# Carnegie Mellon University

**Consolidated Financial Statements**
**June 30, 2011 and 2010**

# Carnegie Mellon University
## Index
## June 30, 2011 and 2010

**Page(s)**

# Carnegie Mellon University
## Financial Highlights from the Vice President and Chief Financial Officer
## Year Ended June 30, 2011 and 2010

### Fiscal Year 2011 Highlights

Carnegie Mellon continued for a second straight fiscal year to show both positive operating and overall net asset results. The University's long-term investment pool realized strong returns of 28.0%. Sponsored project income continued to rise. A considerable amount of this growth is attributable to American Recovery and Reinvestment Act of 2009 (ARRA) funding. In addition to the ARRA funding, the Software Engineering Institute (SEI) continues its growth; since fiscal year 2007, the SEI's funding has grown 57.0%. A significant portion of this growth is attributable to increased funding from the Department of Homeland Security coupled with the SEI's existing Department of Defense funding. Another revenue area experiencing notable growth is graduate tuition which continues to rise and exceed projections due to higher enrollments and new programs. Although investment performance and growth of certain revenue categories had notable increases, campus and administrative units continued to work on reducing expenditures. Following fiscal 2010 year where faculty and staff salaries were frozen, only a 1.0% general salary increase was provided for faculty and staff in fiscal 2011 to ensure continued fiscal responsibility in uncertain economic times.

### Overview of Consolidated Statements of Financial Position

The Consolidated Statements of Financial Position present the assets, liabilities and net assets of the University at the end of the fiscal year. The University's assets, liabilities and net assets for six years are shown in Figure 1.

Figure 1 Assets, Liabilities and Net Assets

| *($ in millions)* | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|---|---|
| Total assets | $ 2,281 | $ 2,015 | $ 1,928 | $ 2,268 | $ 2,424 | $ 2,058 |
| Total liabilities | 698 | 710 | 721 | 694 | 783 | 637 |
| Total net assets | 1,583 | 1,305 | 1,207 | 1,574 | 1,641 | 1,421 |
| Total Liabilities and Net Assets | $ 2,281 | $ 2,015 | $ 1,928 | $ 2,268 | $ 2,424 | $ 2,058 |

Total University assets at June 30, 2011 were $2.3 billion, an increase of $266.0 million or 13.2% higher than the prior year. Carnegie Mellon's largest asset, its investment portfolio, which represents 56.9% of Carnegie Mellon's total assets, was valued at $1.3 billion at June 30, 2011 an increase of $257.8 million or 24.8%. Net of the investment balance increase, the University's assets increased by $8.2 million. Carnegie Mellon's investment and endowment strategies and performance are discussed in greater detail in the "Financial Highlights from the Chief Investment Officer". Capital assets of $684.1 million include the University's net investment in land, buildings and equipment and represent 30.0% of the University's assets.

The University's liabilities at June 30, 2011 were $697.7 million and decreased by 1.8% or $12.6 million during fiscal year 2011 due primarily to a decrease in long-term debt. Long-term debt, the largest component of the University's liabilities, was $459.1 million as of June 30, 2011. The composition of the University's long-term debt is discussed in greater detail in Note 10 of the consolidated financial statements.

Carnegie Mellon's total net assets increased by 21.4% or $278.6 million during fiscal year 2011 to an ending value of $1.6 billion. The strong performance in the financial markets similarly affected the University's net assets. The increase in the market value of investments primarily accounted for increases of $100.6 million in unrestricted net assets, $133.4 million in temporarily restricted net assets and $44.7 million in permanently restricted net assets. The University's net assets as of June 30, 2011 are comprised of $516.1 million of permanently restricted net assets, those for which the corpus of the gift may not be spent, and $1.1 billion of expendable net assets, comprised of unrestricted and temporarily restricted net assets where the funds are permitted to be expended.

**Overview of Consolidated Statements of Activities**

The Consolidated Statements of Activities present the University's results of activities. The University's operating and other nonoperating changes in net assets for five years are shown in Figure 2.

Figure 2 Operating and Other Nonoperating Results

| *($ in thousands)* | **2011** | **2010** | **2009** | **2008** | **2007** |
|---|---|---|---|---|---|
| Unrestricted Operating Revenue | $ 940,657 | $ 903,155 | $ 865,367 | $ 805,927 | $ 761,336 |
| Unrestricted Operating Expenses | 909,701 | 874,227 | 852,242 | 807,946 | 761,835 |
| Change in Operations | $ 30,956 | $ 28,928 | $ 13,125 | $ (2,019) | $ (499) |
| Change in Unrestricted Net Assets from Nonoperating Activities | 69,612 | 40,213 | (170,636) | (58,677) | 61,477 |
| Change in Temporarily Restricted Net Assets | 133,401 | 13,306 | (217,829) | (31,535) | 126,476 |
| Change in Permanently Restricted Net Assets | 44,650 | 14,975 | 8,690 | 24,324 | 32,871 |
| Change in Net Assets | $ 278,619 | $ 97,422 | $ (366,650) | $ (67,907) | $ 220,325 |

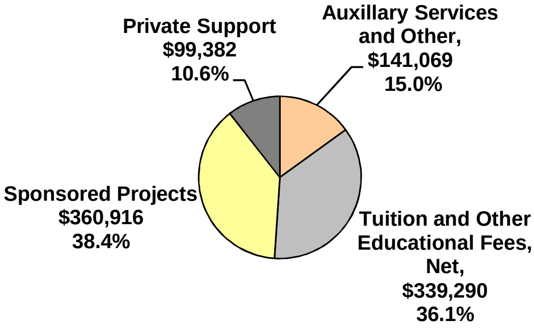
**Unrestricted Net Assets – Results of Operations**

The University's Consolidated Statements of Activities include a measure for operating activities, which include all revenue and expenses that support current year instruction and research efforts and other priorities to carry out the mission of the University. The difference between operating revenues and operating expenses yields the change in unrestricted net assets from operations, or operating gain or loss. For fiscal year 2011, the University's operations yielded an operating gain of $31.0 million. The University's audited results from operations compare very favorably with the University's Board of Trustees approved fiscal year 2011 budget, which included a planned deficit from operations of $20.2 million. The University's academic and administrative departments lower than anticipated spending and delays for planned future spending in Computing Services contributed positively to the results.

### Operating Revenues

Unrestricted operating revenues increased $37.5 million over fiscal year 2010. Carnegie Mellon relies upon four primary revenue categories for operations: tuition and other educational fees, sponsored project activities (which includes research), private support, and auxiliary services and other revenues. The components of the University's $940.7 million in operating revenues are shown in Figure 3.

Figure 3 Fiscal Year 2011 Unrestricted Operating Revenue ($940.7 million)
($ in thousands)




**Tuition and other educational fees**, net of financial aid, increased $16.3 million or 5.0% to $339.3 million in fiscal year 2011, representing 36.1% of University operating revenues compared to 35.8% in the prior year. Revenues from undergraduate tuition increased 5.6% and graduate tuition increased by 9.3%. The undergraduate student body grew by 69 students while the number of graduate students grew by 90. Figure 4 provides detailed information on enrolled students, including undergraduate, graduate and non-degree, in the fall semesters of 2010 and 2009 by school/college. Figure 5 provides undergraduate admissions information for the past five years for the fall semester. Financial aid, which offsets tuition room and board revenues, continues to be approximately 26.0% of gross tuition income.

Figure 4 Fall 2010 and 2009 Semester Enrollment

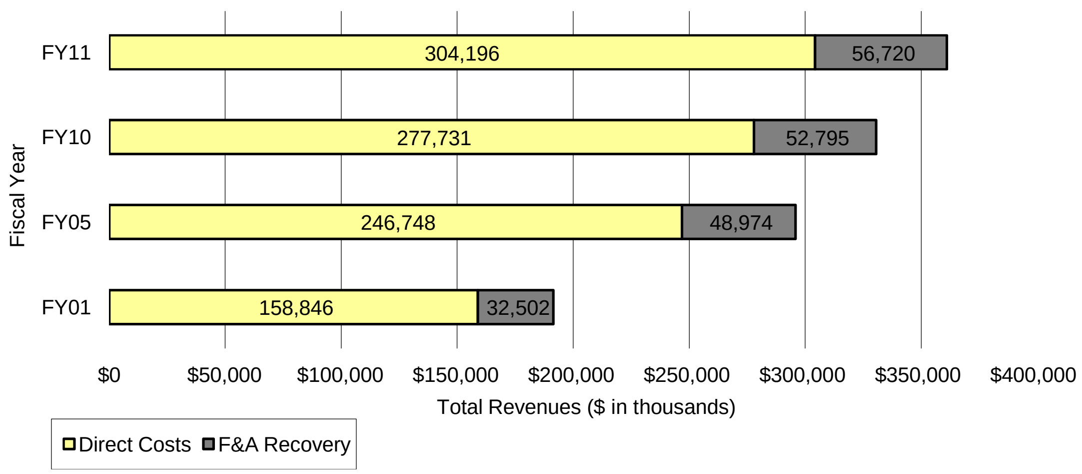
| School/College | 2010-2011 Undergraduate | 2010-2011 Graduate | Total Number of Students | Percentage | 2009-2010 Undergraduate | 2009-2010 Graduate |
|---|---|---|---|---|---|---|
| Carnegie Institute of Technology | 1,647 | 1,556 | 3,203 | 28% | 1,653 | 1,458 |
| College of Fine Arts | 996 | 278 | 1,274 | 11% | 967 | 264 |
| College of Humanities and Social Sciences | 1,138 | 302 | 1,440 | 12% | 1,087 | 277 |
| David A. Tepper School of Business | 349 | 956 | 1,305 | 11% | 397 | 1,013 |
| H. John Heinz III School of Public Policy and Management | - | 1,168 | 1,168 | 10% | - | 1,191 |
| Mellon College of Science | 757 | 301 | 1,058 | 9% | 723 | 287 |
| School of Computer Science | 574 | 778 | 1,352 | 12% | 587 | 782 |
| Interdisciplinary | 281 | 171 | 452 | 4% | 291 | 148 |
| CMU-Q | 278 | - | 278 | 2% | 246 | - |
| Total | 6,020 | 5,510 | 11,530 | 100% | 5,951 | 5,420 |

