
Plant biology	9,928,992	—	—	9,928,992	10,617,264	—	—	10,617,264
Global ecology	3,936,862	—	—	3,936,862	3,801,733	—	—	3,801,733
Other programs	609,667	—	—	609,667	603,602	—	—	603,602
Total program expenses	65,107,549	—	—	65,107,549	70,357,503	—	—	70,357,503
Administrative and general expenses	7,967,307	—	—	7,967,307	8,845,515	—	—	8,845,515
Total expenses	73,074,856	—	—	73,074,856	79,203,018	—	—	79,203,018
Change in net assets before adoption of FASB Statement No. 158	113,100,225	(2,775,657)	173,170	110,497,738	79,127,969	(5,320,915)	15,074,338	88,881,392
Effect of adoption of recognition provisions of FASB Statement No. 158 (note 8)	(771,001)	—	—	(771,001)	—	—	—	—
Change in net assets	112,329,224	(2,775,657)	173,170	109,726,737	79,127,969	(5,320,915)	15,074,338	88,881,392
Net assets at beginning of year	702,629,501	30,765,782	54,583,796	787,979,079	623,501,532	36,086,697	39,509,458	699,097,687
Net assets at end of year	$ 814,958,725	27,990,125	54,756,966	897,705,816	702,629,501	30,765,782	54,583,796	787,979,079

See accompanying notes to financial statements.

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Cash Flows

Years ended June 30, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Change in net assets	$	109,726,737	88,881,392
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Depreciation		8,451,572	7,581,749
Net gains on investments		(127,182,818)	(112,570,866)
Contributions of stock		(726,048)	(1,498,816)
Losses on disposals of property		22,822	9,290
Amortization of bond issuance costs and discount		54,561	46,076
Contributions and investment income restricted for long-term investment		(604,255)	(2,734,850)
(Increase) decrease in assets:			
Receivables		2,469,493	(3,950,578)
Accrued investment income		(28,173)	(40,419)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		4,795,490	(1,865,108)
Deferred revenue		(2,318,172)	2,391,016
Accrued postretirement benefits		(3,630,027)	2,333,000
Net cash used in operating activities		(8,968,818)	(21,418,114)
Cash flows from investing activities:			
Acquisition of property and equipment		(5,592,208)	(3,092,859)
Construction of telescope, facilities, and equipment		(4,074,986)	(8,387,529)
Proceeds from sales of property and equipment		—	3,930
Investments purchased		(197,202,783)	(178,788,118)
Proceeds from investments sold or matured		216,282,708	204,374,261
Proceeds from sales of investments by bond trustee		170,582	4,627,554
Net cash provided by investing activities		9,583,313	18,737,239
Cash flows from financing activities:			
Retirement of 1993 Series A Bonds		—	(17,500,000)
Proceeds from bond issuance		—	18,300,000
Bond issuance costs capitalized		—	(362,257)
Proceeds from contributions and investment income restricted for:			
Investment in endowment		58,980	40,000
Investment in property and equipment		545,275	2,694,850
Net cash provided by financing activities		604,255	3,172,593
Net increase (decrease) in cash and cash equivalents		1,218,750	491,718
Cash and cash equivalents at beginning of year		677,851	186,133
Cash and cash equivalents at end of year	$	1,896,601	677,851
Supplementary cash flow information:			
Cash paid for interest	$	2,259,504	2,240,950
Noncash activity – contributions of stock		726,048	1,498,816

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

Income from investments represents approximately 78% and 73% of Carnegie's total revenues for the years ended June 30, 2007 and 2006, respectively. Carnegie's other income is primarily from gifts and federal grants and contracts.

(b) Basis of Accounting and Presentation

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

(c) Investments and Cash Equivalents

Carnegie's debt and equity investments are reported at fair value based on quoted market prices, or with respect to alternative investments, at estimated values provided by the general partners of limited partnerships or other external investment managers. These estimated values are reviewed and evaluated by Carnegie. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed.

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

Carnegie considers all highly liquid debt instruments purchased with remaining 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.

(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.

