CARNEGIE INSTITUTION OF WASHINGTON

Financial Statements and Schedule

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2011 and 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Carnegie's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

November 30, 2011

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Financial Position

June 30, 2011 and 2010

Assets		**2011**	**2010**
Cash and cash equivalents	$	1,518,067	32,359,327
Accrued investment income		—	46,301
Contributions receivable, net (note 2)		7,298,027	6,342,270
Accounts receivable and other assets (note 7)		17,279,764	20,411,836
Bond proceeds held by trustee (note 6)		17,694	26,728
Investments (notes 3 and 13)		795,672,507	688,251,697
Property and equipment, net (notes 4 and 5)		154,768,137	156,738,554
Total assets	$	976,554,196	904,176,713
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 7)	$	10,918,845	18,579,451
Amounts held for others (note 14)		—	33,186,239
Deferred revenue (note 5)		31,307,772	33,916,916
Bonds payable (note 6)		65,728,416	65,800,315
Accrued postretirement benefits (note 8)		17,206,079	15,246,053
Total liabilities		125,161,112	166,728,974
Net assets (notes 9 and 10):			
Unrestricted		244,949,855	217,326,563
Temporarily restricted		551,513,903	465,231,580
Permanently restricted		54,929,326	54,889,596
Total net assets		851,393,084	737,447,739
Commitments and contingencies (notes 8, 11, and 12)			
Total liabilities and net assets	$	976,554,196	904,176,713

See accompanying notes to financial statements.

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Activities

Years ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:								
External revenue:								
Grants and contracts	$ 40,480,694	—	—	40,480,694	42,707,752	—	—	42,707,752
Contributions and gifts (note 13)	1,683,991	11,396,207	1,400	13,081,598	1,377,513	12,852,159	25,900	14,255,572
Other income (note 7)	1,015,871	(994,476)	(2,812)	18,583	3,198,287	(2,300,062)	—	898,225
External revenue	43,180,556	10,401,731	(1,412)	53,580,875	47,283,552	10,552,097	25,900	57,861,549
Investment income, net (note 3)	37,171,847	115,929,091	41,142	153,142,080	22,623,031	62,700,542	—	85,323,573
Net assets released from restrictions (note 9)	40,048,499	(40,048,499)		—	33,795,438	(33,795,438)	—	—
Total revenues and other support	120,400,902	86,282,323	39,730	206,722,955	103,702,021	39,457,201	25,900	143,185,122
Expenses:								
Program expenses:								
Terrestrial magnetism	11,957,202	—	—	11,957,202	11,210,212	—	—	11,210,212
Observatories	21,920,605	—	—	21,920,605	26,961,521	—	—	26,961,521
Geophysical laboratory	19,962,665	—	—	19,962,665	16,464,866	—	—	16,464,866
Embryology	9,670,782	—	—	9,670,782	8,959,492	—	—	8,959,492
Plant biology	10,032,715	—	—	10,032,715	10,284,361	—	—	10,284,361
Global ecology	6,267,032	—	—	6,267,032	7,378,555	—	—	7,378,555
Other programs	1,050,387	—	—	1,050,387	915,319	—	—	915,319
Total program expenses	80,861,388	—	—	80,861,388	82,174,326	—	—	82,174,326
Administrative and general expenses	10,556,630	—	—	10,556,630	10,495,497	—	—	10,495,497
Total expenses	91,418,018	—	—	91,418,018	92,669,823	—	—	92,669,823
Change in net assets before pension related changes other than net periodic postretirement benefit cost	28,982,884	86,282,323	39,730	115,304,937	11,032,198	39,457,201	25,900	50,515,299
Pension related changes other than net periodic postretirement benefit cost (note 8)	(1,359,592)	—	—	(1,359,592)	(53,052)	—	—	(53,052)
Change in net assets	27,623,292	86,282,323	39,730	113,945,345	10,979,146	39,457,201	25,900	50,462,247
Net assets at beginning of year	217,326,563	465,231,580	54,889,596	737,447,739	206,347,417	425,774,379	54,863,696	686,985,492
Net assets at end of year	$ 244,949,855	551,513,903	54,929,326	851,393,084	217,326,563	465,231,580	54,889,596	737,447,739

See accompanying notes to financial statements.