Figure 5 Undergraduate Admissions – Fall Semester

| | 2010-2011 | 2009-2010 | 2008-2009 | 2007-2008 | 2006-2007 |
|---|---|---|---|---|---|
| Applications | 15,496 | 14,153 | 13,527 | 12,821 | 11,176 |
| Acceptances | 5,164 | 5,132 | 5,129 | 5,044 | 4,951 |
| Matriculations | 1,486 | 1,423 | 1,465 | 1,416 | 1,428 |

**Sponsored projects** revenue accounts for 38.4% of total operating revenues and increased $30.4 million or 9.2% from the prior year. Sponsored projects revenue remains the largest source of operating revenue for the University. As Figure 6 shows, Carnegie Mellon has experienced significant increases in sponsored projects over the past decade with revenues growing from $191.3 million in 2001 to $360.9 million in 2011, an 88.6% increase. Sponsored projects revenues are comprised of: federal support (88.0%), foundation/non-profit (3.5%), industry (5.9%), state (.7%), and non-federal (1.9%).

Figure 6 Sponsored Projects Revenue



**Private support** accounts for 10.6% of total operating revenues and decreased $5.8 million or 5.5% from the prior year to a total of $99.4 million. The components of private support consist of unrestricted contributions, net assets released from restrictions and investment income (which includes distribution from the endowment to support operations).

- **Contributions** that were unrestricted and immediately expendable for operating purposes amounted to $22.6 million, including $10.2 million of donated space and services. In total, $82.8 million of contributions (gifts, donated space/services and pledges) were received in fiscal year 2011, which include $19.1 million of contributions which are expendable with donor restrictions and $41.1 million of contributions for which the corpus is permanently restricted. This compares to total contributions of $63.6 million in the prior year, including $11.8 million of donated space and services.

- **Net assets released from restrictions**, which consist of prior year pledges and gifts released from donor restrictions, totaled $48.6 million, a decrease of $3.8 million from the prior year. Other release of restrictions for capital renovations totaled $2.0 million.

- The Board of Trustees' **approved distribution from endowment** to support operations (endowment spending policy) for the fiscal year ended June 30, 2011 was 5.0%, which contributed $51.3 million in distributions to support operations. The endowment draw is discussed in greater detail in the "Financial Highlights from the Chief Investment Officer."

**Auxiliary services and other revenue** decreased $3.3 million or 2.3% to $141.1 million in fiscal year 2011, representing 15.0% of University operating revenues compared to 16.0% in the prior year. This revenue category consists of external revenues generated by auxiliary enterprises, international programs, corporate affiliate and membership programs, technology licensing and royalty income, and external services, fees and prizes.

**Operating Expenses**

In fiscal year 2011, operating expenses totaled $909.7 million, a 4.1% increase or $35.5 million over fiscal year 2010. Personnel costs remain the University's single largest category of expense at $589.2 million in 2011, or 64.8% of total operating expenses. The increase in personnel costs can be attributed to the University's continued growth in sponsored programs and planned growth in other strategic areas. Operating expenses by natural classification for the past five years are shown in Figure 7.

Figure 7 Operating Expenses

| *($ in millions)* | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Salaries and benefits | $ 589 | $ 567 | $ 551 | $ 514 | $ 487 |
| Supplies and services | 151 | 140 | 146 | 148 | 138 |
| Occupancy and related expenses | 62 | 61 | 63 | 53 | 47 |
| Other operating expenses | 47 | 46 | 40 | 35 | 29 |
| Depreciation and amortization | 50 | 49 | 46 | 44 | 45 |
| Interest expense | 11 | 11 | 6 | 14 | 16 |
| Total Expenses | $ 910 | $ 874 | $ 852 | $ 808 | $ 762 |

### Nonoperating Results

The University reports realized and unrealized gains or losses due to investment activities, any gains or losses on other financial instruments, such as swap agreements, and other activities that are not directly related to our mission as nonoperating items in its Consolidated Statements of Activities. In the current fiscal year, the increase in unrestricted net assets from nonoperating activities was $69.6 million, primarily driven by net realized and unrealized gains on investments.

### Conclusion

The financial results presented for fiscal year 2011 demonstrate the strength and continued growth of Carnegie Mellon's educational and research programs. The University remains committed to striking the right balance between fiscal restraint while continuing to invest in the overall University, and enhancing and expanding programs that yield the greatest overall impact.

Deborah J. Moon
Vice President and Chief Financial Officer
October 12, 2011

The University's endowment provides a key contribution to the institution's mission. The endowment is expected to provide Carnegie Mellon with certain perpetual benefits, including: greater independence for the University's leadership to shape the institution's future; a source of financial and operational stability in constantly changing environments; and a means to perpetuate the University's academic and research excellence in an increasingly competitive world.

Accordingly, the endowment portfolio is managed with a long-term, growth-oriented view and evaluated by its effectiveness in achieving, over time, two fundamental objectives: (1) generating steady and substantial financial support for Carnegie Mellon's students, faculty and programs; and (2) balancing the current needs of our various constituencies with the goal of at least maintaining the endowment's real purchasing power for future generations (i.e., preserving "intergenerational equity").

In order to maximize long-term expected returns within acceptable levels of risk and liquidity, Carnegie Mellon designed its policy asset allocation using a combination of academic theory, quantitative analysis, and informed market judgment. The asset allocation targets have shifted over the last six years as the investment strategy has transformed from one based on traditional publicly held investments to one increasingly focused on allocation to non-traditional or alternative investments, such as private equity, hedge funds, and private real asset funds. This shift to alternative assets creates a more global, diversified portfolio that is positioned to pursue perceived market inefficiencies and improved investment management. The current asset allocation targets, which were amended in August 2011, and the actual allocations at June 30, 2011 are as follows:

Figure 1 Policy Allocation Targets and June 30, 2011 Allocations

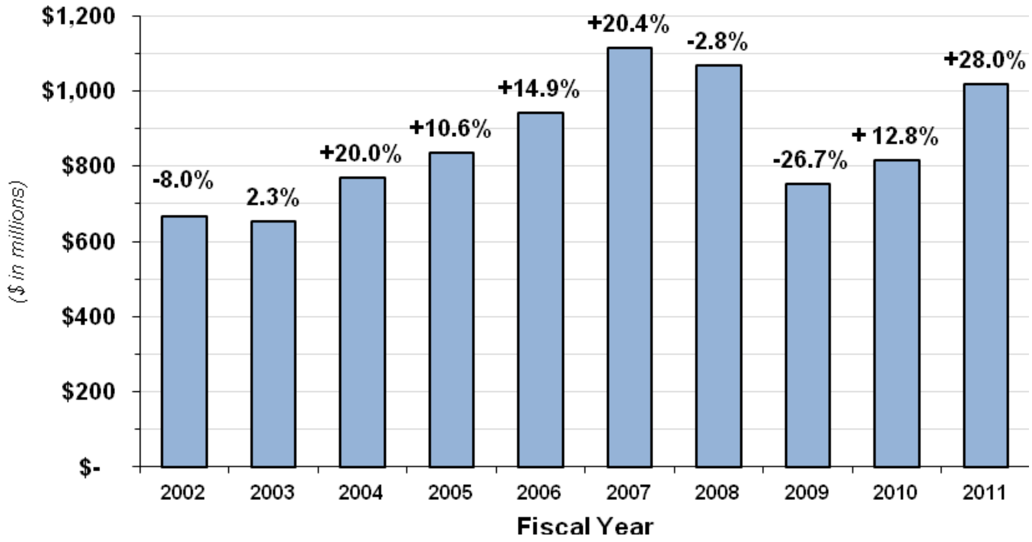
| | Asset Allocation | |
|---|---|---|
| | Current Target Allocation | Actual as of June 30, 2011 |
| **U.S. Public Equities** | 14% | 15% |
| **International - Developed** | 6% | 7% |
| **International - Emerging** | 9% | 10% |
| **Fixed Income** | 10% | 10% |
| **Private Equity** | 22% | 26% |
| **Hedge Funds** | 18% | 13% |
| **Real Assets** | 15% | 12% |
| **Opportunistic** | 6% | 6% |
| **Cash** | 0% | 1% |
| **TOTAL** | 100% | 100% |

### Investment Performance

The capital markets were particularly strong throughout most of fiscal year 2011 and Carnegie Mellon's portfolio with its significant allocation to growth-oriented investments benefitted accordingly. The University's net investment return was 28.0% for fiscal year 2011, which followed a net investment return of 12.8% for fiscal year 2010. The returns for fiscal year 2009 and prior years reflect a lag of one quarter for the private investment funds. When incorporating this lag into the return for fiscal year 2011 and fiscal year 2010, the returns would have been 26.2% and 12.0%, respectively.

