Financial Statements

for the year ended June 30, 2000

Financial Profile

Reader's Note: In this section, any discussion of spending levels or endowment amounts are on a cash or cash-equivalent basis. Therefore, the funding amounts presented do not reflect the impact of capitalization, depreciation, or other non-cash items.

The primary source of support for Carnegie Institution of Washington's activities continues to be its endowment. This reliance has led to an important degree of independence in the research program of the institution. This independence is anticipated to continue as a mainstay of Carnegie's approach to science in the future.

At June 30, 2000, the endowment was valued at approximately $479.9 million and had a total return (net of management fees) of 10.8%. The annualized five-year return for the endowment was 14.0%.

For a number of years, Carnegie's endowment has been allocated among a broad spectrum of asset classes. This includes fixed-income instruments (bonds), equities (stocks), absolute return investments, real estate partnerships, private equity, an oil and gas partnership and a hedge fund. The goal of diversifying the endowment into alternative assets is to reduce the volatility inherent in an undiversified portfolio while generating attractive overall performance.

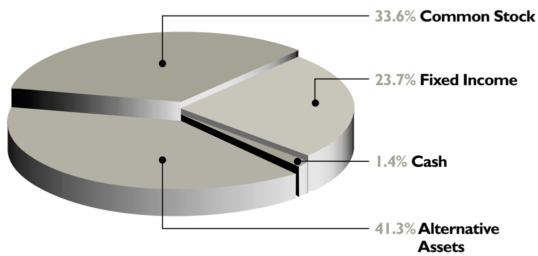
In its private equity allocation, the institution accepts a higher level of risk in exchange for a higher return. By entering into real estate partnerships, the institution in effect, holds part of its endowment in high-quality commercial real estate, deriving both capital appreciation and income in the form of rent from tenants. Along with the oil and gas partnership, this asset class provides an effective hedge against inflation. Finally, through its investments in an absolute return partnership and a hedge fund, the institution seeks to achieve long-term returns similar to those of traditional U.S. equities with reduced volatility and risk.

The finance committee of the board regularly examines the asset allocation of the endowment and readjusts the allocation, as appropriate. The institution relies upon external managers and partnerships to conduct the investment activities, and it employs a commercial bank to maintain custody.

The following chart shows the allocation of the institution's endowment among the asset classes it uses as of June 30, 2000:

	Target Allocation	Actual Allocation
Common Stock	35%	33.6%
Alternative Assets	40%	41.3%
Fixed Income	25%	23.7%
Cash	0%	1.4%

Actual Asset Allocation



Carnegie's primary purpose is to maintain the long-term spending power of its endowment. To achieve this objective, it employs a budgeting methodology that provides for:

- averaging the total market value of the endowment for the three most recent fiscal years, and
- developing a budget that spends at a set percentage (spending rate) of this three-year market average.

During the 1990s, this budgeted spending rate has been declining in a phased reduction, moving towards an informal goal of a spending rate of

Carnegie Funds Spending Over Seven Years

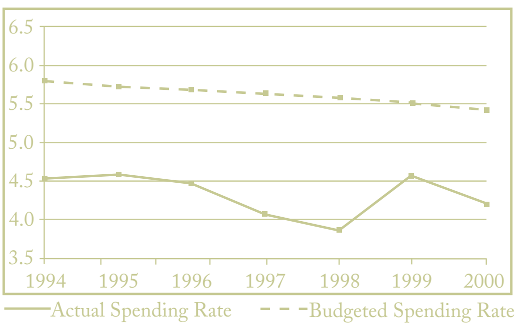
(Dollars in Millions)

FY	93-94	94-95
Carnegie Funds Spending	$ 12.4	$ 13.9
Actual Market Value at June 30	$275.5	$304.5
Actual Spending as % of Market Value	4.51%	4.57%
Planned Spending Rate in Budget	5.81%	5.76%

4.5%. For the 1999-2000 fiscal year, the rate was budgeted at 5.4%. While Carnegie has been reducing this budgeted rate by between 5 and 10 basis points a year, there has also been continuing, significant growth in the size of the endowment. The result has been that, for the 1999-2000 fiscal year, the actual spending rate (the ratio of annual spending from the endowment to actual endowment value at the conclusion of the fiscal year in which the spending took place) was 4.27%.