CARNEGIE INSTITUTION OF WASHINGTON

Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	113,945,345	50,462,247
Adjustments to reconcile change in net assets to net cash (used in) provided by in operating activities:			
Depreciation		9,016,591	8,656,741
Net gains on investments		(147,582,259)	(78,409,275)
Net losses on disposal of property		397,852	22,299
Contributions of stock		(112,832)	(120,495)
Amortization of bond issuance costs, premium, and discount		(71,899)	436,680
Contributions and investment income restricted for long-term investment		(277,025)	(284,400)
(Increase) decrease in assets:			
Receivables		2,176,315	(4,484,349)
Accrued investment income		46,301	129
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(7,660,606)	8,819,671
Amounts held for others		(33,186,239)	33,186,239
Deferred revenue		(2,609,144)	(6,829,278)
Accrued postretirement benefits		1,960,026	685,575
Net cash (used in) provided by operating activities		(63,957,574)	12,141,784
Cash flows from investing activities:			
Acquisition of property and equipment		(5,163,329)	(3,961,445)
Construction of facilities and equipment		(2,280,697)	(3,475,620)
Investments purchased		(298,350,945)	(187,837,799)
Proceeds from investments sold or matured		338,625,226	211,641,346
Proceeds from sales of investments by bond trustee		9,034	—
Investments purchased by bond trustee		—	(26,689)
Net cash provided by investing activities		32,839,289	16,339,793
Cash flows from financing activities:			
Proceeds from borrowings		—	66,870,622
Repayments of debt		—	(65,800,000)
Bond issuance costs capitalized		—	(1,065,049)
Proceeds from contributions and investment income restricted for:			
Investment in endowment		1,400	25,900
Investment in property and equipment		275,625	258,500
Net cash provided by financing activities		277,025	289,973
Net (decrease) increase in cash and cash equivalents		(30,841,260)	28,771,550
Cash and cash equivalents at beginning of year		32,359,327	3,587,777
Cash and cash equivalents at end of year	$	1,518,067	32,359,327
Supplementary cash flow information:			
Cash paid for interest	$	3,071,763	328,022
Noncash activity – contributions of stock		112,832	120,495

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

For the years ended June 30, 2011 and 2010, Carnegie had net investment gains of $153 million and $85 million. Carnegie's other sources of income are primarily from gifts and federal grants and contracts.

(b) Basis of Accounting and Presentation

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

(c) Investments and Cash Equivalents

Carnegie's common stock and equity investments are reported at fair value based on quoted market prices, or with respect to commingled funds, real estate funds, natural resource funds, absolute return funds, and private equity funds, 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.

Carnegie applies the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* to certain investments in funds that do not have readily determinable fair values including commingled funds, private equity, natural resources funds, real estate, and absolute return funds. This guidance permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value (NAV) or its equivalent.

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

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

(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

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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.

FASB Accounting Standards Codification (ASC) 740-10, *Income Taxes*, requires that management evaluate tax positions taken by Carnegie and recognize a tax liability (or asset) if Carnegie has taken an uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Carnegie has analyzed the tax positions taken and has concluded that as of June 30, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

(e) Fair Value of Financial Instruments

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

The fair value of the CEFA Refunding Revenue Bonds 2010 Series A and the MHHEFA Revenue Refunding Bonds Series 2010 is estimated to be the carrying value (see note 6).

Interest rate and commodity swap agreements are entered into by Carnegie to mitigate the risk of changes in interest rates associated with fixed interest rate indebtedness and changes in the price of crude oil and natural gas. Carnegie applies the provisions of ASC 815, *Derivatives and Hedging*. This standard requires certain derivative financial instruments to be recorded at fair value.

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

Under ASC 820, financial instruments are categorized in one of the following three categories:

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

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

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

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

In general, Carnegie includes funds in which its ownership interests are publicly traded in an active market under Level 1 of the valuation hierarchy. Carnegie classifies under Level 2 investments in a fund where its ownership interests are not publicly traded, but the pricing inputs are directly observable either directly or indirectly. To the extent that NAV measurements for investments are based on unobservable inputs and/or include obligations to meet cash calls, Carnegie classifies these investments in Level 3 of the valuation hierarchy. Classification in Level 2 or 3 is based on Carnegie's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term (within 90 days), the investment is classified in Level 2.