The endowment's market value increased to $1,017.3 million as of June 30, 2011, from $815.1 million as of June 30, 2010. This net increase of approximately $200.0 million reflects the collective impact of $31.6 million from gifts and other sources, $221.9 million in investment gains, and $51.3 million in distributions to support the University's annual operations.

Figure 2 Endowment Ending Value and Annual Investment Return




For fiscal year 2011, the equity markets increased as seen in the following indexes: S&P 500 Index (+30.7%), MSCI EAFE (+30.4%), and the MSCI Emerging Markets Index (+27.8%).

An annual cash distribution from the endowment (i.e., the draw) provides a key source of support for the University's various activities and programs, ranging from general operations to specific needs such as scholarships and professorships. At present, the endowment remains significantly smaller, both in absolute terms and on a per capita basis, relative to our peer institutions, resulting in heavy reliance by the operating budget on tuition and research funding. The historical activities of the endowment, including the draw and its support expressed as a percentage of annual operations, are summarized in Figure 3.

Figure 3 Endowment Attribution

| | Fiscal Year Ending June 30th | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *($ Millions)* | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** |
| **Opening Endowment Value** | 756.9 | 667.8 | 654.7 | 769.0 | 837.5 | 941.5 | 1,115.7 | 1,067.7 | 754.1 | 815.1 |
| **Gifts/Other Additions** | 11.8 | 12.4 | 19.6 | 28.3 | 31.4 | 28.6 | 38.1 | 19.5 | 20.3 | 31.6 |
| **Annuity Reclassification** | | | | | (11.7) | | | | | |
| **Draw*** | (42.8) | (41.7) | (36.5) | (36.3) | (36.8) | (40.5) | (45.7) | (51.6) | (53.0) | (51.3) |
| **Investment Performance** | (58.1) | 16.2 | 131.2 | 76.4 | 121.2 | 186.1 | (40.4) | (281.5) | 93.6 | 221.9 |
| **Closing Endowment Value** | 667.8 | 654.7 | 769.0 | 837.5 | 941.5 | 1,115.7 | 1,067.7 | 754.1 | 815.1 | 1,017.3 |
| | | | | | | | | | | |
| **Draw Details** | | | | | | | | | | |
| **Total Operations** | 551.0 | 559.8 | 620.1 | 674.8 | 737.7 | 761.8 | 807.9 | 852.2 | 874.2 | 909.7 |
| **Draw % of Operations** | 7.8% | 7.5% | 5.9% | 5.4% | 5.0% | 5.3% | 5.7% | 6.1% | 6.1% | 5.6% |
| | | | | | | | | | | |
| **Draw % of Beginning Value** | 5.7% | 6.2% | 5.6% | 4.7% | 4.4% | 4.3% | 4.1% | 4.8% | 7.0% | 6.3% |
| **Draw % of Ending Value** | 6.4% | 6.4% | 4.7% | 4.3% | 3.9% | 3.6% | 4.3% | 6.8% | 6.5% | 5.0% |
| **Draw Policy (%)** | 5.2% | 5.1% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 4.9% | 5.0% |

** Full value not available to operations due to donor restrictions and reinvestment stipulations*

During the last decade, the draw from the endowment has contributed, on average, approximately 6.0% of the University's annual operating budget. For fiscal year 2011, the draw from the endowment provided 5.6% of the University's operating budget. Viewed as a percentage of the annual budget, the relative support from the draw is, of course, affected not only by the growth in the endowment and the draw formula (see "Note 6" of the consolidated financial statements), but also by the growth in the University's annual operating budget.

Carnegie Mellon's endowment is invested in a long-term pool, which also includes a portion of the University's working capital reserves. The gains for the long-term pool for fiscal year 2011, which total $257.7 million, reflect the receipt of $40.7 million of funds from the court-appointed receiver of Westridge Capital Management, Inc. (WCM) Enhancement Fund. In fiscal year 2009, the University's investment in WCM was written down to $0 because there was insufficient evidence at that time to estimate the timing of or amounts the University may ultimately recover from this investment that was held in receivership. The $40.7 million recovered to date equals 83% of the last recorded value of the investment prior to the write-down (see "Note 5" of the consolidated financial statements). We continue to pursue this matter aggressively.

With changes designed to significantly enhance the University's investment program and the continued generosity of the University's alumni and friends, we are confident that the prospects for long-term growth of endowment assets remain strong. Although the market advances in fiscal year 2011 were noteworthy, the global economic situation is not without significant investor concerns that may lead to periods of increased price volatility and decreased asset prices—such as we have experienced during the beginning of fiscal year 2012. However, we believe the University's investment program with its long-term focus and global, diversified asset allocation will enable Carnegie Mellon's endowment to continue to strengthen over time, enabling greater ongoing support for the University's operating needs while also preserving purchasing power to support future generations of students.

Charles A. Kennedy
Interim Chief Investment Officer
October 12, 2011

**Report of Independent Auditors**

To the Board of Trustees
Carnegie Mellon University and Subsidiaries

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and changes in net assets and of cash flows presents fairly, in all material respects, the financial position of Carnegie Mellon University and its Subsidiaries at June 30, 2011 and June 30, 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
October 12, 2011

# Carnegie Mellon University
## Consolidated Statements of Financial Position
## June 30, 2011 and 2010
*($ in thousands)*

| | 2011 | 2010 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents (Note 2) | $ 130,853 | $ 127,737 |
| Accrued interest and dividends | 982 | 967 |
| Accounts receivable, net (Note 3) | 61,640 | 52,315 |
| Pledges receivable, net (Note 4) | 50,644 | 43,842 |
| Student loans receivable, net (Note 3) | 15,305 | 17,015 |
| Investments (Note 5 and Note 7) | 1,298,608 | 1,040,822 |
| Assets held in trust by others (Note 7) | 12,817 | 12,323 |
| Assets limited as to use (Note 2) | - | 5,127 |
| Other assets | 25,829 | 29,389 |
| Land, buildings and equipment, net (Note 9) | 684,082 | 685,221 |
| Total assets | $ 2,280,760 | $ 2,014,758 |
| **Liabilities:** | | |
| Accounts payable and other liabilities (Note 2) | $ 126,829 | $ 130,221 |
| Deferred revenue | 83,286 | 85,094 |
| Federal student loan funds | 14,629 | 14,573 |
| Present value of split interest agreements payable | 13,906 | 13,984 |
| Long-term debt (Note 10) | 459,091 | 466,486 |
| Total liabilities | $ 697,741 | $ 710,358 |
| **Net assets:** | | |
| Unrestricted | 674,540 | 573,972 |
| Temporarily restricted (Note 11) | 392,427 | 259,026 |
| Permanently restricted (Note 11) | 516,052 | 471,402 |
| Total net assets | $ 1,583,019 | $ 1,304,400 |
| Total liabilities and net assets | $ 2,280,760 | $ 2,014,758 |

The accompanying notes are an integral part of these consolidated financial statements.

# Carnegie Mellon University
## Consolidated Statements of Activities
## Year Ended June 30, 2011
*($ in thousands)*

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenue and other support:** | | | | |
| Tuition and other educational fees revenue, net of financial aid | $ 339,290 | $ - | $ - | $ 339,290 |
| Sponsored projects revenue (Note 8) | 360,916 | - | - | 360,916 |
| Investment income | 28,186 | 3,213 | 199 | 31,598 |
| Contributions revenue (Note 4) | 22,575 | 19,149 | 41,055 | 82,779 |
| Auxiliary services revenue | 50,113 | - | - | 50,113 |
| Other sources (Note 2) | 90,956 | 331 | 645 | 91,932 |
| Net assets released from restrictions | 48,621 | (48,621) | - | - |
| Total revenue and other support | $ 940,657 | $ (25,928) | $ 41,899 | $ 956,628 |
| **Expenses:** | | | | |
| Salaries | $ 481,995 | $ - | $ - | $ 481,995 |
| Benefits | 107,223 | - | - | 107,223 |
| Supplies and services | 151,073 | - | - | 151,073 |
| Occupancy and related expenses | 61,970 | - | - | 61,970 |
| Other operating expenses | 46,692 | - | - | 46,692 |
| Depreciation and amortization | 49,908 | - | - | 49,908 |
| Interest expense | 10,840 | - | - | 10,840 |
| Total expenses | $ 909,701 | $ - | $ - | $ 909,701 |
| Increase (decrease) in net assets before nonoperating activities | 30,956 | (25,928) | 41,899 | 46,927 |
| **Nonoperating activities:** | | | | |
| Net realized gain on investments, net | 22,423 | 76,513 | 260 | 99,196 |
| Net unrealized gain on investments, net | 47,105 | 84,816 | 2,491 | 134,412 |
| Other sources (Note 2) | (1,147) | - | - | (1,147) |
| Post retirement plan changes other than net periodic benefit costs (Note 15) | (769) | - | - | (769) |
| Net assets released from restrictions (Note 2) | 2,000 | (2,000) | - | - |
| Total nonoperating activities | $ 69,612 | $ 159,329 | $ 2,751 | $ 231,692 |
| Increase in net assets | $ 100,568 | $ 133,401 | $ 44,650 | $ 278,619 |
| Net assets, June 30, 2010 | $ 573,972 | $ 259,026 | $ 471,402 | $ 1,304,400 |
| Net assets, June 30, 2011 | $ 674,540 | $ 392,427 | $ 516,052 | $ 1,583,019 |

The accompanying notes are an integral part of these consolidated financial statements.