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(e) Fair Value of Financial Instruments

Financial instruments of Carnegie include cash equivalents, receivables, investments, bond proceeds held by trustee, accounts and broker payables, and bonds payable. The fair value of investments in debt and equity securities is based on quoted market prices. The fair value of investments in limited partnerships is based on information provided by the general partners as discussed in note 1(c) above.

The fair value of the 1993 Series B, 2002 revenue and 2006 Series A refunding revenue bonds payable is estimated to be the carrying value, since these bonds bear adjustable market interest rates (see note 6).

Interest rate swap agreements are entered into by Carnegie to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Carnegie applies the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard requires certain derivative financial instruments to be recorded at fair value.

The fair values of cash equivalents, receivables, bond proceeds held by trustee, and accounts and broker payables approximate their carrying values based on their short maturities.

(f) Use of Estimates

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

(g) Property and Equipment

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

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

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

(h) Contributions

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

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

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

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

Contributions include unconditional promises to give. In instances where such promises are to be received after one year or more from the date of the gift, they are recorded at a discounted amount at an appropriate risk-free rate commensurate with the expected collection period. Amortization of the discount is recorded as additional contribution revenue. Satisfaction of donor-imposed restrictions are reported as releases of restrictions in the statements of activities.

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

(i) Grants

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

(j) Allocation of Costs

The costs of providing programs and supporting services have been summarized in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Fundraising expenses of $986,921 and $797,890 for the years ended June 30, 2007 and 2006, respectively, have been included in administrative and general expenses in the accompanying statements of activities.

(k) Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, established a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The statement does not require any new fair value measures. The statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. Carnegie is required to adopt SFAS No. 157 beginning on July 1, 2008. Carnegie is evaluating the impact of adopting SFAS No. 157 on its activities and financial position.

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(2) Contributions Receivable

Contributions receivable are summarized as follows at June 30, 2007:

Unconditional promises expected to be collected in:		
Less than one year	$	1,491,994
One year to five years		3,978,074
		5,470,068
Less:		
Allowance for uncollectible amounts		(9,000)
Discount to present value		(532,099)
	$	4,928,969

Pledges receivable as of June 30, 2007 and 2006 were discounted based on the estimated risk-free rate of return on the pledge date at rates ranging from 2% to 6%. The allowance for uncollectible amounts and discount to present value were $25,004 and $644,262, respectively, as of June 30, 2006.

(3) Investments

Investments at fair value consisted of the following at June 30, 2007 and 2006:

		2007	2006
Time deposits and money market funds	$	55,747,235	43,584,622
Debt securities		60,903,866	69,802,874
Equity securities		258,914,200	181,100,396
Limited real estate partnerships		60,021,824	49,533,103
Limited partnerships		402,796,950	385,534,139
	$	838,384,075	729,555,134

Investment income, net consisted of the following for the years ended June 30, 2007 and 2006:

		2007	2006
Interest and dividends	$	14,815,286	11,907,701
Net realized gains		44,807,683	28,839,585
Net unrealized gains		82,375,135	83,731,281
Less investment management expenses		(1,055,230)	(975,573)
	$	140,942,874	123,502,994

As of June 30, 2007 and 2006, the fair value for approximately $600.7 million and $606.3 million of Carnegie's investments has been estimated by the general partners or fund managers in the absence of readily ascertainable values as of that date.

(4) Property and Equipment

Property and equipment placed in service consisted of the following at June 30, 2007 and 2006:

	2007	2006
Buildings and improvements	$ 87,068,913	85,156,340
Scientific equipment	39,728,988	31,600,760
Telescopes	92,839,386	92,439,734
Construction in progress	4,191,108	5,590,511
Administrative equipment	2,942,167	2,649,493
Land	817,117	817,117
Art	70,805	38,105
	227,658,484	218,292,060
Less accumulated depreciation	(63,362,063)	(55,188,439)
	$ 164,296,421	163,103,621

Construction in progress consisted of the following at June 30, 2007 and 2006:

	2007	2006
Buildings	$ —	169,562
Scientific equipment	4,191,109	5,420,949
	$ 4,191,109	5,590,511

At June 30, 2007 and 2006, approximately $77.9 million and $80.3 million, respectively, of property and equipment, net of accumulated depreciation, was located in Las Campanas, Chile. During construction in 2007 and 2006, Carnegie capitalized interest costs of approximately $0 and $33,000, respectively, as construction in progress.