The table below compares the planned versus the actual spending rates, as well as the market value of the endowment from 1993-1994 to the most recently concluded fiscal year, 1999-2000:

Budget and Actual Spending Rates



Within Carnegie's endowment, there are a number of "Funds" that provide support either in a general way or in a targeted way, with a specific, defined purpose. The largest of these is the Andrew Carnegie Fund, begun with the original gift of $10 million. Mr. Carnegie later made additional gifts totaling another $12 million during his lifetime. Together these gifts are now valued at over $392 million.

95-96	96-97	97-98	98-99	99-00
$ 15.1	$ 15.5	$ 16.4	$ 20.9	$ 20.0
$338.0	$382.9	$423.3	$451.6	$477.9
4.48%	4.05%	3.87%	4.63%	4.2%
5.71%	5.66%	5.61%	5.50%	5.40%

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The following table shows the amounts in the principal funds within the institution's endowment as of June 30, 2000:

Market value of the Principal Funds Within Carnegie's Endowment

Andrew Carnegie	$392,679,193
Capital Campaign	34,186,909
Mellon Matching	10,058,131
Anonymous	8,131,436
Astronomy Funds	7,867,780
Anonymous Matching	7,958,305
Wood	5,282,974
Carnegie Futures	3,189,880
Golden	3,314,338
Bowen	2,522,711
Science Education Fund	1,984,936
Colburn	2,032,432
McClintock Fund	1,591,963
Special Instrumentation	1,123,033
Bush Bequest	1,015,556
Moseley Astronomy	808,648
Starr Fellowship	769,723
Special Opportunities	736,742
Roberts	427,814
Lundmark	324,230
Morgenroth	248,327
Hollaender	236,202
Moseley	145,127
Forbush	140,448
Bush	115,708
Green Fellowship	106,075
Harkavy	96,804
Hale	96,217
Total	$487,191,642

Financial Statements and Schedule

Independent Auditors' Report

***To the Audit Committee of the
Carnegie Institution of Washington:***

We have audited the accompanying statements of financial position of the Carnegie Institution of Washington (Carnegie) as of June 30, 2000 and 1999, 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, 2000 and 1999, and its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 Schedule 1 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

Washington, D.C.
October 24, 2000

Statements of Financial Position

June 30, 2000 and 1999

Assets	2000	1999
Cash and cash equivalents	$ 1,401,268	247,697
Accrued investment income	122,379	537,470
Contributions receivable (note 2)	2,300,913	2,119,791
Accounts receivable and other assets	4,054,197	4,096,520
Bond proceeds held by trustee (note 6)	214,384	1,665,390
Investments (note 3)	487,191,642	462,045,604
Construction in progress (notes 4 and 5)	67,419,680	54,056,641
Property and equipment, net (note 4)	46,310,015	45,333,399
	$ 609,014,478	**570,102,512**

Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 3,163,826	2,896,622
Deferred revenue (note 5)	33,076,609	25,476,955
Bonds payable (note 6)	34,880,190	34,843,325
Accrued postretirement benefits (note 7)	10,321,000	9,968,543
Total liabilities	81,441,625	73,185,445
Net assets (note 8):		
Unrestricted:		
Board designated:		
Invested in fixed assets, net	45,772,896	39,069,760
Designated for managed investments	424,925,680	401,014,333
Undesignated	1,594,787	5,190,932
	472,293,363	445,275,025
Temporarily restricted	17,575,634	14,002,694
Permanently restricted	37,703,856	37,639,348
Total net assets	527,572,853	496,917,067
Commitments and contingencies (notes 10, 11, and 12)		
Total liabilities and net assets	**$ 609,014,478**	**570,102,512**

See accompanying notes to financial statements.