# Carnegie Mellon University
## Consolidated Statements of Activities
## Year Ended June 30, 2010
*($ in thousands)*

| | 2010 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| **Revenue and other support:** | | | | |
| Tuition and other educational fees revenue, net of financial aid | $ 323,029 | $ - | $ - | $ 323,029 |
| Sponsored projects revenue (Note 8) | 330,526 | - | - | 330,526 |
| Investment income | 29,474 | 3,810 | 226 | 33,510 |
| Contributions revenue (Note 4) | 23,294 | 27,964 | 12,355 | 63,613 |
| Auxiliary services revenue | 46,500 | - | - | 46,500 |
| Other sources (Note 2) | 97,907 | 3,546 | 1,143 | 102,596 |
| Net assets released from restrictions | 52,425 | (52,425) | - | - |
| Total revenue and other support | $ 903,155 | $ (17,105) | $ 13,724 | $ 899,774 |
| **Expenses:** | | | | |
| Salaries | $ 460,883 | $ - | $ - | $ 460,883 |
| Benefits | 106,508 | - | - | 106,508 |
| Supplies and services | 139,806 | - | - | 139,806 |
| Occupancy and related expenses | 60,983 | - | - | 60,983 |
| Other operating expenses | 46,464 | - | - | 46,464 |
| Depreciation and amortization | 48,831 | - | - | 48,831 |
| Interest expense | 10,752 | - | - | 10,752 |
| Total expenses | $ 874,227 | $ - | $ - | $ 874,227 |
| Increase (decrease) in net assets before nonoperating activities | 28,928 | (17,105) | 13,724 | 25,547 |
| **Nonoperating activities:** | | | | |
| Net realized (loss) gain on investments | (2,565) | 35,148 | 92 | 32,675 |
| Net unrealized gain on investments | 18,395 | 28,669 | 1,159 | 48,223 |
| Other sources (Note 2) | (15,831) | - | - | (15,831) |
| Post retirement plan changes other than net periodic benefit costs (Note 15) | 6,808 | - | - | 6,808 |
| Net assets released from restrictions (Note 2) | 33,406 | (33,406) | - | - |
| Total nonoperating activities | $ 40,213 | $ 30,411 | $ 1,251 | $ 71,875 |
| Increase in net assets | $ 69,141 | $ 13,306 | $ 14,975 | $ 97,422 |
| Net assets, June 30, 2009 | $ 504,831 | $ 245,720 | $ 456,427 | $ 1,206,978 |
| Net assets, June 30, 2010 | $ 573,972 | $ 259,026 | $ 471,402 | $ 1,304,400 |

The accompanying notes are an integral part of these consolidated financial statements.

# Carnegie Mellon University
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2011 and 2010
*($ in thousands)*

| | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Increase in net assets | $ 278,619 | $ 97,422 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Realized gains on investments | (121,708) | (56,827) |
| Unrealized gains on investments | (134,412) | (48,223) |
| Depreciation and amortization | 49,908 | 48,831 |
| Amortization of bond premium/discount, net | (1,507) | (456) |
| Loss on debt extinguishment | - | 559 |
| Gifts in kind | (628) | (271) |
| (Gain)/loss on asset dispositions | (161) | 961 |
| Receipt of contributed securities | (10,060) | (5,532) |
| Provision for bad debt and other allowances | 349 | 1,491 |
| Contributions held in trust by others | (494) | (1,521) |
| Contributions for land, buildings, equipment and permanent endowment | (29,820) | (17,783) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accrued interest and dividends | (15) | 666 |
| Accounts receivable, net | (9,063) | 2,597 |
| Pledges receivable, net | (7,160) | 5,429 |
| Other assets | 5,290 | 2,947 |
| Increase (decrease) in: | | |
| Accounts payable and other liabilities | (4,908) | 426 |
| Deferred revenue | (1,808) | (6,789) |
| Present value of split interest agreements | (78) | (4,043) |
| Net cash provided by operating activities | $ 12,344 | $ 19,884 |
| **Cash flows from investing activities:** | | |
| Proceeds from sale and maturity of investments | 576,744 | 896,654 |
| Purchases of investments | (578,003) | (859,396) |
| Proceeds from sales of donated securities | 9,668 | 6,560 |
| Assets limited as to use | 5,127 | (5,127) |
| Purchases of land, buildings and equipment | (48,209) | (77,470) |
| Federal loan programs | 56 | 71 |
| Disbursements of loans to students | (1,629) | (1,014) |
| Repayments of loans from students | 3,086 | 2,326 |
| Net cash used for investing activities | $ (33,160) | $ (37,396) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of indebtedness | - | 183,259 |
| Payment of bond issue costs | - | (1,247) |
| Repayments of long-term debt | (5,888) | (182,723) |
| Contributions for land, buildings, equipment and permanent endowment | 29,820 | 17,783 |
| Net cash provided by financing activities | $ 23,932 | $ 17,072 |
| Net increase (decrease) in cash and cash equivalents | 3,116 | (440) |
| Cash and cash equivalents at beginning of year | 127,737 | 128,177 |
| **Cash and cash equivalents at end of year** | $ 130,853 | $ 127,737 |
| **Noncash transactions:** | | |
| Additions to property, plant and equipment (accruals, gifts in kind, environmental obligations) | $ 2,380 | $ 4,612 |
| Non-cash stock contributions | 10,060 | 5,532 |

The accompanying notes are an integral part of these financial consolidated statements.

### 1. Carnegie Mellon

Carnegie Mellon University ("Carnegie Mellon") is a private, not-for-profit educational and research institution. Carnegie Mellon currently enrolls about 11,600 students and grants approximately 3,600 bachelors, masters and doctoral degrees each year. Approximately 84% of undergraduate students are from the United States of America. International students comprise approximately 16% of undergraduate, 46% of master's and 53% of Ph.D. students.

A substantial portion of Carnegie Mellon's revenues are from sponsored research and other projects under federal, state, industrial and other contracts.

### 2. Summary of Significant Accounting Policies

**Basis of Accounting and Reporting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Carnegie Mellon and other majority-owned entities. The consolidated entities are Technology Holdings, Benjamin Garver Lamme Scholarship Fund, Jack G. Buncher Charitable Fund, SEI-Europe GmbH, and iCarnegie, Inc. All significant inter-entity transactions and balances have been eliminated in consolidation. Carnegie Mellon also is a joint sponsor with the University of Pittsburgh in MPC Corporation (MPC), a nonprofit related entity, and an owner as a tenant in common of the Bellefield Boiler Plant. The activities of MPC Corporation and the Bellefield Boiler Plant are not consolidated or recorded in Carnegie Mellon's consolidated financial statements.

Carnegie Mellon's net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

***Unrestricted net assets*** **-** Net assets that are not subject to donor imposed stipulations.

***Temporarily restricted net assets*** **-** Net assets subject to specific donor imposed or legal stipulations that can be fulfilled by actions of Carnegie Mellon pursuant to those stipulations or that expire by the passage of time.

***Permanently restricted net assets*** **-** Net assets subject to donor imposed stipulations that the assets be maintained permanently. Generally, the donors of these assets permit Carnegie Mellon to use all or part of the income earned on the related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets are reported as net assets released from restrictions.

Income and realized net gains and losses on investments are reported as follows:

- As changes in permanently restricted net assets, if so restricted by donor;
- As changes in temporarily restricted net assets, if the terms of the gift or relevant state law impose restrictions on the use of the income or gains and losses; and
- As changes in unrestricted net assets, in all other cases.

**Reclassifications**
Certain footnote disclosure amounts related to functional expenses, investments and endowments in previously issued financial statements have been reclassified to conform to the current year presentation.

**Cash Equivalents**
Cash equivalents include highly liquid investments with original maturities of three months or less.

At June 30, 2011, $29.2 million of securities transferred from a third party related to an overnight repurchase transaction is recorded as cash equivalents. It is Carnegie Mellon's policy to require 100% collateralization with U.S. Government or U.S. Government Agency securities in repurchase arrangements.

**Investments**
Debt and equity securities held by Carnegie Mellon are carried at fair value as established by the major securities markets with gains and losses reported on the statement of activities. The alternative investments are carried at estimated fair value. Carnegie Mellon reviews and evaluates the values provided by the investment managers and agrees with valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Note 7- Fair Value provides additional information about inputs used to determine fair value for investments. Investments received as a gift are reflected as contributions at their market value at the date of the gift.

Carnegie Mellon utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes could materially affect the amounts reported in the Consolidated Statements of Financial Position.

**Endowment**
Investment policy for endowment assets is the responsibility of the Investment Committee of the Board of Trustees. Substantially all endowment assets are managed by outside investment managers and are held by an outside custodian.

> ***Unrestricted endowment net assets*** include Carnegie Mellon funds and unrestricted gifts from donors, and any accumulated income and appreciation thereon, which is intended to remain in the endowment for the long-term support of Carnegie Mellon activities, but may be expended under trustee authorization.

***Temporarily restricted endowment net assets*** include accumulated appreciation on permanent endowment assets. The Trustees of Carnegie Mellon must annually authorize release of endowment gains according to Pennsylvania law. This classification also includes term endowments and endowment gifts whereby the donor permits distributions of the original gift and accumulated appreciation.