(5) Magellan Consortium

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

The university members of the consortium, by contribution to the construction and operating costs of Magellan, acquire rights of access and oversight as described in the Magellan Agreement. Total contributions by the university members for construction, which amounted to $36.0 million, covered approximately 50% of the total construction costs. These monies were used by Carnegie to finance part of the Magellan Telescopes' construction costs. The contributions were recorded as deferred revenue and are being recognized ratably as income over the remaining estimated useful lives of the telescopes. As of June 30, 2007 and 2006, the deferred revenue totaled $30.3 million and $31.5 million, respectively.

(6) Bonds Payable

(a) 1993 California Educational Facilities Authority Revenue Bonds

On November 1, 1993, Carnegie issued $17.5 million of 1993 Series B California Educational Facilities Authority Revenue tax-exempt bonds. Bond proceeds were used to finance the Magellan telescope project and the renovation of the facilities of the Observatories at Pasadena. The balances outstanding at June 30, 2007 and 2006, on the 1993 Series B issue totaled $17.5 million and $17.5 million, respectively.

Series B bonds bear interest at variable money market rates (ranging from 3.5% to 3.64% during the year) in effect from time to time, up to a maximum of 12% over the applicable money market rate period of between 1 and 270 days and have a stated maturity of October 1, 2023. At the end of each money market rate period, 1993 Series B bondholders are required to offer the bonds for repurchase at the applicable money market rate. When repurchased, the Series B bonds are resold at the current applicable money market rate and for a new rate period.

Carnegie is not required to repay the 1993 Series B bonds until the October 1, 2023, maturity date. Sinking fund redemptions begin in 2019 in installments for 1993 Series B as follows:

Due October 1:		
2019	$	3,100,000
2020		3,400,000
2021		3,600,000
2022		3,600,000
2023		3,800,000

The fair value of 1993 Series B bonds payable at June 30, 2007 and 2006 is estimated to approximate carrying value as the mandatory tender dates on which the bonds are repriced are generally within three months of year end.

Standby credit facilities have been established with SunTrust Bank in the aggregate amount of $17,500,000 for the period ending March 31, 2008. Carnegie pays 0.15% per annum on the amount of the available commitment, payable quarterly in arrears. SunTrust Bank has the option to extend the agreement, but Carnegie is not required to maintain a liquidity facility for any bonds. The standby credit facility has not been used as of June 30, 2007.

(b) 2002 Maryland Health and Higher Education Facilities Authority Revenue Bond

On October 23, 2002, the Maryland Health and Higher Education Facilities Authority (MHHEFA) issued $30 million of its Revenue Bonds on behalf of Carnegie. Bond proceeds were used to construct and equip a new facility for Carnegie’s Department of Embryology on the Johns Hopkins Homewood Campus in Baltimore, Maryland. Construction began in April 2003, and the facility was occupied in September 2005.

The balance outstanding at June 30, 2007 and 2006 on the Carnegie 2002 Series totaled $29.8 million and $29.8 million, respectively. The balance outstanding is net of unamortized bond issue costs.

The bonds were issued in the weekly mode and bear interest at a variable rate determined by the remarketing agent, Lehman Brothers. The rates fluctuated between 3.31% and 4% during the year ended June 30, 2007 (see note 7). The rate at June 30, 2007 was 3.70%. Rates on remarketed bonds are selected in such a manner that the selling price will closely approximate the face value, but under no circumstances will the rate exceed 12% per annum. Interest is payable on the first business day of each month. Bonds in the weekly mode are subject to redemption at the request of Carnegie on any interest payment date. Bonds in weekly mode can be changed to daily, commercial paper, term rate or fixed rate mode at the request of Carnegie. Bonds are subject to mandatory tender for purchase prior to any change in the interest rate mode.