Statements of Activities

Years ended June 30, 2000 and 1999

	2000				1999			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:								
Grants and contracts	$ 15,945,496	—	—	15,945,496	12,013,129	—	—	12,013,129
Contributions and gifts	503,000	3,429,115	12,577	3,944,692	77,801	3,916,380	1,630,265	5,624,446
Net gain (loss) on disposals of property	(30,736)	—	—	(30,763)	60,558	—	—	60,558
Other income	1,556,603	—	—	1,556,603	1,188,846	—	—	1,188,846
Net external revenue	17,974,336	3,429,115	12,577	21,416,028	13,340,334	3,916,380	1,630,265	18,886,979
Investment income (note 3)	45,028,935	2,314,107	51,931	47,394,973	45,210,087	2,027,818	56,993	47,294,898
Net assets released from restrictions (note 8)	4,727,863	(4,727,863)	—	—	6,113,931	(6,113,931)	—	—
Required net asset transfers (note 9)	(2,557,581)	2,557,581	—	—	—	—	—	—
Total revenues, gains, and other support	65,173,553	3,572,940	64,508	68,811,001	64,664,352	(169,733)	1,687,258	66,181,877
Program and supporting services expenses:								
Terrestrial Magnetism	6,677,062	—	—	6,677,062	6,576,909	—	—	6,576,909
Observatories	7,387,676	—	—	7,387,676	6,687,508	—	—	6,687,508
Geophysical Laboratory	8,005,144	—	—	8,005,144	6,868,289	—	—	6,868,289
Embryology	6,334,585	—	—	6,334,585	5,567,359	—	—	5,567,359
Plant Biology	6,082,263	—	—	6,082,263	4,840,611	—	—	4,840,611
Other Programs	588,972	—	—	588,972	1,005,455	—	—	1,005,455
Administrative and general expenses	3,079,513	—	—	3,079,513	3,401,699	—	—	3,401,699
Total expenses	38,155,215	—	—	38,155,215	34,947,830	—	—	34,947,830
Increase (decrease) in net assets	27,018,338	3,572,940	64,508	30,655,786	29,716,522	(169,733)	1,687,258	31,234,047
Net assets at the beginning of the year	445,275,025	14,002,694	37,639,348	496,917,067	415,558,503	14,172,427	35,952,090	465,683,020
Net assets at the end of the year	$ 472,293,363	17,575,634	37,703,856	527,572,853	445,275,025	14,002,694	37,639,348	496,917,067

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Increase in net assets	$ 30,655,786	31,234,047
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	3,338,544	2,902,842
Net gains on investments	(36,146,464)	(37,191,987)
Loss (gain) on disposal of property	30,763	(60,558)
Amortization of bond issuance costs and discount	36,865	36,865
Contribution of stock	(1,042,453)	(543,136)
(Increase) decrease in assets:		
Receivables	(138,799)	(1,229,011)
Accrued investment income	415,091	127,967
Increase in liabilities:		
Accounts payable and accrued expenses	267,204	487,292
Deferred revenues	7,599,654	13,368,909
Accrued postretirement benefits	352,457	132,106
Contributions and investment income restricted for long-term investment	(1,394,599)	(4,350,629)
Net cash provided by operating activities	3,974,049	4,914,707
Cash flows from investing activities:		
Draws from bond proceeds held by trustee	1,451,006	5,496,840
Acquisition of property and equipment	(4,378,089)	(6,568,272)
Construction of telescope, facilities, and equipment	(13,363,039)	(13,414,144)
Investments purchased	(400,648,495)	(474,633,607)
Proceeds from investments sold or matured	412,691,374	479,954,201
Proceeds from sale of property and equipment	32,166	—
Net cash used for investing activities	(4,215,077)	(9,164,982)
Cash flows from financing activities – proceeds from contributions and investment income restricted for:		
Investment in endowment	98,266	1,630,265
Investment in property and equipment	1,296,333	2,720,364
Net cash provided by financing activities	1,394,599	4,350,629
Net increase in cash and cash equivalents	1,153,571	100,354
Cash and cash equivalents at the beginning of the year	247,697	147,343
Cash and cash equivalents at the end of the year	$ 1,401,268	247,697
Supplementary cash flow information		
Cash paid for interest	$ 1,562,611	1,488,410

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2000 and 1999

(1) Organization and Summary of Significant Accounting Policies

Organization

The Carnegie Institution of Washington (Carnegie) conducts advanced research and training in the sciences. It carries out its scientific work in five research centers located throughout the United States and at an observatory in Chile. The centers are the Departments of Embryology, Plant Biology, and Terrestrial Magnetism, the Geophysical Laboratory, and the Observatories (astronomy). Income from investments represents approximately 69 percent of Carnegie's total revenues. Carnegie's other income is mainly from gifts and federal grants and contracts.

Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting. Contributions and gifts revenues are classified according to the existence or absence of donor-imposed restrictions. Also, satisfaction of donor-imposed restrictions are reported as releases of restrictions in the statements of activities.

Investments and Cash Equivalents

Carnegie's debt and equity investments are reported at their fair values. Carnegie also reports investments in partnerships at fair value as determined and reported by the general partners. 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.

Income Taxes

Carnegie is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code). Accordingly, no provision for income taxes is reflected in the accompanying financial statements. 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.

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.