***Permanently restricted endowment net assets*** include those assets that must be invested in perpetuity to provide a permanent source of income.

All endowment funds participate in a Carnegie Mellon investment pool. The investment pool provides income to its respective participants. Such income is used for the specific purpose prescribed by the donor or, if the purpose was not prescribed by the donor, the income is deemed to be unrestricted and used for general purposes. New endowment funds or additions to existing funds are assigned shares in the investment pool based upon the per share market value at the end of the previous month. Income distributions from the investment pool are based upon the number of shares held by each participant and the approved spending rate (see Note 6). Income distributions from the investment pool are based upon the "total return concept". The annual income distributed from the investment pool includes interest and dividends and could include a portion of the accumulated capital gains. Any capital gains not distributed currently are reinvested in the investment pool and are available for distribution from the endowment assets in future years.

**Assets Held in Trust by Others**
Assets held in trust by others include the value of Carnegie Mellon's beneficial interest in perpetual trusts and irrevocable trusts held by outside trustees. The present value of the perpetual trust's estimated future cash receipts, which were measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. The asset is adjusted periodically for changes in market value.

Various donors have established irrevocable trusts whereby Carnegie Mellon holds a remainder interest in the trust or is entitled to distributions over the life of the trust. The present value of the portion of the trusts estimated to be distributable to Carnegie Mellon over the life of the trust or upon the termination of the trusts is recorded as assets and contribution revenues at the dates the trusts are established. The asset is adjusted periodically for changes in value.

**Assets Limited as to Use**
Assets limited as to use in the amount of $5.1 million as of June 30, 2010 represent proceeds from the issuance of the 2009 bonds, which were held by a trustee under the bond indenture for capital expenditures. The remaining $5.1 million of proceeds were drawn during fiscal year 2011.

**Land, Buildings and Equipment**
Land, buildings and equipment are recorded at cost at the date of acquisition or, if acquired by gift, at the estimated fair value as of the date of the gift. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are expensed to operations. Buildings and equipment are reflected net of accumulated depreciation which is calculated on a straight-line basis over the estimated useful lives. Carnegie Mellon reviews its land, buildings and equipment and other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Useful lives are as follows:

Buildings 35-50 years
Renovations 20 years
Land improvements 15 years
Movable assets 5-20 years

Donated works of art, historical treasures and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. If purchased, the assets are recognized at cost. The assets are depreciated over 99 years.

Carnegie Mellon capitalizes interest during periods of construction. Interest of $0.3 million was capitalized in fiscal year 2010.

**Accounts Payable and Other Liabilities:**
Accounts payable and other liabilities includes accounts payable, accrued payroll and benefits, swap liabilities, Gate Loan, and other accrued expenses.

**Federal Student Loan Funds**
This liability represents Perkins loan funds provided to students by the federal government through Carnegie Mellon. Carnegie Mellon is required to collect the loans on behalf of the federal government. The amount due from the students is reported in the Consolidated Statements of Financial Position as a component of loans receivable.

**Present Value of Split Interest Agreements Payable**
Carnegie Mellon's split interest agreements with donors consist primarily of gift annuities, unitrusts, lead trusts, charitable remainder annuity trusts and life income agreements. Assets held under these agreements are included in investments. Generally, contribution revenues are recognized at the dates the agreements are established, after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The discount rates utilized for split interest agreements range from 2.3% to 6.2%. Distributions from the trusts are recorded, in accordance with the donor's restrictions as contributions, and the carrying value of the assets are adjusted for changes in the fair value of the trust assets.

**Operating Activities**
Carnegie Mellon's measure of operations as presented in the Consolidated Statements of Activities includes revenue from tuition and other educational fees, sponsored projects, investment return distributed according to Carnegie Mellon's spending policy, unrestricted contributions, revenues from auxiliary services and other sources, and net assets released from restriction. Operating expenses are reported by natural classification.

**Student Financial Aid**
Tuition and other educational fees are reported net of student financial aid of $113.7 million and $103.8 million for the years ended June 30, 2011 and 2010, respectively.

**Sponsored Projects Revenue**
Sponsored projects revenue includes research and other programs sponsored by government, industrial, and other sources. Direct sponsored projects revenue represents reimbursement of costs incurred in direct support of sponsored projects. Such revenue is recognized when the direct costs are incurred. In addition, sponsored projects normally provide for the recovery of indirect costs supporting the project. Indirect sponsored projects revenue is recorded at rates established in advance by Carnegie Mellon through negotiations with the United States Government and other sponsors. Amounts received from sponsors under agreements that require the exchange of assets, rights or other privileges between Carnegie Mellon and the sponsor are recorded as deferred revenue until the contract terms are fulfilled.

**Contributions Revenue**
Contributions include gifts, grants and unconditional promises to give that are recognized as revenues in the period such commitments are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions to be received in future years are discounted, as of the date of the gift, at a rate commensurate with the pledge payment schedule. Prior to the adoption of Fair Value Measurement provisions of Accounting Standards Codification (ASC) topic 820, a risk-free rate was used. For pledges recorded subsequent to the adoption, a discount rate commensurate with fair market value is used. An allowance is estimated for uncollectible contributions based upon historical patterns and any known uncollectible accounts.

**Contributions with Restrictions Met in the Same Year**
Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release of restriction is made to unrestricted net assets to reflect the satisfaction or expiration of such restrictions.

**Capital Contributions**
Donors' contributions to fund construction projects are classified as temporarily restricted net assets and are released from restriction through nonoperating activities when the facility is placed in service. $2.0 million and $33.4 million of capital contributions were released from restriction during fiscal year 2011 and 2010, respectively, and were reclassified from temporarily to unrestricted net assets through nonoperating activities.

Contributions received after the asset is placed in service are classified as temporarily restricted net assets and are released from restriction through operating activities in the same fiscal year. $5.6 million and $3.0 million of capital contributions were released from restriction during fiscal year 2011 and 2010, respectively, and were reclassified from temporarily to unrestricted net assets through operating activities.

**Auxiliary Services Revenue**
Carnegie Mellon's auxiliaries exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, Carnegie Mellon's auxiliaries consist principally of housing services, dining services, telecommunications, parking, printing and publications, retail and other external services. Auxiliary revenues and expenses are reported as changes in unrestricted net assets.

**Other Sources**
Other sources revenues are comprised of funding received for Carnegie Mellon's international locations, royalty income, licensing revenue, affiliate/membership revenue and other miscellaneous revenues.

**Nonoperating Activities – Other Sources**
Nonoperating activities-other sources presented in the Consolidated Statements of Activities include:

- A $3.6 million gain and a $9.8 million loss in the fair value of the interest rate swap agreements as of June 30, 2011 and 2010, respectively (Note 12);

- Swap interest expense of $4.9 million as of June 30, 2011 and 2010 (Note 12);

**Income Taxes**
Carnegie Mellon is a nonprofit organization as described in Section 501(c) (3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes on related income pursuant to Section 501(a) of the Code.

**Use of Estimates**
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated financial statements and related accompanying footnote disclosures. Actual results could differ from those estimates and these differences could be material. Carnegie Mellon's significant estimates include: allowance for uncollectible accounts, asset retirement obligations, legal contingencies, accrued post retirement liability, Gate Loan program, and valuation of investments.

## 3. Accounts and Loans Receivable

Accounts receivable at June 30, 2011 and 2010, consist of the following (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Sponsored project grants and contracts: | | |
| Federal | $ 41,095 | $ 34,222 |
| Other | 6,957 | 7,309 |
| Total sponsored projects | $ 48,052 | $ 41,531 |
| Student accounts | 7,686 | 7,010 |
| Other | 9,181 | 8,266 |
| | $ 16,867 | $ 15,276 |
| Allowance for doubtful accounts | (3,279) | (4,492) |
| Net accounts receivable | $ 61,640 | $ 52,315 |

Other accounts receivable consists primarily of Carnegie Mellon's international programs, affiliate and membership agreements, license agreements and other miscellaneous revenue sources.

**Loans Receivable**

Net loans receivable of approximately $15.3 million and $17.0 million, as of June 30, 2011 and 2010, respectively, primarily represent student loans made under a federal loan program including loans under the Gate Loan Program (Note 18). These loans are reported net of an allowance for doubtful accounts of approximately $0.7 million and $0.4 million as of June 30, 2011 and 2010, respectively.

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, incorporating such factors as the economic climate, the level of delinquent loans, the existence of any guarantees or indemnifications, and historical payment trends.

Management evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the University's exposure to credit losses and assessing the adequacy of the University's allowance for such losses as of each reporting date.

Factors also considered by management when performing its assessment, in addition to general economic conditions and other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

In establishing the allowance for credit losses, management follows the methodology described herein, including taking a historical review of student's abilities to repay student loans. The establishment of the allowance is subjective and requires management to make many judgments about student borrowers and regional and national economic health and performance.

In ascertaining the adequacy of the allowance for credit losses, the University estimates losses attributable to specific loss components as well as applies allowance percentages to various aging categories based upon historical collection percentages. The amount of specific loss components in the University's loan portfolios, if any, is determined through a specific identification process on a loan by loan basis.

Considering the other factors already discussed herein, management considers the allowance for credit losses to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2011 is adequate to absorb credit losses inherent in the portfolio as of that date.

