

Report on Finances

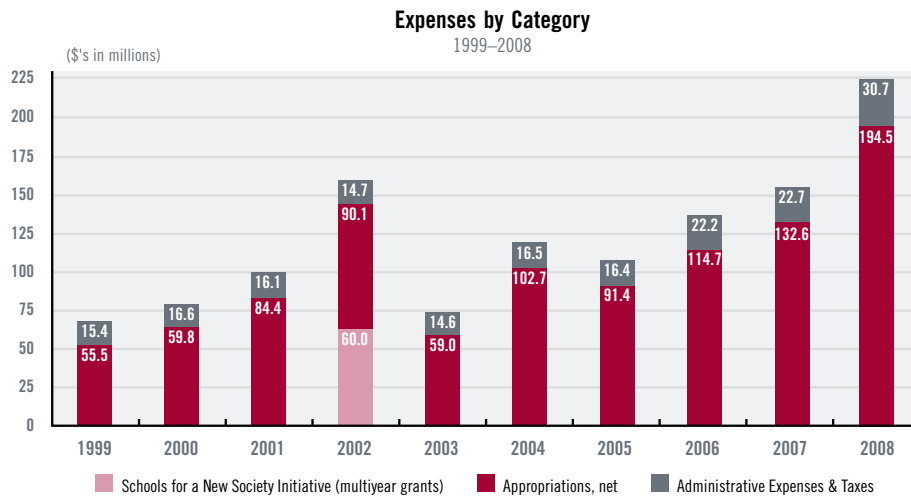
Financial Highlights

Appropriations and Expenses

For the ten years ended September 30, 2008, the Corporation awarded 5,498 grants totaling \$1,044.8 million and incurred expenses of \$139.5 million for direct charitable activities

and administrative expenses, excluding investment expenses, and \$46.4 million for taxes, for a total of \$1,230.7 million.

The graph below illustrates the growth in expenses by category over the ten-year period ended September 30, 2008.



Each year the trustees appropriate funds to be used for grants and for projects administered by the officers. Many of the grants involve multiyear commitments. In the fiscal year ended September 30, 2008, approximately 40 percent of the appropriated funds were paid within the fiscal year. Appropriations, net of refunds and cancellations, totaled \$194.5 million, compared to \$132.6 million in the preceding year. In 2008, Carnegie awarded grants totaling \$60 million to support arts and social service organizations located in New York City funded from the donation of an anonymous donor. In 2007, grants totaling \$30 million were awarded for this purpose.

Program management and direct charitable activities expenses were \$12.6 million in the fiscal year ended September 30, 2008, compared with \$12.2 million in the previous fiscal year. Included in these amounts, are direct

charitable activities of \$3.4 million in 2008 and \$3.5 million in 2007. Direct charitable activities are services provided directly to other exempt organizations, governmental bodies, and the general public. Such services include providing technical assistance to grantees and potential grantees, conducting educational conferences and research, publishing and disseminating educational materials, and serving on boards of other charitable organizations or public commissions.

General administration expenses were \$4.4 million in 2008 and \$3.8 million in 2007.

The schedule below breaks down total expenses, excluding appropriations and taxes, into categories for the year ended September 30, 2008.

	Program management and direct charitable activities	Investment	General administration	Total
Salaries	\$ 5,715,088	\$ 2,346,683	\$ 2,030,181	\$ 10,091,952
Investment advisory and custody fees	—	4,368,611	—	4,368,611
Employee benefits	2,714,004	362,894	983,200	4,060,098
Rent	1,267,852	147,300	594,403	2,009,555
Consultants	566,873	276,310	229,890	1,073,073
Legal and accounting services	—	650,019	142,900	792,919
Travel	601,766	173,682	13,128	788,576
Publications	630,054	—	—	630,054
Office expenses	296,637	39,434	140,405	476,476
Computer equipment and services	186,362	31,389	89,982	307,733
Conferences and meetings	250,680	12,944	24,546	288,170
Trustees' honoraria and expenses	140,886	4,275	52,188	197,349
Amortization and depreciation	72,018	—	33,764	105,782
Other	160,738	21,535	64,124	246,397
TOTAL	\$12,602,958	\$ 8,435,076	\$ 4,398,711	\$ 25,436,745*

* In FY2007, total expenses, excluding appropriations and taxes, were \$24.4 million, which included \$8.4 million of investment expenses.