The fair value of Series A bonds payable is based on quoted market prices. The fair value of Series B bonds payable is estimated to be the carrying value, since these bonds bear adjustable market rates.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. They also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Carnegie capitalizes at cost 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 over the following estimated useful lives:

Buildings and telescopes	50 years
Leasehold improvements	lesser of 25 years or the remaining term of the lease
Scientific and administrative equipment	2-10 years, based on scientific life of equipment

Contributions

Contributions are classified based on the existence or absence of donor-imposed restrictions. Contributions and net assets are classified 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 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.

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.

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.

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.

(2) Contributions Receivable

Contributions receivable representing unconditional promises expected to be collected are summarized as follows at June 30, 2000 and 1999:

Years ending June 30,	2000	1999
2001	$1,081,084	825,100
2002	866,506	665,000
2003	322,619	400,000
2004	10,000	14,938
2005	10,000	10,000
2006 and later	142,518	204,753
	2,432,727	2,119,791
Less discount to present value	(131,814)	—
	$2,300,913	**2,119,791**

Pledges receivable as of June 30, 2000, were discounted using the 10-year U.S. Treasury rate, which was 6.08 percent.

(3) Investments

At June 30, 2000 and 1999, investments at fair value consisted of the following:

	2000	1999
Time deposits and money market funds	$ 15,508,894	129,474,938
Debt mutual funds	2,762,469	4,707,631
Debt securities	113,318,084	8,385,121
Equity securities	158,985,492	149,946,198
Real estate partnerships	55,524,337	53,058,884
Limited partnerships	141,092,366	116,472,832
	$487,191,642	**462,045,604**

Investment income for the years ended June 30, 2000 and 1999, consisted of the following:

	2000	1999
Interest and dividends	$12,442,821	11,484,577
Net realized gains	41,174,031	24,124,433
Net unrealized (losses) gains	(5,027,567)	13,067,554
Less – investment management expenses	(1,194,312)	(1,381,666)
	$47,394,973	**47,294,898**

As of June 30, 2000, the fair value for approximately $179 million of Carnegie's $197 million of real estate and limited partnership investments has been estimated by the general partners in the absence of readily ascertainable market values. However, these estimated fair values may differ from the values that would have been used had a ready market existed.

(4) Property and Equipment

At June 30, 2000 and 1999, property and equipment placed in service consisted of the following:

	2000	1999
Buildings and improvements	$44,314,395	43,569,957
Scientific equipment	19,028,773	17,379,687
Telescopes	7,910,825	7,910,825
Administrative equipment	2,532,683	2,507,290
Land	787,896	787,896
Art	34,067	34,067
	74,608,639	72,189,722
Less accumulated depreciation	(28,298,624)	(26,856,323)
	$46,310,015	**45,333,399**

At June 30, 2000 and 1999, construction in progress consisted of the following:

	2000	1999
Telescope	$ 62,237,190	50,731,430
Buildings	352,271	802,523
Scientific equipment	4,830,219	2,522,688
	$67,419,680	**54,056,641**

At June 30, 2000 and 1999, approximately $71 million and $59 million, respectively, of construction in progress and other property, net of accumulated depreciation, was located in Las Campanas, Chile. During 2000 and 1999, Carnegie capitalized interest costs (net of interest earned of $49,000 and $245,000, respectively) of approximately $1,514,000 and $1,229,000, 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 currently under construction on Manqui Peak, Las Campanas in Chile. The total construction costs of the two telescopes is expected to be approximately $72 million and the telescopes will be recorded as assets by Carnegie. Title to the Magellan facilities is held by Carnegie. As of June 30, 2000, construction in progress of $62,237,190 related to the Magellan project.

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 are expected to be $36 million, 50 percent of the total expected costs and these monies are being used by Carnegie to finance part of the Magellan Telescopes' construction costs. As of June 30, 2000 and 1999, the university members had contributed $32,717,849 and $24,910,264, respectively, which is included in deferred revenue in the accompanying statements of financial position. The deferred revenue will be recognized ratably as income over the estimated useful lives of the telescopes.

(6) Bonds Payable

On November 1, 1993, Carnegie issued $17.5 million each of secured Series A and Series B California Educational Facilities Authority Revenue tax-exempt bonds. Bond proceeds are used to finance the Magellan telescope project and the renovation of the facilities of the Observatories at Pasadena. The balances outstanding at June 30, 2000 and 1999, on the Series A issue totaled $17,425,757 and $17,402,913, respectively, and on the Series B issue totaled $17,454,433 and $17,440,412, respectively. The balances outstanding are net of unamortized bond issue costs and bond discount. Bond proceeds held by the trustee and unexpended at June 30, 2000 and 1999, totaled $214,384 and $1,665,390, respectively.