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

(f) Use of Estimates

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

(g) Property and Equipment

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

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

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

(h) Contributions

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

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

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

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

Contributions include unconditional promises to give. In instances where such promises are to be received after one year or more from the date of the gift, they are recorded at a discounted amount at an appropriate risk-adjusted rate commensurate with the expected collection period. 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 $807,447 and $697,981 for the years ended June 30, 2011 and 2010, respectively, have been included in administrative and general expenses in the accompanying statements of activities.

(2) Contributions Receivable

Contributions receivable are summarized as follows as of June 30, 2011 and 2010:

		2011	2010
Unconditional promises expected to be collected in:			
Less than one year	$	4,322,215	4,083,353
One year to five years		3,812,213	2,776,531
		8,134,428	6,859,884
Less:			
Allowance for uncollectible amounts		(241,540)	(180,427)
Discount to present value		(594,861)	(337,187)
	$	7,298,027	6,342,270

Pledges receivable as of June 30, 2011 and 2010 were discounted based on the estimated risk-adjusted rate of return on the pledge date at rates ranging from less than 1% to 9%.

(3) Investments

Investments at fair value consisted of the following as of June 30, 2011 and 2010:

		2011	2010
Time deposits and money market funds	$	24,199,373	36,606,882
U.S. Government bond fund		35,468,488	35,584,333
Common stock – domestic		63,419,933	50,058,545
Domestic equity commingled funds		103,937,062	96,619,694
International equity commingled funds		138,295,490	101,145,833
Real estate funds		69,925,843	46,082,938
Natural resources funds		79,357,999	82,510,184
Absolute return funds		218,832,874	190,012,693
Private equity funds		62,235,445	49,630,595
	$	795,672,507	688,251,697

Investment income, net consisted of the following for the years ended June 30, 2011 and 2010:

		2011	2010
Interest and dividends	$	6,490,516	7,767,788
Net realized gains		50,280,790	27,423,722
Net unrealized gains		97,301,469	50,985,553
Investment management expenses		(930,695)	(853,490)
	$	153,142,080	85,323,573

The following table represents investments that are measured at fair value on a recurring basis as of June 30, 2011:

	2011	Level 1	Level 2	Level 3
Time deposits and money market funds	$ 24,199,373	24,199,373	—	—
U.S. Government bond fund	35,468,488	—	35,468,488	—
Common stock – domestic	63,419,933	63,066,761	—	353,172
Domestic equity commingled funds	103,937,062	32,522,535	71,414,527	
International equity commingled funds	138,295,490	31,223,459	107,072,031	—
Real estate funds	69,925,843	—	—	69,925,843
Natural resources funds	79,357,999	—	—	79,357,999
Absolute return funds	218,832,874	—	216,282,646	2,550,228
Private equity funds	62,235,445	—	—	62,235,445
	$ 795,672,507	151,012,128	430,237,692	214,422,687

The following table represents investments that are measured at fair value on a recurring basis as of June 30, 2010:

	2010	Level 1	Level 2	Level 3
Time deposits and money market funds	$ 36,606,882	36,606,882	—	—
U.S. Government bond fund	35,584,333	—	35,584,333	—
Common stock – domestic	50,058,545	49,814,884	—	243,661
Domestic equity commingled funds	96,619,694	23,281,218	73,338,476	—
International equity commingled funds	101,145,833	23,573,343	77,572,490	—
Real estate funds	46,082,938	—	—	46,082,938
Natural resources funds	82,510,184	—	—	82,510,184
Absolute return funds	190,012,693	—	185,500,406	4,512,287
Private equity funds	49,630,595	—	—	49,630,595
	$ 688,251,697	133,276,327	371,995,705	182,979,665

The following table presents Carnegie's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2011 and 2010.

		Common stock domestic	Natural resources funds	Real estate funds	Absolute return funds	Private equity funds	Total
Balance at June 30, 2009	$	221,000	93,234,789	43,870,228	6,831,509	37,341,451	181,498,977
Total realized and unrealized gains (losses), net		22,661	(9,422,549)	(10,750,325)	(2,966,890)	12,371,444	(10,745,659)
Purchases, issuance and settlements (net)		—	(1,302,056)	12,963,035	647,668	(82,300)	12,226,347
Balance at June 30, 2010		243,661	82,510,184	46,082,938	4,512,287	49,630,595	182,979,665
Total realized and unrealized gains (losses), net		—	(3,375,416)	22,939,543	(3,112,059)	13,135,571	29,587,639
Purchases, issuance and settlements (net)		109,511	223,231	903,362	1,150,000	(530,721)	1,855,383
Balance at June 30, 2011	$	353,172	79,357,999	69,925,843	2,550,228	62,235,445	214,422,687