### 4. Pledges Receivable and Contributions

Pledges as of June 30, 2011 and 2010 are discounted to the present value of future cash flows as of the date of the gift and are due as follows (in thousands of dollars):

| | 2011 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| In one year or less | $ 1,484 | $ 1,167 | $ 2,651 |
| Between one year and five years | 12,695 | 12,791 | 25,486 |
| More than five years | 4,275 | 32,168 | 36,443 |
| Pledges receivable, gross | $ 18,454 | $ 46,126 | $ 64,580 |
| Less: | | | |
| Unamortized discount | 2,327 | 8,944 | 11,271 |
| Allowances for unfulfilled pledges | 806 | 1,859 | 2,665 |
| Pledges receivable, net of allowances | $ 15,321 | $ 35,323 | $ 50,644 |

| | 2010 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| In one year or less | $ 2,786 | $ 4,051 | $ 6,837 |
| Between one year and five years | 19,676 | 20,268 | 39,944 |
| More than five years | 45 | 5,738 | 5,783 |
| Pledges receivable, gross | $ 22,507 | $ 30,057 | $ 52,564 |
| Less: | | | |
| Unamortized discount | 2,287 | 4,128 | 6,415 |
| Allowances for unfulfilled pledges | 1,011 | 1,296 | 2,307 |
| Pledges receivable, net of allowances | $ 19,209 | $ 24,633 | $ 43,842 |

Pledges receivable, as of June 30, 2011 and 2010, net of allowances, are intended for the endowment in the amounts of $35.3 million and $24.6 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $15.3 million and $19.2 million, respectively.

Contribution revenue includes gifts, unconditional pledges to give, and grants and are recorded in the appropriate net asset category based upon donor stipulations. Contributions for the fiscal years ended June 30, 2011 and 2010 are as follows (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Unrestricted | $ 22,575 | $ 23,294 |
| Temporarily restricted | 19,149 | 27,964 |
| Permanently restricted | 41,055 | 12,355 |
| Total | $ 82,779 | $ 63,613 |

Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized as contribution revenue when the conditions are substantially met. Total combined conditional pledges for Carnegie Mellon were approximately $10.3 million and $42.4 million as of June 30, 2011 and 2010, respectively. These amounts were not recognized as contribution revenue during the respective fiscal year as the conditions had not been met.

## 5. Investments

Investments by major category at June 30, 2011 and 2010 are as follows (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | $ 63,600 | $ 33,893 |
| Fixed income | 185,628 | 180,581 |
| Common stock | 388,806 | 320,029 |
| Alternative investments | 660,574 | 506,319 |
| Total investments | $ 1,298,608 | $ 1,040,822 |

Investments are held for the following purposes (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Endowment | $ 1,009,219 | $ 811,733 |
| Reserves for working capital and plant - short-term | 75,682 | 51,740 |
| Reserves for working capital and plant - long-term | 163,637 | 130,521 |
| Split interest agreements | 23,305 | 20,347 |
| Other investments | 26,765 | 26,481 |
| Total investments | $ 1,298,608 | $ 1,040,822 |

Nearly all fixed income securities are United States Treasury and Agency obligations, investment grade corporates, and asset backed securities. Common stock investments at June 30, 2011 are composed of approximately 47.4% domestic equities and 52.6% international and emerging market equities. Common stock investments at June 30, 2010 were composed of approximately 44.8% domestic equities and 55.2% international and emerging market equities. Alternative investments are largely investments in buyout funds, venture capital, real estate, natural resources and hedge funds.

The allocation to each major category in the table above represents the actual allocation of the short term and long term investment pools, split interest agreements, and other miscellaneous investments on a combined basis. Each investment pool maintains a unique investment strategy. Actual allocations on a combined basis should not be interpreted as an investment allocation policy for a particular investment pool. In addition, the above asset category allocations do not reflect the effective allocation exposures resulting from investment strategies that include derivatives.

The following schedule summarizes the investment return for the fiscal years ended June 30, 2011 and 2010 (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Dividends and interest (net of $3.0 million and $3.4 million of investment fees) | $ 9,085 | $ 9,357 |
| Net realized gains on sale of investments | 121,708 | 56,827 |
| Net unrealized gains on investments | 134,412 | 48,223 |
| Total return on investments | $ 265,205 | $ 114,407 |

Operating investment income as reported on the Consolidated Statements of Activities includes dividends and interest earned on unrestricted funds as well as unrestricted accumulated gains utilized for current operations in the amounts of $22.5 million and $24.2 million in the years ended June 30, 2011 and 2010, respectively. The accumulated gains are reclassified from net realized gains to dividends and interest income. This reclassification is not reflected in the table above.

Certain of Carnegie Mellon's outside investment managers, including alternative asset managers, are authorized and do, in fact, purchase and sell derivative instruments in order to manage interest rate risks, foreign currency fluctuations and other market positions.

Carnegie Mellon's international portfolios maintain market benchmarks, for performance evaluation and risk control purposes, that are unhedged with respect to foreign currencies. Unhedged benchmarks reflect the full impact of foreign currency fluctuations stemming from the benchmarks' foreign currency positions. Investment managers of these international portfolios have the discretion to, and certain do in fact, manage foreign currencies through foreign exchange contracts to protect the portfolios from potential foreign currency losses and to benefit from potential gains. Carnegie Mellon's investment managers understand that they are assuming active management risks to the extent that they assume foreign currency exposures that differ from the foreign currency exposures in their relevant market benchmarks (as documented in the formal investment guidelines for each manager).

Gains or losses from derivative instruments are reported as realized and unrealized gains or losses in the Consolidated Statements of Activities. The market value of all derivative instruments is included in the market value of the investments.

Under the terms of certain limited partnership agreements, Carnegie Mellon is obligated to periodically advance additional funding for venture capital, buyout, real estate, and natural resources fund investments. At June 30, 2011 and 2010, Carnegie Mellon had unfunded commitments of approximately $239.5 million and $252.4 million, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. Carnegie Mellon maintains sufficient liquidity in its investment portfolio to cover such calls.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following tables summarize these investments by strategy type at June 30, 2011 and 2010 (in thousands of dollars):

| **Alternative Investment Strategy** | **Number of Funds** | **2011 Fair Value** |
|---|---|---|
| Opportunistic (including distressed securities) | 15 | $ 53,749 |
| Hedge funds | 19 | 159,592 |
| Natural resources | 18 | 75,538 |
| Private equity (buyout) funds | 44 | 132,977 |
| Real estate | 12 | 58,860 |
| Venture capital | 67 | 179,858 |
| Total | 175 | $ 660,574 |
| Total investments | | $ 1,298,608 |
| % Alternative | | 50.9% |

| **Alternative Investment Strategy** | **Number of Funds** | **2010 Fair Value** |
|---|---|---|
| Opportunistic (including distressed securities) | 14 | $ 50,111 |
| Hedge funds | 18 | 135,815 |
| Natural resources | 16 | 63,715 |
| Private equity (buyout) funds | 43 | 96,221 |
| Real estate | 12 | 41,422 |
| Venture capital | 64 | 119,035 |
| Total | 167 | $ 506,319 |
| Total investments | | $ 1,040,822 |
| % Alternative | | 48.6% |

At June 30, 2008, Carnegie Mellon's endowment included a $74.4 million investment in Westridge Capital Management, Inc. (WCM) Enhancement Fund. The reported net asset value at January 31, 2009 was $49.1 million. On February 13, 2009, Carnegie Mellon was notified that the National Futures Association (NFA) had suspended the memberships of two individuals associated with WCM because of their failure to cooperate with an NFA audit. On February 20, 2009, Carnegie Mellon filed a lawsuit in the United States District Court for the Western District of Pennsylvania against WCM and several other Westridge-related entities and individuals to preserve assets and secure recovery of the investment that it had made in the Westridge-related entities. (Carnegie Mellon University et al. v. Westridge Capital Management, Inc., et al., 2:09-cv-00215-TFM (U.S.D.C. W.D.Pa.). The lawsuit was later stayed when the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC") each filed lawsuits against certain corporate entities and individuals affiliated with Westridge in the United States District Court for the Southern District of New York. In connection with the SEC and CFTC lawsuits, the Court issued temporary restraining orders on February 25, 2009 that froze the various defendants' assets and accounts and appointed a receiver. At that time, there was insufficient evidence to estimate the timing or amounts the University would ultimately recover relating to this investment. Therefore, an impairment loss of $49.1 million was recorded as of June 30, 2009 writing the investment value down to $0. This realized loss was included in nonoperating activities on the Consolidated Statements of Activities.

On December 14, 2010, United States District Court for the Southern District of New York ordered the receiver in the matter to distribute proceeds to certain investors. Carnegie Mellon received $8.0 million. On March 21, 2011, the court ordered additional distributions representing the majority of the assets under the receiver's control. These distributions were made in April 2011. Carnegie Mellon received $32.7 million from this distribution. For the fiscal year ended June 30, 2011, these distributions totaling $40.7 million have been recorded as realized gains and included in non-operating activities on the Consolidated Statements of Activities. The receiver continues to pursue additional recoveries for the benefit of the investors, including Carnegie Mellon. There remains insufficient evidence to estimate the timing or amounts of any additional recoveries the University will ultimately recover relating to this investment. Furthermore, certain investors have filed an appeal regarding the allocation of the March 21, 2011 distribution. The University believes that this appeal is without merit and will prove ultimately unsuccessful.