Series A bonds bear interest at 5.6 percent payable in arrears semiannually on each April 1 and October 1 and upon maturity on October 1, 2023. Series B bonds bear interest at variable money market rates (ranging from 3.4 percent to 4.1 percent at June 30, 2000) in effect from time to time, up to a maximum of 12 percent over the applicable money market rate period of between one and 270 days and have a stated maturity of October 1, 2023. At the end of each money market rate period, Series B bondholders are required to offer the bonds for repurchase at the applicable money market rate. If repurchased, the Series B bonds would be resold at the current applicable money market rate and for a new rate period.

Carnegie is not required to repay the Series A and B bonds until the October 1, 2023, maturity date, and Carnegie has the intent and the ability to effect the purchase and resale of the Series B bonds through a tender agent; therefore all bonds payable are classified as long term. Sinking fund redemptions begin in 2019 in installments for both series. The fair value of Series A bonds payable at June 30, 2000 and 1999, based on quoted market prices is estimated at $17,414,000 and $18,043,000, respectively. The fair value of Series B bonds payable at June 30, 2000 and 1999, 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.

(7) Employee Benefit Plans

Retirement Plan

Carnegie has a noncontributory, defined contribution, money-purchase retirement plan in which all United States personnel are eligible to participate. After one year's 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). Total contributions made by Carnegie totaled approximately $2,195,000 and $2,133,000 for the years ended June 30, 2000 and 1999, respectively.

Postretirement Benefits Plan

Carnegie provides postretirement medical benefits to all employees who retire after age 55 and have at least ten years of service. Cash payments made by Carnegie for these benefits totaled approximately $382,000 and $318,000 for the years ended June 30, 2000 and 1999, respectively.

The expense for postretirement benefits for the years ended June 30, 2000 and 1999, consists of the following:

	2000	**1999**
Service cost – benefits earned during the year	$250,000	283,000
Interest cost on projected benefit obligation	574,000	531,000
Amortization of gain	(89,000)	(45,000)
Accrued postretirement benefit cost	**$735,000**	**769,000**

The 2000 postretirement benefits expense was approximately $353,000 more than the cash expense of $382,000, and the 1999 postretirement benefits expense was approximately $451,000 more than the cash expense of $318,000. The postretirement benefits expense was allocated among program and supporting services expenses in the statements of activities.

The reconciliation of the Plan's funded status to amounts recognized in the financial statements at June 30, 2000 and 1999 follows:

	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 7,848,000	8,041,000
Service cost	250,000	283,000
Interest cost	574,000	531,000
Actuarial gain	(1,684,000)	(689,000)
Benefits paid	(382,000)	(318,000)
Benefit obligation at end of year	6,606,000	7,848,000
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Contribution to plan	382,000	318,000
Benefits paid	(382,000)	(318,000)
Fair value of plan assets at end of year	—	—
Funded status	(6,606,000)	(7,848,000)
Unrecognized net actuarial gain	(3,715,000)	(2,120,000)
Accrued benefit cost	$(10,321,000)	(9,968,000)

The present value of the benefit obligation as of June 30, 2000, was determined using an assumed health care cost trend rate of 8.7 percent and an assumed discount rate of 8.0 percent. The present value of the benefit obligation as of June 30, 1999, was determined using an assumed health care cost trend rate of 9.0 percent and an assumed discount rate of 7.5 percent. Carnegie's policy is to fund postretirement benefits as claims and administrative fees are paid.

For measurement purposes, a 8.7 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000; the rate was assumed to decrease gradually to 5.5 percent in 11 years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage change in assumed annual health care 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	$159,000	(125,000)
Effect on postretirement benefit obligation	941,000	(767,000)

(8) Net Assets

At June 30, 2000 and 1999, temporarily restricted net assets were available to support the following donor-restricted purposes:

	2000	1999
Specific research programs	$11,845,001	10,479,226
Equipment acquisition and construction	5,730,633	3,523,468
	$17,575,634	**14,002,694**

At June 30, 2000 and 1999, permanently restricted net assets consisted of permanent endowments, the income from which is available to support the following donor-restricted purposes:

	2000	1999
Specific research programs	$14,499,137	14,434,629
Equipment acquisition and construction	1,204,719	1,204,719
General support (Carnegie endowment)	22,000,000	22,000,000
	$37,703,856	**37,639,348**

During 2000 and 1999, Carnegie met donor-imposed requirements on certain gifts and, therefore, released temporarily restricted net assets as follows:

	2000	1999
Specific research programs	$2,608,271	2,022,748
Equipment acquisition and construction	2,119,592	4,091,183
	$4,727,863	**6,113,931**

(9) Required Net Asset Transfers

During 2000, it was discovered that certain temporarily restricted net assets were released when amounts were spent on purposes other than those for which they were restricted. An amount of $2,557,581 was reclassified to temporarily restricted net assets to be used for equipment acquisition and construction.