Taxes

Under the provisions of the Tax Reform Act of 1969, Carnegie Corporation as a private foundation is subject to a federal excise tax of 2 percent on income and realized capital gains. However, under the Tax Reform Act of 1984, the rate is reduced to 1 percent if the foundation maintains its average expense rate of the previous five years and, in addition, spends the tax savings. The Corporation did not meet the requirements for the reduced tax rate in either 2008 or 2007. Excise tax expense for FY2008 was \$5.0 million. Unrelated business income tax expense for FY08 was \$8.7 million. Deferred tax liability represents the potential tax (at 2 percent) on gains as yet unrealized as well as a book to tax timing difference.

Audit by Independent Accountants

The bylaws provide that the Corporation's accounts are to be audited each year by an independent public accountant. Accordingly, the firm of McGladrey & Pullen, LLP audited the Corporation's financial statements as of and for the year ended September 30, 2008. The Corporation's financial statements, together with the independent auditor's report, appear on the following pages.

Independent Auditor's Report

To the Board of Trustees
Carnegie Corporation of New York
New York, New York

We have audited the accompanying balance sheets of Carnegie Corporation of New York (the "Corporation") as of September 30, 2008 and 2007, and the related statements of changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Carnegie Corporation of New York as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

New York, New York
March 5, 2009

McGladrey & Pullen, LLP is a member firm of RSM International –
an affiliation of separate and independent legal entities.

Balance Sheets

as of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 63,046	\$ 71,897
Investments	2,630,632,644	3,136,409,441
Tax Receivable	1,301,153	—
Contributions Receivable	30,000,000	—
Prepaid expenses and other assets	90,026	94,237
Fixed assets	615,378	450,912
Total assets	<u>\$ 2,662,702,247</u>	<u>\$ 3,137,026,487</u>
Liabilities and net assets		
Liabilities		
Grants payable	\$ 165,571,162	\$ 103,165,769
Investments sold short	—	63,187,161
Accounts payable and other liabilities	1,765,156	5,159,993
Taxes payable	—	10,591,210
Deferred taxes payable	2,319,567	17,183,230
Total liabilities	<u>169,655,885</u>	<u>199,287,363</u>
Net assets		
Unrestricted	2,357,709,494	2,802,402,256
Permanently restricted	135,336,868	135,336,868
Total net assets	<u>2,493,046,362</u>	<u>2,937,739,124</u>
Total liabilities and net assets	<u>\$ 2,662,702,247</u>	<u>\$ 3,137,026,487</u>

See accompanying notes to financial statements.

Statements of Changes in Net Assets

for the years ended September 30, 2008 and 2007

	2008	2007
Revenues		
Investment income		
Interest and dividends	\$ 25,392,571	\$ 27,644,569
Income and gains from partnerships, net	187,998,086	279,162,659
Net realized gains	116,751,078	49,484,628
Total realized investment income	330,141,735	356,291,856
Less investment expenses paid directly	(8,435,076)	(8,400,776)
Net realized investment income	321,706,659	347,891,080
Contributions	60,431,890	30,209,000
Total revenues	382,138,549	378,100,080
Expenses		
Grant appropriations	194,501,846	132,636,256
Program management and direct charitable activities	12,602,958	12,191,055
General administration	4,398,711	3,785,149
Provision for taxes	13,687,165	6,721,135
Total expenses	225,190,680	155,333,595
Excess of revenues over expenses	156,947,869	222,766,485
(Decrease) increase in unrealized appreciation of investments, net of related (credit) tax of \$(12,278,380) in 2008 and \$17,079,148 in 2007	(601,640,631)	278,473,375
Change in net assets	(444,692,762)	501,239,860
Net assets, beginning of year	2,937,739,124	2,436,499,264
Net assets, end of year	\$ 2,493,046,362	\$ 2,937,739,124

Statements of Cash Flows

for the years ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (444,692,762)	\$ 501,239,860
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in unrealized appreciation of investments	613,919,011	(295,552,523)
Net realized gains	(116,751,078)	(49,484,628)
Depreciation and amortization	105,782	98,918
Change in deferred taxes payable	(14,863,663)	6,958,099
Total adjustments	482,410,052	(337,980,134)
Change in taxes receivable, contribution receivable and prepaid expenses and other assets	(31,296,942)	14,360
Change in grants payable, accounts payable and other liabilities, and taxes payable	48,419,346	35,449,791
Net cash provided by operating activities	54,839,694	198,723,877
Cash flows from investing activities		
Proceeds from sales or redemptions of investments	1,266,778,642	1,520,688,825
Proceeds from sales of investments sold short	—	66,826,546
Purchases of investments	(1,321,356,939)	(1,786,226,650)
Purchases of fixed assets	(270,248)	(45,949)
Net cash used in investing activities	(54,848,545)	(198,757,228)
Change in cash	(8,851)	(33,351)
Cash, beginning of year	71,897	105,248
Cash, end of year	\$ 63,046	\$ 71,897

See accompanying notes to financial statements.