Scheduled maturities and sinking fund requirements are as follows:

Due October 1:		
2033	$	6,000,000
2034		6,000,000
2035		6,000,000
2036		6,000,000
2037		6,000,000
	$	30,000,000

Standby credit facilities have been established with SunTrust Bank in the aggregate amount of $30,000,000 as of June 30, 2003, for a period of 364 days. Carnegie pays 0.15% per annum on the amount of the available commitment, payable quarterly in arrears. SunTrust Bank has extended the agreement through March 31, 2008, but Carnegie is not required to maintain a liquidity facility for any bonds. The standby credit facility has not been used as of June 30, 2007.

(c) 2006 California Educational Facilities Authority Refunding Revenue Bonds

On February 9, 2006 Carnegie issued 2006 Series A California Educational Facilities Authority Refunding Revenue tax-exempt bonds totaling $18,300,000. Bond proceeds were used to refund all outstanding 1993 Series A California Educational Facilities Authority Revenue tax-exempt bonds that were used to finance the Magellan telescope project and the renovation of the facilities of the Observatories at Pasadena and to pay certain costs incurred in connection with the issuance of the bonds.

The balance outstanding, net of unamortized bond issue costs and bond discount, at June 30, 2007 and 2006 is $18.1 million and $18.0 million, respectively. Bond proceeds held by the trustee and unexpended at June 30, 2007 and 2006 totaled $122,106 and $121,904, respectively.

The bonds were issued in the weekly mode and bear interest at a variable rate determined by the remarketing agent, Lehman Brothers. The rates fluctuated between 3.20% and 3.92% during the year ended June 30, 2007 (see note 7). The rate at June 30, 2007 was 3.63%. Rates on remarketed bonds are selected in such a manner that the selling price will closely approximate the face value, but under no circumstances will the rate exceed 12.00% per annum. Interest is payable on the first business day of each month and upon change in interest rate mode. Bonds in the weekly mode are subject to redemption at the request of Carnegie on any interest payment date. Bonds in weekly mode can be changed to daily, commercial paper, term rate, or fixed rate mode at the request of Carnegie. Bonds are subject to mandatory tender for purchase prior to any change in the interest rate mode.

Carnegie is not required to repay the 2006 Series A bonds until the October 1, 2040 maturity date. Standby credit facilities have been established with SunTrust Bank in the aggregate amount of $18,300,000 for the period ending March 31, 2008. Carnegie pays 0.15% per annum on the amount of the available commitment, payable quarterly in arrears. SunTrust Bank has the option to extend the agreement, but Carnegie is not required to maintain a liquidity facility for any bonds. The standby credit facility has not been used as of June 30, 2007.

(7) Interest Rate and Commodity Swap Agreements

(a) 2002 Maryland Health and Higher Education Facilities Authority Revenue Bonds

Carnegie entered into a swap agreement with an effective date of October 23, 2002. This swap agreement relates to $15 million face amount of its Series 2002 Maryland Health and Higher Education Facilities Authority Revenue Bonds (see note 6). The agreement provides for Lehman Brothers Special Financing Inc. to receive 3.717% in interest on a notional amount of $15 million and to pay interest at a floating rate of 68% of the three-month LIBOR rate, reducing on the dates and in the amounts as follows:

October 1:		
2033	$	3,000,000
2034		3,000,000
2035		3,000,000
2036		3,000,000

The interest rate swap agreement described above is a derivative instrument that is required to be recorded at fair value. The estimated fair value at year end was an asset of $437,046 and $418,647 in 2007 and 2006, respectively. These amounts are included in accounts receivable on the accompanying statements of financial position. The change in fair value for the years ended June 30, 2007 and 2006 was a gain of $18,399 and $1,875,423, respectively, and is reported as other income.

(b) 2006 Series A California Educational Facilities Authority Refunding Revenue Bonds

Carnegie entered into a swap agreement with an effective date of February 15, 2006. This swap agreement relates to $18.3 million face amount of its 2006 Series A California Educational Facilities Authority Refunding Revenue tax-exempt bonds (see note 6). The agreement provides for Lehman Brothers Special Financing Inc. to receive 3.603% in interest on a notional amount of $18.3 million and to pay interest at a floating rate of 68% of the three-month LIBOR rate.