(10) Federal Grants and Contracts

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.

(11) Commitments

In 1997, Carnegie entered into a contract with the University of Arizona for the construction of the primary mirror and support system for the second telescope in the Magellan project. The amount of the contract is approximately $9,700,000 of which approximately $2,496,000 had not been incurred at June 30, 2000. Carnegie had previously entered into an agreement with the University of Arizona for the primary mirror and support system for the first telescope and had outstanding commitments of approximately $302,000 at June 30, 2000. Carnegie also has other contracts relating to the construction of Magellan with outstanding commitments totaling approximately $579,000.

Carnegie has outstanding commitments to invest approximately $54 million in limited partnerships.

(12) Lease Arrangements

Carnegie leases a portion of the land it owns in Las Campanas, Chile to other organizations. These organizations have built and operate telescopes on the land. Most of the lease arrangements are not specific and some are at no-cost to the other organizations. One of the lease arrangements is noncancelable and has annual future rents of $120,000 through fiscal year 2001. For the no-cost leases, the value of the 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 $375,000 annually, adjusted for CPI increases.

Carnegie leases land and buildings. The monetary terms of the leases are considerably below fair value, however, these terms were developed considering other non-monetary transactions between Carnegie and the lessors. The substance of the transactions indicates arms-length terms between Carnegie and the lessors. The monetary value of the leases could not be determined, and has not been recorded in the financial statements.

Schedules of Expenses

Schedule 1

Years ended June 30, 1999 and 1998

	2000			1999		
	Carnegie funds	**Federal and private grants**	**Total expenses**	**Carnegie funds**	**Federal and private grants**	**Total expenses**
Personnel costs:						
Salaries	$11,980,869	4,079,575	16,060,444	11,268,614	3,171,189	14,439,803
Fringe benefits and payroll taxes	3,853,256	1,097,345	4,950,601	3,975,980	869,052	4,845,032
Total personnel costs	15,834,125	5,176,920	21,011,045	15,244,594	4,040,241	19,284,835
Fellowship grants and awards	1,500,720	586,825	2,087,545	1,319,122	983,363	2,302,485
Depreciation	3,338,544	—	3,338,544	2,902,842	—	2,902,842
General expenses:						
Educational and research supplies	1,543,865	1,635,104	3,178,969	988,536	1,365,473	2,354,009
Building maintenance and operation	2,256,008	455,076	2,711,084	2,315,995	57,701	2,373,696
Travel and meetings	853,789	462,310	1,316,099	690,237	530,656	1,220,893
Publications	46,442	71,725	118,167	33,249	57,932	91,181
Shop	77,324	29,374	106,698	57,705	—	57,705
Telephone	195,489	10,915	206,404	199,023	10,438	209,461
Books and subscriptions	270,265	—	270,265	264,491	7,430	271,921
Administrative and general	170,443	790,186	960,629	683,797	163,110	846,907
Printing and copying	97,680	—	97,680	148,385	8,465	156,850
Shipping and postage	182,407	40,596	223,003	134,230	36,591	170,821
Insurance, taxes and professional fees	965,820	113,738	1,079,558	740,853	164,278	905,131
Equipment	—	2,768,276	2,768,276	—	1,432,203	1,432,203
Fund-raising expense	383,255	—	383,255	366,890	—	366,890
Total general expenses	7,042,787	6,377,300	13,420,087	6,623,391	3,834,277	10,457,668
Total direct costs	27,716,176	12,141,045	39,857,221	26,089,949	8,857,881	34,947,830
Indirect costs – grants	(3,804,451)	3,804,451	—	(3,155,248)	3,155,248	—
Total costs	23,911,725	15,945,496	39,857,221	22,934,701	12,013,129	34,947,830
Capitalized scientific equipment funded by Federal and private grants	—	(1,702,006)	(1,702,006)	—	—	—
Total expenses	**$23,911,725**	**14,243,490**	**38,155,215**	**22,934,701**	**12,013,129**	**34,947,830**

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