Notes to Financial Statements

September 30, 2008 and 2007

(1) ORGANIZATION:

Carnegie Corporation of New York (the “Corporation”) is a philanthropic grantmaking foundation that was created by Andrew Carnegie in 1911 to promote the advancement and diffusion of knowledge and understanding. The Corporation has a policy of selecting a few areas at a time in which to concentrate its grants. The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; however, the Corporation is liable for federal excise taxes (see note 5).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared on the accrual basis of accounting.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The fair value of investments has been determined as indicated in note 3. The carrying amounts of the Corporation’s other financial instruments approximate fair value because of their short maturity.

In September 2006, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. This statement is effective for fiscal years beginning after November 15, 2007. The Corporation is currently assessing the potential effect of SFAS No. 157 on its financial position, results of operations and cash flows.

Fixed assets are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets ranging from five to ten years. Leasehold improvements are amortized over the remaining life of the lease.

Contributions are recognized as revenue in the period the promise to give is received. All revenues in 2008 and 2007 were unrestricted or were restricted and released from restriction during the same period.

Grant appropriations, including multi-year grants, are recorded as an expense and a payable when grants are approved and communicated to the grantees. Grants payable is expected to be paid as follows: approximately \$114 million within one year and the remaining balance within three years.

The FASB has issued FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty

Notes to Financial Statements

September 30, 2008 and 2007

in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting on interim periods, disclosure and transition.

The Corporation presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The Corporation has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Corporation will be required to adopt FIN 48 in its 2010 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

The resources of the Corporation consist of permanently restricted and unrestricted net assets. Permanently restricted net assets represent the original sums received from Andrew Carnegie who, by the terms of the conveying instrument, stipulated that the principal may never be expended; however, the income is expendable. Unrestricted net assets are not subject to donor-imposed restrictions.

In August 2008, the FASB issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA")*, and *Enhanced Disclosures for All Endowment Funds* ("FSP FAS 117-1") to provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA. The FSP also requires additional disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to the UPMIFA. The provisions of the FSP are effective for fiscal years ending after December 15, 2008, and the Corporation will be required to adopt FSP FAS 117-1 in its 2009 annual financial statements.

For purposes of the statements of cash flows, cash includes all cash held in bank accounts at September 30, 2008 and 2007.

Notes to Financial Statements

September 30, 2008 and 2007

(3) INVESTMENTS:

Readily marketable investments are reported at fair value on the basis of quoted market prices. Limited partnerships and similar interests are reported at fair value based on financial information received from the fund managers or general partners. The fund managers or general partners determine the fair value of securities using quoted market prices, if available, or using other valuation methods. Investments in limited partnerships and similar interests totaled \$2,183,543,114 at September 30, 2008 and \$2,452,068,128 at September 30, 2007.

Investments are comprised of the following at September 30, 2008 and 2007:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Global equity	\$ 953,204,953	\$ 911,464,671	\$ 890,964,602	\$ 1,282,220,176
Fixed income	229,347,503	253,895,802	392,437,616	398,112,616
Real estate & resources	288,658,000	345,866,443	233,373,285	352,493,815
Absolute return	619,738,467	699,759,270	528,942,197	712,348,366
Private equity	361,108,037	419,974,887	300,599,833	390,341,923
Due (to)/from brokers, net	(346,397)	(328,429)	890,201	892,545
Total	\$ 2,451,710,563	\$ 2,630,632,644	\$ 2,347,207,734	\$ 3,136,409,441

Included in the table above is accrued investment income of \$1,698,259 and \$2,230,552 at September 30, 2008 and 2007, respectively.

At September 30, 2008, the Corporation had unfunded capital commitments of approximately \$813.2 million in various limited partnership investments.