The interest rate swap agreement described above is a derivative instrument that is required to be recorded at fair value. The estimated fair value at year end was an asset of $871,297 and $842,663 in

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2007 and 2006, respectively. This amount is included in accounts receivable on the accompanying statements of financial position. The change in fair value for the years ended June 30, 2007 and 2006 was a gain of $28,634 and $842,663, respectively, and is reported as other income.

(c) Gas and Oil Swaps

Carnegie entered into a series of fixed-floating commodity swaps with Lehman Brothers Commodity Services and J. Aron & Company for Nymex West Texas Intermediate Crude Oil (WTI - Oil) and Nymex Natural Gas.

For WTI-Oil, the floating price for each determination period will be the average of the closing settlement price(s) on the NYMEX for the Nearby Light Crude Futures Contract. For Natural Gas, the floating price for each determination period will be the average of the closing settlement prices for the Pricing Days for the NYMEX Natural Gas Henry Hub Futures Contract for the Reference Month.

If, with respect to each Determination Period, the Fixed Price exceeds the Floating Price, the Fixed Price Payer shay pay Carnegie the difference between the two such amounts multiplied by the quantity, and if the Floating Price exceeds the Fixed Price, Carnegie will pay the Fixed Price Payer the difference between the two such amounts multiplied by the quantity. If the prices are equal, no payment shall be made.

The commodity swap agreements described above are derivative instruments that are required to be recorded at fair value. The estimated fair value at year end was a liability of $1,837,536 at June 30, 2007. This amount is included in accounts payable on the accompanying statements of financial position. The change in fair value for the year ended June 30, 2007 was a loss of $1,837,536 and is reported as other income.

(8) Employee Benefit Plans

(a) Retirement Plan

Carnegie has a noncontributory, defined contribution, money-purchase retirement plan in which all U.S. personnel are eligible to participate. After one year of participation, an individual’s benefits are fully vested. The Plan has been funded through individually owned annuities issued by Teachers’ Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF). Contributions made by Carnegie totaled approximately $3.5 million and $3.3 million for the years ended June 30, 2007 and 2006, respectively.

(b) Postretirement Benefits Plan

Carnegie provides postretirement medical benefits to all employees who retire after age 55 and have at least 10 years of service. Cash payments made by Carnegie for these benefits totaled approximately $451,000 and $452,000 for the years ended June 30, 2007 and 2006, respectively.

In September 2006, the FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158), which amends SFAS No. 87, *Employers’ Accounting for Pensions,* and SFAS No. 106 *Employers’ Accounting for Postretirement Benefits*

Other Than Pensions. This Statement requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plan in their financial statements. Carnegie adopted the recognition of the funded status provisions of SFAS No. 158 at June 30, 2007. The impact of adoption for the postretirement benefits plan resulted in an increase to the liability on the statement of financial position of approximately $771,000 and a decrease to unrestricted and total net assets reported in the accompanying statement of activities for the same amount.

The expense for postretirement benefits for the years ended June 30, 2007 and 2006 consists of the following:

		2007	**2006**
Service cost – benefits earned during the year	$	1,179,000	1,512,000
Interest cost on projected benefit obligation		1,152,000	1,078,000
Amortization of (gain) loss		(18,000)	195,000
Postretirement benefit cost	$	2,313,000	2,785,000

The 2007 postretirement benefits expense was approximately $1,862,120 more than the cash expense of $450,880 and the 2006 postretirement benefits expense was approximately $2,333,000 more than the cash expense of $452,000. The postretirement benefits expense was allocated among program and supporting services expenses in the accompanying statements of activities.