The following table discloses the total gains and losses for the period included in income attributable to the change in unrealized gains or losses for the year ended June 30, 2011 and 2010:

		Domestic equity commingled funds	Natural resources funds	Real estate funds	Absolute return funds	Private equity funds	Total
Total gains (losses), June 30, 2011	$	—	(1,829,505)	20,936,025	418,270	6,992,987	26,517,777
Total gains (losses), June 30, 2010		1,074,486	(8,096,060)	(15,919,667)	3,978,465	3,735,812	(15,226,964)

The following table summarizes the nature and risk of Carnegie's investments in entities which are valued based on net asset value as a practical expedient for fair value as of June 30, 2011 and 2010:

		Fair value 2011	Fair value 2010	2011 unfunded commitments	Redemption frequency
U.S. Government bond fund (a)	$	34,759,483	34,858,133	—	Daily
Domestic equity commingled funds (b)		71,414,520	73,338,476	—	Monthly
International equity commingled funds (c)		107,072,031	77,572,490	—	Monthly
Real estate funds (d)		69,925,843	46,082,938	66,002,064	Illiquid
Natural resources funds (e)		79,357,999	82,510,184	23,996,363	Illiquid
Absolute return funds (f)		218,832,874	190,012,693	—	Monthly to illiquid
Private equity funds (g)		62,235,455	49,630,595	37,427,939	Illiquid
	$	643,598,205	554,005,509	127,426,366	

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

(b) This class is comprised of funds that invest in public equity markets in the United States. These funds invest in common stocks of biotechnology companies and in micro-cap and small-cap U.S. companies in technology and health care. These funds seek to produce returns that mirror or exceed various benchmarks established for comparable portfolios.

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

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

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

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

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invested in three partnerships where, under the current terms, funds are in liquidation and cannot be withdrawn. The underlying assets are expected to be distributed over the next one to two years.

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

(4) Property and Equipment

Property and equipment consisted of the following as of June 30, 2011 and 2010:

	2011	2010
Buildings and improvements	$ 88,762,976	89,055,291
Scientific equipment	51,565,001	47,210,810
Telescopes	93,394,247	93,394,247
Construction in progress	8,538,861	7,768,775
Administrative equipment	3,628,701	3,427,754
Leased equipment	214,086	214,086
Land	817,117	817,117
Art	70,805	70,805
	246,991,794	241,958,885
Accumulated depreciation	(92,223,657)	(85,220,331)
	$ 154,768,137	156,738,554

Construction in progress consisted of scientific equipment of approximately $8.5 million and $7.8 million at June 30, 2011 and 2010, respectively.

As of June 30, 2011 and 2010, approximately $69.6 million and $72.1 million, respectively, of property and equipment, net of accumulated depreciation, was located in Las Campanas, Chile.

(5) Magellan Consortium

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

The university members of the consortium, by contribution to the construction and operating costs of Magellan, acquire rights of access and oversight as described in the Magellan Agreement. Total contributions by the university members for construction, which amounted to $36.0 million, covered approximately 50% of the total construction costs. These monies were used by Carnegie to finance part of the Magellan Telescopes' construction costs. The contributions were recorded as deferred revenue and are being recognized ratably as income over the remaining estimated useful lives of the telescopes. As of June 30, 2011 and 2010, the deferred revenue totaled $27.5 million and $28.1 million, respectively.

(6) Bonds Payable

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

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

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

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

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

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

The interest expense for the MHHEFA issues was $1,345,512 and $701,740 for the years ended June 30, 2011 and 2010.

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

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

(b) 2010 California Educational Facilities Authority Revenue Bonds

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

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

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

The interest expense for all CEFA issues was $1,726,250 and $788,658 for the years ended June 30, 2011 and 2010.

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

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

(c) Line of credit

On June 1, 2011, Carnegie entered into an unsecured revolving credit facility with a maximum principal amount of $15 million from a commercial bank. Borrowings under the credit facility bear interest at a floating London Interbank Offered Rate (LIBOR) plus a credit spread of 1.25%. Carnegie did not draw any funds from this line of credit facility in 2011. The credit facility expires May 31, 2012.