## 6. Endowments

The following tables provide a summary of the changes in value of the endowment assets excluding pledges for the years ended June 30 (in thousands of dollars):

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
| **Beginning of year endowment value** | $ 210,344 | $ 170,639 | $ 434,116 | $ 815,099 | |
| Gifts and other additions: | | | | | |
| Contributions (excluding pledges) | 78 | 1 | 30,203 | 30,282 | |
| Terminated life income trusts and income and gains reinvested | - | - | 1,307 | 1,307 | |
| Total gifts and other additions | $ 78 | $ 1 | $ 31,510 | $ 31,589 | |
| Investment income: | | | | | |
| Interest and dividends | $ 2,410 | $ 2,871 | $ 17 | $ 5,298 | |
| Net realized gains on sale of securities | 26,629 | 76,411 | 149 | 103,189 | |
| Net unrealized gains | 29,786 | 83,688 | - | 113,474 | |
| Total investment gain | $ 58,825 | $ 162,970 | $ 166 | $ 221,961 | |
| Income distributed: | | | | | |
| Cash and accrued interest and dividends | $ (2,410) | $ (2,872) | $ (17) | $ (5,299) | |
| Accumulated realized investment gains | (20,928) | (24,935) | (149) | (46,012) | |
| Total income distributed | $ (23,338) | $ (27,807) | $ (166) | $ (51,311) | |
| **End of year endowment value** | $ 245,909 | $ 305,803 | $ 465,626 | $ 1,017,338 | (1) |

*(1) Includes $8,119 of endowment gifts and other transfers pending investment and other accruals.*

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | | **Temporarily Restricted** | | **Permanently Restricted** | | **Total** | |
| **Beginning of year endowment value** | $ | 206,903 | $ | 126,608 | $ | 420,620 | $ | 754,131 |
| Gifts and other additions: | | | | | | | | |
| Contributions (excluding pledges) | | 224 | | 6,609 | | 11,559 | | 18,392 |
| Terminated life income trusts and income and gains reinvested | | - | | - | | 1,936 | | 1,936 |
| Total gifts and other additions | $ | 224 | $ | 6,609 | $ | 13,495 | $ | 20,328 |
| Investment income: | | | | | | | | |
| Interest and dividends | $ | 2,773 | $ | 3,166 | $ | 23 | $ | 5,962 |
| Net realized gains on sale of securities | | 13,168 | | 34,646 | | 182 | | 47,996 |
| Net unrealized gains | | 11,904 | | 27,726 | | - | | 39,630 |
| Total investment gain | $ | 27,845 | $ | 65,538 | $ | 205 | $ | 93,588 |
| Income distributed: | | | | | | | | |
| Cash and accrued interest and dividends | $ | (2,773) | $ | (3,166) | $ | (23) | $ | (5,962) |
| Accumulated realized investment gains | | (21,855) | | (24,950) | | (182) | | (46,987) |
| Total income distributed | $ | (24,628) | $ | (28,116) | $ | (205) | $ | (52,949) |
| **End of year endowment value** | $ | 210,344 | $ | 170,639 | $ | 434,116 | $ | 815,099 (2) |

*(2) Includes $3,366 of endowment gifts and other transfers pending investment and other accruals.*

The following tables outline donor-restricted funds and Board-designated funds for fiscal years 2011 and 2010 (in thousands of dollars):

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | | **Temporarily Restricted** | | **Permanently Restricted** | | **Total** | |
| Donor-restricted endowment funds | $ | - | $ | 305,803 | $ | 465,626 | $ | 771,429 |
| Board-designated funds | | 245,909 | | - | | - | | 245,909 |
| Total funds | $ | 245,909 | $ | 305,803 | $ | 465,626 | $ | 1,017,338 |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | | **Temporarily Restricted** | | **Permanently Restricted** | | **Total** | |
| Donor-restricted endowment funds | $ | - | $ | 170,639 | $ | 434,116 | $ | 604,755 |
| Board-designated funds | | 210,344 | | - | | - | | 210,344 |
| Total funds | $ | 210,344 | $ | 170,639 | $ | 434,116 | $ | 815,099 |

Unless the donor specifies that only a certain amount of the endowment may be spent, Pennsylvania Act 141 allows organizations to choose a total return spending policy strategy, whereby the board of trustees may annually elect to spend between 2% and 7% of the fair market value of the endowment. Carnegie Mellon maintains a total return spending policy. Endowment income distributions can consist of dividend and interest income and a withdrawal of accumulated capital gains, when necessary. The main objective of the total return spending policy is to separate spending policy from investment policy. This approach permits asset allocation decisions to be made independently of the need for current income. Carnegie Mellon targets a diversified asset allocation to achieve its long term objectives with prudent risk constraints. The endowment spending rate is determined annually pursuant to a smoothing formula whereby an approved spending rate percentage is applied to the trailing thirty-six month average of endowment market values at December 31. For fiscal years 2011 and 2010, the approved spending rate was set at 5.0% and 4.9%, respectively. As a result of the spending rate formula, the effective spending rate (defined as the endowment draw totals for the fiscal years ended 2011 and 2010 divided by the June 30 endowment market values for the those fiscal years) was 5.0% and 6.5%, respectively.

## 7. Fair Value

In fiscal year 2009, the University adopted the Fair Value Measurement provisions of Statement of Accounting Standards No. 157, now Accounting Standards Codification ("ASC") Topic 820. The University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

ASC 820 establishes a hierarchy to prioritize valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available.

Following is a description of the University's valuation methodologies for assets and liabilities measured at fair value:

Fair value for *Level 1* is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities, which include active listed equities, mutual funds, government supported obligations and cash equivalents.

Fair value for *Level 2* is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active or assets subject to transfer restrictions. Inputs are obtained from various sources including market participants, dealers, and brokers. Investments which can be redeemed on the measurement date or in the near term are included in this category.

Fair value for *Level 3* is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The following tables present the financial instruments carried at fair value for fiscal years 2011 and 2010 by caption on the Consolidated Statements of Financial Position by the valuation hierarchy defined above (in thousands of dollars):

| | 2011 | | | |
|---|---|---|---|---|
| | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** |
| **Assets** | | | | |
| **Investments:** | | | | |
| Cash and cash equivalents (a) | $ 63,562 | $ 38 | $ - | $ 63,600 |
| Common stock | | | | |
| U.S. - Equity | 181,418 | - | 406 | 181,824 |
| International - Developed | 74,407 | 11,022 | - | 85,429 |
| International - Emerging | 97,341 | 24,212 | - | 121,553 |
| Fixed income (with commingled accounts) (a) | 185,286 | 342 | - | 185,628 |
| Hedge funds | | | | |
| Absolute Return Strategies | - | 51,368 | 39,726 | 91,094 |
| Directional Return Strategies | - | 40,407 | 28,091 | 68,498 |
| Natural resources (a) | - | - | 75,538 | 75,538 |
| Private equity (a) | - | - | 312,835 | 312,835 |
| Real estate (a) | - | - | 58,860 | 58,860 |
| Opportunistic (with distressed securities) (a) | - | - | 53,749 | 53,749 |
| Total investments | $ 602,014 | $ 127,389 | $ 569,205 | $ 1,298,608 |
| Beneficial interests held by third party | - | - | 5,377 | 5,377 |
| Perpetual trusts held by third party | - | - | 7,440 | 7,440 |
| Total assets held in trust by others | - | - | 12,817 | 12,817 |
| Total assets at fair value | $ 602,014 | $ 127,389 | $ 582,022 | $ 1,311,425 |
| **Liabilities** | | | | |
| Interest rate swaps payable | $ - | $ 28,474 | $ - | $ 28,474 |
| Total liabilities at fair value | $ - | $ 28,474 | $ - | $ 28,474 |

(a) Presentation as a single class is appropriate based on the nature and risks of these investments.

| | 2010 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Assets** | | | | |
| **Investments:** | | | | |
| Cash and cash equivalents (a) | $ 33,893 | $ - | $ - | $ 33,893 |
| Common stock | | | | |
| U.S. - Equity | 144,509 | - | - | 144,509 |
| International - Developed | 75,639 | - | - | 75,639 |
| International - Emerging | 80,787 | 19,094 | - | 99,881 |
| Fixed income (with commingled accounts) (a) | 180,207 | 374 | - | 180,581 |
| Hedge funds | | | | |
| Absolute Return Strategies | - | 30,740 | 37,516 | 68,256 |
| Directional Return Strategies | - | 43,708 | 23,851 | 67,559 |
| Natural resources (a) | - | - | 63,715 | 63,715 |
| Private equity (a) | - | - | 215,256 | 215,256 |
| Real estate (a) | - | - | 41,422 | 41,422 |
| Opportunistic (with distressed securities) (a) | - | - | 50,111 | 50,111 |
| Total investments | $ 515,035 | $ 93,916 | $ 431,871 | $ 1,040,822 |
| Beneficial interests held by third party | - | - | 5,738 | 5,738 |
| Perpetual trusts held by third party | - | - | 6,585 | 6,585 |
| Total assets held in trust by others | - | - | 12,323 | 12,323 |
| Total assets at fair value | $ 515,035 | $ 93,916 | $ 444,194 | $ 1,053,145 |
| **Liabilities** | | | | |
| Interest rate swaps payable | $ - | $ 32,116 | $ - | $ 32,116 |
| Total liabilities at fair value | $ - | $ 32,116 | $ - | $ 32,116 |

(a) Presentation as a single class is appropriate based on the nature and risks of these investments.

There were no significant transfers between Level 1 and Level 2 for fiscal years 2011 and 2010.