The reconciliation of the Plan's funded status to amounts recognized in the financial statements at June 30, 2007 and 2006 follows:

	2007	2006
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 18,711,000	20,807,000
Service cost	1,179,000	1,512,000
Interest cost	1,152,000	1,078,000
Plan amendments	—	(293,000)
Actuarial gain	(6,263,147)	(3,941,000)
Benefits paid	(450,880)	(452,000)
Benefit obligation at end of year	14,327,973	18,711,000
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Contribution to plan	450,880	452,000
Benefits paid	(450,880)	(452,000)
Fair value of plan assets at end of year	—	—
Funded status	(14,327,973)	(18,711,000)
Unrecognized net actuarial loss	—	1,046,000
Unrecognized prior service cost	—	(293,000)
Accrued benefit cost	$ (14,327,973)	(17,958,000)

The net actuarial loss and prior service cost for the postretirement benefits plan that will be amortized into net periodic postretirement benefit cost over the next fiscal year are $334,602 and $18,000, respectively.

The present value of the benefit obligation as of June 30, 2007 and 2006 was determined using an assumed discount rate of 6.00% and 6.25%, respectively. The present value of the net periodic postretirement benefit cost as of June 30, 2007 and 2006 was determined using an assumed discount rate of 6.25% and 5.25%, respectively. Carnegie's policy is to fund postretirement benefits as claims and administrative fees are paid.

(Continued)

For measurement purposes, a 11% annual rate of increase in medical claims was assumed for 2007; the rate of increase was assumed to decrease at 1% per year, eventually reaching 5% in 2015. The healthcare cost trend rate assumption has a significant effect on the amounts reported. An one-percentage point change in assumed annual healthcare cost trend rate would have the following effects:

		One-percentage point increase	One-percentage point decrease
Effect on total of service and interest cost components	$	542,000	(412,000)
Effect on postretirement benefit obligation		2,148,047	(1,734,187)

The measurement date used to determine postretirement benefit obligations is July 1.

Carnegie expects to contribute approximately $604,494 to its postretirement benefit plan during the year ended June 30, 2007.

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

2008	$	604,494
2009		644,827
2010		684,492
2011		763,510
2012		805,024
2013–2017		4,779,989

On December 8, 2003, the President signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). Under the Medicare Prescription Drug Program, as proposed under the Act, groups who offer retiree prescription drug coverage at least actuarially equivalent to Medicare Plan D are eligible for a subsidy. In 2004, the FASB issued SFAS No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which is effective for fiscal years beginning after June 15, 2004, with early adoption encouraged.

Carnegie has adopted this standard in 2005. Based on the Carnegie Plan amendments effective July 1, 2005, the prescription drug benefits offered by Carnegie were determined to not be actuarially equivalent to Medicare Plan D, and the effects of the Act, excluding the subsidy, do not have a significant impact on the per capita claims cost.

(9) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets were available to support the following donor-restricted purposes at June 30, 2007 and 2006:

		2007	2006
Specific research programs	$	13,403,149	16,605,270
Equipment acquisition and construction		14,565,976	12,813,990
Passage of time		21,000	1,346,522
	$	27,990,125	30,765,782

(b) Permanently Restricted Net Assets

Permanently restricted net assets consisted of endowed gifts, the income from which is available to support the following donor-restricted purposes at June 30, 2007 and 2006:

		2007	2006
Specific research programs	$	14,881,872	14,819,077
Operation of Maxine Singer Building		15,000,050	15,000,000
Equipment acquisition and construction		2,764,719	2,764,719
General support (Carnegie endowment)		22,110,325	22,000,000
	$	54,756,966	54,583,796

(c) Net Assets Released from Restrictions and Matching of Endowment

During 2007 and 2006, Carnegie met donor-imposed requirements on certain gifts and, therefore, released temporarily restricted net assets as follows:

		2007	2006
Specific research programs	$	6,845,955	4,386,403
Equipment acquisition and construction		1,671,901	1,620,235
Passage of time		1,982,098	1,000
	$	10,499,954	6,007,638

During 2006, Carnegie allocated $2,578,635 of unrestricted net assets and $10,942,603 of temporarily restricted net assets to establish an endowment for the Maxine Singer Building to match a donor's contribution. This amount is included as operation of Maxine Singer Building in permanently restricted net assets and as matching of endowment on the accompanying statements of activities.