(7) Interest Rate and Commodity Swap Agreements

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

On February 11, 2010, Carnegie terminated its floating to fixed interest rate swaps put into effect on December 10, 2008. This 2008 floating to fixed swap provided for Barclays Bank PLC 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. On February 11, 2010, an amount of $1,650,400 was payable by Carnegie to Barclays Bank PLC in order to terminate the 2008 swap. However, in lieu of this termination payment, Carnegie and Barclays Bank agreed, as part of a new simultaneous transaction described in the following paragraph, that the termination payment would be waived and that the floating rate otherwise payable in this new transaction would be increased taking into account all other terms.

Specifically, on February 11, 2010, Carnegie entered into a basis swap with Barclays Capital. A basis swap is an interest rate swap, which involves the exchange of two floating rate financial instruments. Under this agreement, Barclays Capital pays Carnegie 68% of three-month LIBOR and Carnegie pays Barclays Capital the Securities Industry and Financial Markets Association Benchmark (SIFMA) minus 0.08% on a notional amount of $22,935,000 which matches the maturity dates and amortization structure of the 2010 MHHEFA bonds (see note 6(a)), reducing on the dates and in the amounts as follows:

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

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

In addition to this basis swap, on February 26, 2010, Carnegie entered into a fixed to floating interest rate swap where Carnegie receives 3.6895% and pays SIFMA on a notional amount of $7,645,000. This transaction matches the maturity dates and amortization structure of the 2010 bonds (see note 6(a)), reducing on the dates and in the amounts as follows:

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

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

The basis and fixed to floating interest rate swap agreements described above are derivative instruments that are required to be recorded at fair value. The estimated fair value as of June 30, 2011 and 2010 were liabilities of $2,542,487 and $3,322,260, respectively. These amounts are included in accounts payable and accrued expenses in 2011 and 2010 on the accompanying statements of financial position. The change in fair value for the years ended June 30, 2011 and 2010 was a gain of $779,773 and a loss of $999,406, respectively, and is reported as other income.

(b) 2010 California Educational Facilities Authority Refunding Revenue Bonds

On March 15, 2010, Carnegie terminated its floating to fixed interest rate swaps put into effect on December 10, 2008. This 2008 floating to fixed swap provided for Barclays Bank PLC 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. At the time of the termination, an amount of $1,837,233 was payable by Carnegie to Barclays Bank PLC. However, in lieu of this termination payment, Carnegie and Barclays Bank agreed, as part of a new simultaneous transaction described in the following paragraph, that the termination payment would be waived and that the floating rate otherwise payable in this new transaction would be increased taking into account all other terms.

Specifically, on March 17, 2010, Carnegie entered into a basis swap with Barclays Capital. A basis swap is an interest rate swap, which involves the exchange of two floating rate financial instruments. Under this agreement, Barclays Capital pays Carnegie 68% of three-month LIBOR and Carnegie pays Barclays Capital SIFMA minus 0.111% on a notional amount of $25,893,750 which matches the maturity dates and amortization structure of the 2010 bonds (see note 6(b)), reducing on the dates and in the amounts as follows:

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

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

In addition to this basis swap, on March 17, 2010, Carnegie entered into a fixed to floating interest rate swap where Carnegie receives 3.737% and pays SIFMA on a notional amount of $8,631,250. This transaction matches the maturity dates and amortization structure of the 2010 bonds (see note 6(b)), reducing on the dates and in the amounts as follows:

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

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

The basis and fixed to floating interest rate swap agreements described above are derivative instruments that are required to be recorded at fair value. The estimated fair value as of June 30, 2011 and 2010 were liabilities of $2,675,784 and $3,562,430, respectively. These amounts are included in accounts payable and accrued expenses in 2011 and 2010 on the accompanying statements of financial position. The change in fair value for the years ended June 30, 2011 and 2010 was a gain of $886,646 and a loss of $907,244, respectively, and is reported as other income.

(c) Commodity Swaps

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

Under the series of fixed-floating commodity swap agreements, for WTI-Oil, the floating price for each determination period 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 of the NYMEX Natural Gas Henry Hub Futures Contract for the reference month.