During the reporting period, the Corporation received distributions of marketable securities with a total fair value of approximately \$3.8 million from limited partnerships.

In certain cases, the Corporation uses swap contracts to invest in real estate limited partnerships. As of September 30, 2008, the fair value of these swaps, which are included in investments, was approximately \$4.3 million. Swap contracts are subject to off-balance sheet risk mainly due to the credit risk arising from the potential inability of the counterparty of the swap to perform under the terms of the contract. Based on the specific structuring of these swap contracts, the Corporation's exposure to credit risk associated with counterparty nonperformance is limited to the unrealized gain on each contract. To reduce this risk, the Corporation only enters into swaps with major U.S. broker-dealers.

Notes to Financial Statements

September 30, 2008 and 2007

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have a significant adverse impact on investment portfolios. As a result, the Corporation's investments have likely incurred a significant decline in fair value since September 30, 2008.

(4) FIXED ASSETS:

Fixed assets are composed of the following at September 30, 2008 and 2007:

	2008	2007
Leasehold improvements	\$ 4,195,460	\$ 4,195,460
Furniture and equipment	3,909,056	3,638,808
	8,104,516	7,834,268
Less accumulated depreciation and amortization	(7,489,138)	(7,383,356)
Total	\$ 615,378	\$ 450,912

(5) TAXES:

The Corporation is liable for federal excise taxes of two percent of its net investment income, as defined, which includes net realized capital gains, for the year. However, this tax is reduced to one percent if certain conditions are met. The Corporation did not meet the requirements for the reduced tax in either 2008 or 2007. Therefore, current taxes are estimated at two percent of net investment income, as defined, for 2008 and 2007.

Deferred taxes represent two percent of unrealized appreciation of investments at September 30, 2008 and 2007, as qualification for the one percent tax is not determinable until the fiscal year in which gains are realized. No deferred taxes are provided for unrelated business income on unrealized appreciation, as such amount cannot be estimated.

During 2008 and 2007, the Corporation had unrelated business income of \$18,371,100 and \$1,173,100, respectively, from certain investment partnership activities. Federal and state taxes of \$5,550,000 in 2008 and \$599,900 in 2007 on this income are calculated using applicable corporate tax rates and are included in the provision for taxes. In 2007, the Corporation also provided for estimated taxes of approximately \$11,000,000 arising on unrealized gains in certain investment partnerships that were considered to be realized excise and unrelated business income for federal and state tax purposes.

The Corporation paid federal excise taxes of \$8,650,000 in 2008 and \$5,067,000 in 2007. The Corporation also paid federal and state unrelated business income taxes of \$19,719,500 in 2008 and \$1,300,000 in 2007.

Notes to Financial Statements

September 30, 2008 and 2007

(6) BENEFIT PLANS:

The Corporation purchases annuities for qualifying employees under the terms of a noncontributory, defined contribution retirement plan with Teachers Insurance and Annuity Association and College Retirement Equities Fund. Retirement plan expense for the years ended September 30, 2008 and 2007 was \$1,264,300 and \$1,167,800, respectively.

In addition, the Corporation has a noncontributory defined benefit annuity plan to supplement the basic plan described above. This plan is also administered by Teachers Insurance and Annuity Association and College Retirement Equities Fund. Contributions to this plan are based on actuarial calculations. No contribution was required in 2008 or 2007. At December 31, 2007, the assets of the plan exceeded the actuarial present value of accumulated plan benefits by approximately \$842,200. Accumulation of benefits under this plan has been frozen effective April 1, 2007.

In addition, the Corporation provides certain medical benefits to its retirees. The cost of providing these benefits was \$332,400 in 2008 and \$259,300 in 2007, on a pay-as-you-go basis.

(7) LEASES:

The Corporation occupies office space at 437 Madison Avenue under a lease agreement expiring December 31, 2013.

The following is a schedule of the future minimum lease payments at September 30, 2008.

Fiscal year ending September 30	Amount
2009	\$ 1,693,000
2010	1,693,000
2011	1,693,000
2012	1,693,000
2013	1,693,000
2014	425,000
Total	\$ 8,890,000

Rental expense for 2008 and 2007, including escalations, was \$1,960,200 and \$1,866,800, respectively.

(8) SUBSEQUENT EVENT:

In January 2009, the Corporation entered into an agreement with Bank of America for the provision of a line of credit of \$50 million, available for grant funding and administrative expenses.