(10) Commitments

Carnegie entered into a contract with the University of Arizona for the construction of a secondary mirror and support system for the second telescope in the Magellan project. The original amount of the contract was approximately $590,000; $187,000 remained outstanding on June 30, 2007.

Carnegie has outstanding commitments to invest approximately $159.1 million in limited partnerships at June 30, 2007.

(11) Lease Arrangements

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

Carnegie also leases a portion of one of its laboratories to another organization for an indefinite term. Rents to be received under the agreement are approximately $742,000 annually, adjusted for CPI increases.

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

(12) 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.

(13) Related-Party Transactions

Carnegie recorded contributions from its trustees, officers, and directors of $997,595 and $2,217,102, for the years ended June 30, 2007 and 2006, respectively.

A trustee of Carnegie is also the Chairman of an investment entity with which Carnegie has invested $108 million and $103 million in four of its investment funds, as of June 30, 2007 and 2006, respectively. Another trustee of Carnegie is the Managing Director of an investment entity with which Carnegie has invested $32.5 million and $27 million in one of its investment funds, as of June 30, 2007 and 2006, respectively.

Schedule

CARNEGIE INSTITUTION OF WASHINGTON

Schedules of Expenses

Years ended June 30, 2007 and 2006

	2007			2006		
	Carnegie funds	**Federal and private grants**	**Total expenses**	**Carnegie funds**	**Federal and private grants**	**Total expenses**
Personnel costs:						
Salaries	$ 16,884,338	6,174,862	23,059,200	16,351,247	5,846,475	22,197,722
Fringe benefits and payroll taxes	10,029,716	2,901,245	12,930,961	10,762,045	2,743,411	13,505,456
Total personnel costs	26,914,054	9,076,107	35,990,161	27,113,292	8,589,886	35,703,178
Fellowship grants and awards	2,185,315	1,186,236	3,371,551	2,115,590	929,264	3,044,854
Depreciation	8,451,572	—	8,451,572	7,581,749	—	7,581,749
General expenses:						
Educational and research supplies	4,098,035	1,793,759	5,891,794	7,999,243	2,065,686	10,064,929
Building maintenance and operation	3,388,537	70,425	3,458,962	3,186,777	176,889	3,363,666
Travel and meetings	1,140,710	943,059	2,083,769	1,298,785	807,656	2,106,441
Publications	55,538	59,978	115,516	23,256	59,442	82,698
Shop	138,261	6,434	144,695	133,911	9,646	143,557
Telephone	193,316	3,979	197,295	197,719	3,752	201,471
Books and subscriptions	367,092	1,348	368,440	259,984	—	259,984
Administrative and general	3,891,314	424,712	4,316,026	8,923,535	375,871	9,299,406
Facilities construction	111,069	—	111,069	2,422,558	—	2,422,558
Interest	2,571,350	—	2,571,350	2,354,287	—	2,354,287
Subcontracts	4,290	3,328,586	3,332,876	88,207	4,471,903	4,560,110
Shipping and postage	122,616	15,967	138,583	162,132	14,875	177,007
Insurance, taxes, and professional fees	2,693,403	229,467	2,922,870	2,712,539	168,288	2,880,827
Equipment	4,345,830	3,396,040	7,741,870	3,927,191	1,390,001	5,317,192
Fundraising expense	986,921	—	986,921	797,890	—	797,890
Total general expenses	24,108,282	10,273,754	34,382,036	34,488,014	9,544,009	44,032,023
Total direct costs	61,659,223	20,536,097	82,195,320	71,298,645	19,063,159	90,361,804
Indirect costs:						
Grants and contracts	(10,470,301)	10,470,301	—	(11,400,788)	11,400,788	—
Total costs	51,188,922	31,006,398	82,195,320	59,897,857	30,463,947	90,361,804
Capitalized scientific equipment and facilities	(5,878,491)	(3,241,973)	(9,120,464)	(10,029,303)	(1,129,483)	(11,158,786)
Total expenses	$ 45,310,431	27,764,425	73,074,856	49,868,554	29,334,464	79,203,018

See accompanying independent auditors' report.