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

The commodity swap agreements described above are derivative instruments that are required to be recorded at fair value. The estimated fair value as of June 30, 2011 and 2010 was a receivable of $2,339,398 and $8,161,555, respectively. These amounts are included in accounts receivable and other assets in 2011 and 2010, in the accompanying statements of financial position. The change in fair value for the years ended June 30, 2011 and 2010 was a loss of $5,822,157 and a loss of $1,408,129, respectively, and is reported as other income.

For the valuation of interest rate and commodity swaps as of June 30, 2011, Carnegie used pricing models based on significant observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves, measures of interest rate volatility, and oil and natural gas pricing. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and Carnegie. See note 1(e) for definitions of Levels 1, 2 and 3. The following table represents the interest rate swap liabilities and the commodity swap receivables that are measured at fair value on a recurring basis as of June 30, 2011 and 2010:

		Fair value measurements at June 30, 2011		
		Level 1	**Level 2**	**Level 3**
Interest rate swaps	$	—	(5,218,271)	—
Commodity swaps		—	2,339,398	—

		Fair value measurements at June 30, 2010		
		Level 1	Level 2	Level 3
Interest rate swaps	$	—	(6,884,690)	—
Commodity swaps		—	8,161,555	—

(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 $4.4 million and $4.1 million for the years ended June 30, 2011 and 2010.

(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 $437,900 and $449,000 for the years ended June 30, 2011 and 2010, respectively.

The expense for postretirement benefits for the years ended June 30, 2011 and 2010 consists of the following:

		2011	2010
Service cost – benefits earned during the year	$	605,600	575,348
Interest cost on projected benefit obligation		807,938	858,257
Amortization of prior service costs		(18,000)	(18,000)
Amortization of gain		(357,185)	(333,995)
Postretirement benefit expense	$	1,038,353	1,081,610

The 2011 postretirement benefits expense was approximately $600,434 more than the cash payments of $437,919 and the 2010 postretirement benefits expense was approximately $632,523 more than the cash payments of $449,087. 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, 2011 and 2010 follows:

	2011	2010
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 15,246,053	14,560,478
Service cost	605,600	575,348
Interest cost	807,937	858,257
Actuarial loss (gain)	984,407	(298,943)
Benefits paid	(437,918)	(449,087)
Benefit obligation at end of year	17,206,079	15,246,053
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Contribution to plan	437,918	449,087
Benefits paid	(437,918)	(449,087)
Fair value of plan assets at end of year	—	—
Funded status	$ (17,206,079)	(15,246,053)

Pension related changes other than net periodic postretirement benefit cost consisted of the following as of June 30, 2011 and 2010:

	2011	2010
Unrecognized net actuarial loss	$ 1,341,592	35,052
Unrecognized prior service cost	18,000	18,000
	$ 1,359,592	53,052

The unrecognized net gain and prior service costs that have not been recognized as a component of net periodic postretirement benefit cost as of June 30, 2011 and 2010:

	2011	2010
Unrecognized net actuarial loss	$ (5,316,453)	(6,658,000)
Unrecognized prior service cost	(203,000)	(221,000)
	$ (5,519,453)	(6,879,000)

(Continued)

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

		2011	2010
Unrecognized net actuarial loss	$	(254,844)	(336,619)
Unrecognized prior service cost		18,000	18,000
	$	(236,844)	(318,619)

The present value of the benefit obligation as of June 30, 2011 and 2010 was determined using an assumed discount rate of 5.5% and 5.5%, respectively. The present value of the net periodic postretirement benefit cost as of June 30, 2011 and 2010 was determined using an assumed discount rate of 5.5% and 6.0%, respectively. Carnegie's policy is to fund postretirement benefits as claims and administrative fees are paid.

For measurement purposes, a 10% annual rate of increase in medical claims was assumed for 2011; the rate of increase was assumed to decrease at 1% per year, eventually reaching 5% in 2016. The healthcare cost trend rate assumption has a significant effect on the amounts reported. A one-percentage point change in assumed annual healthcare cost trend rate would have the following effects:

		One-percentage point increase	One-percentage point decrease
Effect on total of service and interest cost components	$	311,817	(238,458)
Effect on postretirement benefit obligation		2,746,824	(2,204,607)

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

Carnegie expects to contribute approximately $562,000 to its postretirement benefit plan during the year ended June 30, 2012.

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

2012	$	561,998
2013		626,823
2014		686,911
2015		768,697
2016		827,907
2017 – 2020		5,045,061

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) Unrestricted Net Assets

Unrestricted net assets consisted of the following as of June 30, 2011 and 2010:

	2011	2010
Board-designated quasi-endowments	$ 90,793,730	75,436,088
Undesignated	154,156,125	141,890,475
	$ 244,949,855	217,326,563

(b) Temporarily Restricted Net Assets

Temporarily restricted net assets were available to support the following donor-restricted purposes as of June 30, 2011 and 2010:

	2011	2010
Endowment assets available for future appropriation	$ 521,230,087	442,337,911
Specific research programs	21,490,161	17,236,952
Equipment acquisition and construction	1,501,642	1,580,757
Passage of time	7,292,013	4,075,960
	$ 551,513,903	465,231,580

(c) Permanently Restricted Net Assets

Permanently restricted net assets consisted of endowed gifts, the income from which is available to support the following donor-restricted purposes as of June 30, 2011 and 2010:

	2011	2010
Specific research programs	$ 15,055,440	15,016,719
Operation of maxine singer building	15,000,050	15,000,050
Equipment acquisition and construction	2,764,719	2,764,719
General support (Carnegie endowment)	22,109,117	22,108,108
	$ 54,929,326	54,889,596

(Continued)

(d) Net Assets Released from Restrictions

During 2011 and 2010, Carnegie met donor-imposed requirements on certain gifts and, therefore, released temporarily restricted net assets as follows:

		2011	2010
Appropriation of endowment assets	$	33,890,487	28,295,750
Specific research programs		5,184,441	1,314,685
Equipment acquisition and construction		464,379	13,529
Passage of time		509,192	4,171,474
	$	40,048,499	33,795,438

(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 interpretation, Carnegie classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and subsequent gifts to the endowment. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Carnegie in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1) The duration and preservation of the fund

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

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

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

5) Other resources of the organization

6) The investment and spending policies of the organization

(b) Return Objectives and Risk Parameters

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

(c) Strategies Employed for Achieving Objectives

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

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

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

(e) Appropriation of Endowment Assets for Next Fiscal Year

For 2011, Carnegie has appropriated $34,658,000 of its Endowment Funds assets to be distributed for spending. In accordance with the endowment spending policy described above, this amount is calculated based upon an endowment spending rate of five percent (5.00%). 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. Deficiencies of this nature that are reported in unrestricted net assets were approximately $82,000 as of June 30, 2010. No deficiencies existed as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

Net asset classification by type of endowment as of June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	521,230,087	54,929,326	576,159,413
Board-designated endowment funds	90,793,730	—	—	90,793,730
	$ 90,793,730	521,230,087	54,929,326	666,953,143

Changes in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 75,354,400	442,337,911	54,889,596	572,581,907
Investment return:				
Investment income	161,487	1,063,072	950	1,225,509
Net appreciation (realized and unrealized gains and losses)	17,055,473	111,719,591	37,380	128,812,444
Total investment return	17,216,960	112,782,663	38,330	130,037,953
Contributions	10,000	—	1,400	11,400
Appropriation of assets for expenditure	(1,787,630)	(33,890,487)	—	(35,678,117)
	$ 90,793,730	521,230,087	54,929,326	666,953,143

Net asset classification by type of endowment as of June 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (81,688)	442,337,911	54,889,596	497,145,819
Board-designated endowment funds	75,436,088	—	—	75,436,088
	$ 75,354,400	442,337,911	54,889,596	572,581,907

(Continued)

Changes in endowment net assets for the year ended June 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 66,458,124	410,237,021	54,863,696	531,558,841
Investment return:				
Investment income	472,638	2,780,951	—	3,253,589
Net appreciation (realized and unrealized gains and losses)	9,792,750	57,619,529	—	67,412,279
Total investment return	10,265,388	60,400,480	—	70,665,868
Contributions	10,000	(3,840)	25,900	32,060
Appropriation of assets for expenditure	(1,379,112)	(28,295,750)	—	(29,674,862)
	$ 75,354,400	442,337,911	54,889,596	572,581,907

(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 $666,600 annually, adjusted for CPI increases.

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

(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.

(Continued)

(13) Related-Party Transactions

Carnegie recorded contributions from its trustees, officers, and directors of approximately $1.3 million and $2.7 million for the years ended June 30, 2011 and 2010, respectively.

A trustee of Carnegie is also the Chairman of an investment entity with which Carnegie has invested $70.3 million and $73.8 million in five of its investment funds, as of June 30, 2011 and 2010, respectively. Carnegie paid approximately $1.2 million and $1.3 million in fees to these funds for the year ended June 30, 2011 and 2010, respectively. Another trustee of Carnegie is the Managing Director of an investment entity with which Carnegie has invested $0 million and $27.6 million in one of its investment funds, as of June 30, 2011 and 2010, respectively.

(14) Amounts held for others

In fiscal year 2011, Carnegie transferred $33.2 million to the Giant Magellan Telescope Organization (GMTO) Corporation, a nonprofit organization incorporated in 2007 for the purpose of developing and building a state-of-the-art next-generation extremely large telescope. Carnegie had managed the Giant Magellan Telescope program on behalf of partner institutions which formed the GMTO Corporation and include, in addition to Carnegie, institutions of higher education in the United States of America and entities in Australia and Korea. These partner institutions, transferred monies to Carnegie for the support of the project with the understanding that any unspent amounts would be transferred to the GMTO Corporation when it was determined able to assume financial management responsibilities. GMTO Corporation assumed financial management responsibilities beginning July 1, 2010. Carnegie had reported a liability of approximately $33,186,000 for amounts to be transferred to GMTO Corporation in the statement of financial position as amounts held for others at June 30, 2010. Carnegie had incurred approximately $8.9 million in expenses and recognized revenue related to the Giant Magellan Telescope in 2010.

(15) Subsequent Events

Carnegie has evaluated subsequent events through the date the financial statements were issued, November 30, 2011.

Schedule

CARNEGIE INSTITUTION OF WASHINGTON

Schedules of Expenses

Years ended June 30, 2011 and 2010

	2011			2010		
	Carnegie funds	**Federal and private grants**	**Total expenses**	**Carnegie funds**	**Federal and private grants**	**Total expenses**
Personnel costs:						
Salaries	$ 18,174,990	9,241,546	27,416,536	18,661,837	8,266,461	26,928,298
Fringe benefits and payroll taxes	11,251,058	4,624,968	15,876,026	11,095,651	4,082,211	15,177,862
Total personnel costs	29,426,048	13,866,514	43,292,562	29,757,488	12,348,672	42,106,160
Fellowship grants and awards	2,072,508	2,786,626	4,859,134	2,014,148	2,794,275	4,808,423
Depreciation	9,016,591	—	9,016,591	8,656,741	—	8,656,741
General expenses:						
Educational and research supplies	1,929,838	1,783,023	3,712,861	1,975,156	1,700,835	3,675,991
Building maintenance and operation	3,866,389	299,116	4,165,505	4,411,999	670,069	5,082,068
Travel and meetings	1,288,004	1,384,075	2,672,079	1,181,672	1,476,923	2,658,595
Professional and contract services	3,989,826	1,361,842	5,351,668	8,970,770	831,315	9,802,085
Communications	399,018	97,449	496,467	448,374	75,327	523,701
Administrative and general	1,603,606	890,948	2,494,554	2,814,632	1,259,267	4,073,899
Interest	2,422,372	—	2,422,372	1,877,955	—	1,877,955
Subcontracts	—	10,112,434	10,112,434	—	9,250,067	9,250,067
Equipment	4,535,402	4,731,715	9,267,117	2,472,656	4,342,273	6,814,929
Fundraising expense	807,158	289	807,447	649,881	48,100	697,981
Total general expenses	20,841,613	20,660,891	41,502,504	24,803,095	19,654,176	44,457,271
Total direct costs	61,356,760	37,314,031	98,670,791	65,231,472	34,797,123	100,028,595
Indirect costs:						
Grants and contracts	(10,581,338)	10,581,338	—	(16,673,224)	16,673,224	—
Total costs	50,775,422	47,895,369	98,670,791	48,558,248	51,470,347	100,028,595
Capitalized scientific equipment and facilities	(7,252,773)	—	(7,252,773)	(3,263,591)	(4,095,181)	(7,358,772)
Total expenses	$ 43,522,649	47,895,369	91,418,018	45,294,657	47,375,166	92,669,823

See accompanying independent auditors' report.