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in private equity, real estate, natural resources and certain hedge funds). The value of certain alternative investments represents the University's ownership interest in the net asset value (NAV) or fair value of the respective partnership. In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in investment companies that have a calculated value of their capital account or NAV in accordance with, or in a manner consistent with GAAP. As a practical expedient, the University is permitted under GAAP to estimate fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with GAAP. The new guidance also permits the University to consider the length of time the investment can be redeemed after the measurement date when determining its categorization as level 2 or level 3.

The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, completed or pending third party transactions in comparable issues, recapitalizations and other transactions across the capital structure and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

Interest rate swaps are valued using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within level 2.

Beneficial remainder and lead trusts held by third parties are valued at the present value of the future distributions expected to be received upon termination of the trust or over the term of the trust agreement at approximate fair value. Perpetual trusts are valued based upon the University’s percentage interest in the fair value of the underlying trust assets.

The valuation methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The new guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the University’s investments. Investments which can be redeemed at NAV on the measurement date or in the near term are classified as Level 2 and investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. Any hedge fund with a monthly or quarterly redemption period held by the University was deemed to have met the near term transfer restrictions and these assets were classified as Level 2. All other hedge fund assets were classified as Level 3.

The following redemption table clarifies the nature and risk of the University's investments and liquidity for financial instruments classified by the University within Level 3 of the fair value hierarchy (in thousands of dollars):

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Common stock | | | | |
| U.S. - Equity | $ 406 | $ - | | |
| Hedge funds | | | Semi-annual & Annually | 30 - 90 days |
| Absolute Return Strategies | 39,726 | - | | |
| Directional Return Strategies | 28,091 | - | | |
| Natural resources | 75,538 | 30,136 | | |
| Private equity | 312,835 | 171,519 | | |
| Real estate | 58,860 | 19,248 | | |
| Opportunistic | 53,749 | 18,646 | | |
| Total investments | $ 569,205 | $ 239,549 | | |

Hedge fund investments held by the University may be subject to restrictions related to the initial investment that limit the University's ability to redeem capital from such investments during a specified period of time subsequent to the University's investment of capital in such funds, typically known as a lock-up period. Capital available for redemption after the lock-up period has expired may also be subject to limits which restrict the available redemption period to monthly, quarterly, semi-annually or annually and require 30 – 90 days prior written notice, potentially limiting the University ability to respond quickly to changes in market conditions.

Other Level 3 assets, including classifications of natural resources, private equity, real estate and opportunistic with distressed securities, cannot be redeemed upon request. Instead, the nature of these investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of these funds would be liquidated over approximately 4 to 8 years.

The following table includes a roll forward of the Consolidated Statements of Financial Position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy (in thousands of dollars):

| | Privately-Held Common Stock | Hedge Funds | Private Equity | Real Estate | Natural Resources | Opportunistic (with distressed Securities) | Total Investments |
|---|---|---|---|---|---|---|---|
| Fair value, July 1, 2009 | $ - | $ 126,336 | $ 163,005 | $ 39,725 | $ 47,870 | $ 37,922 | $ 414,858 |
| Realized gains (losses) | - | - | (2,602) | (1,581) | 1,409 | 6,045 | 3,271 |
| Unrealized gains (losses) | - | 10,862 | 27,307 | (4,953) | 5,077 | 6,765 | 45,058 |
| Net purchases, sales and settlements | - | (1,383) | 28,026 | 8,231 | 9,359 | (1,101) | 43,132 |
| Transfers in (out) | - | (74,448) | (480) | - | - | 480 | (74,448) |
| Fair value, June 30, 2010 | $ - | $ 61,367 | $ 215,256 | $ 41,422 | $ 63,715 | $ 50,111 | $ 431,871 |

| | Privately-Held Common Stock | Hedge Funds | Private Equity | Real Estate | Natural Resources | Opportunistic (with distressed Securities) | Total Investments |
|---|---|---|---|---|---|---|---|
| Fair value, July 1, 2010 | $ - | $ 61,367 | $ 215,256 | $ 41,422 | $ 63,715 | $ 50,111 | $ 431,871 |
| Realized gains (losses) | - | - | 7,755 | (165) | 5,019 | 6,313 | 18,922 |
| Unrealized gains (losses) | - | 5,086 | 61,547 | 11,564 | 12,879 | 2,164 | 93,240 |
| Net purchases, sales and settlements | - | (547) | 26,812 | 6,039 | (6,075) | (4,839) | 21,390 |
| Transfers in (out) | 406 | 1,911 | 1,465 | - | - | - | 3,782 |
| Fair value, June 30, 2011 | $ 406 | $ 67,817 | $ 312,835 | $ 58,860 | $ 75,538 | $ 53,749 | $ 569,205 |

| | Beneficial Interests Held by Third Party | Perpetual Trusts Held by Third Party | Total Trusts Held by Third Party |
|---|---|---|---|
| Fair value, July 1, 2009 | $ 5,553 | $ 5,249 | $ 10,802 |
| Realized gains (losses) | - | - | - |
| Unrealized gains (losses) | 185 | 348 | 533 |
| Transfers in (out) | - | 988 | 988 |
| Fair value, June 30, 2010 | $ 5,738 | $ 6,585 | $ 12,323 |

| | Beneficial Interests Held by Third Party | Perpetual Trusts Held by Third Party | Total Trusts Held by Third Party |
|---|---|---|---|
| Fair value, July 1, 2010 | $ 5,738 | $ 6,585 | $ 12,323 |
| Realized gains (losses) | - | - | - |
| Unrealized gains (losses) | 61 | 855 | 916 |
| Transfers in (out) | (422) | - | (422) |
| Fair value, June 30, 2011 | $ 5,377 | $ 7,440 | $ 12,817 |

All net realized and unrealized gains/(losses) in the table above are reflected in nonoperating activities in the accompanying Consolidated Statements of Activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30.

## 8. Sponsored Projects Revenue

The major components of sponsored projects revenue for the years ended June 30, 2011 and 2010 are as follows (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Federal | | |
| Direct | $ 266,489 | $ 239,235 |
| Indirect | 51,057 | 46,371 |
| Total federal | $ 317,546 | $ 285,606 |
| State, industrial and other | | |
| Direct | $ 37,707 | $ 38,496 |
| Indirect | 5,663 | 6,424 |
| Total state, industrial and other | $ 43,370 | $ 44,920 |
| Total sponsored projects revenue | $ 360,916 | $ 330,526 |

Included in other sponsored projects revenue for the fiscal years ended June 30, 2011 and 2010 are amounts from private sources (foundation grants) which amounted to $11.2 million and $9.5 million, respectively.

## 9. Land, Buildings and Equipment

Land, buildings and equipment at June 30 consist of the following (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Buildings | $ 923,958 | $ 901,844 |
| Movable equipment | 242,896 | 237,651 |
| Utilities and building-related assets | 55,908 | 52,174 |
| Land improvements | 11,888 | 10,288 |
| Leasehold improvements | 12,343 | 11,601 |
| Subtotal | $ 1,246,993 | $ 1,213,558 |
| Accumulated depreciation | (623,556) | (588,441) |
| Subtotal | $ 623,437 | $ 625,117 |
| Land | 40,315 | 39,829 |
| Construction in progress | 20,330 | 20,275 |
| Land, buildings and equipment, net | $ 684,082 | $ 685,221 |

Included in the cost of buildings is $40.9 million for the Collaborative Innovation Center (CIC) and its tenant improvements for the years ended June 30, 2011 and 2010. The CIC building was constructed on land owned by Carnegie Mellon. This land is subject to a ground lease agreement between Carnegie Mellon and the Regional Industrial Development Corporation (RIDC). The ground lease term concludes on March 20, 2038, but is subject to an additional four year renewal period exercisable at the RIDC's option.

Included in moveable equipment is unamortized computer software cost of $4.9 million and $5.7 million for the years ended June 30, 2011 and 2010, respectively. Amortization expense of $2.1 million and $2.0 million was charged to expense for the years ended June 30, 2011 and 2010, respectively.

## 10. Long-Term Debt

Long term debt consists of the following as of June 30 (in thousands of dollars):

| | Interest % | 2011 | 2010 |
|---|---|---|---|
| Allegheny County Higher Education Building Authority, Variable Rate University Revenue Bonds, Series 1998 | Variable | $ 78,000 | $ 78,000 |
| Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2002 | 5.1 - 5.5% | 39,051 | 39,023 |
| Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series 2008 | Variable | 120,820 | 120,820 |
| Pennsylvania Higher Education Facility Authority, University Revenue Bonds, Series 2009 | 3.5 - 5.0% | 181,239 | 182,775 |
| Notes payable | Variable | 9,200 | 13,800 |
| Dormitory bonds/mortgage notes | 3.0% | 1,519 | 1,680 |
| Collaborative Innovation Center financing | 5.2% | 28,759 | 29,471 |
| Bonds and other debt | | $ 458,588 | $ 465,569 |
| Capital lease obligations | 3.8 - 4.5% | 503 | 917 |
| Total long-term debt | | $ 459,091 | $ 466,486 |

***Series 1998 Bonds***
On December 30, 1998, Carnegie Mellon issued, through the Allegheny County Higher Education Building Authority ("ACHEBA"), $88.0 million of Carnegie Mellon University Variable Rate Revenue Bonds, Series 1998 (the "1998 Bonds"). The proceeds of the 1998 Bonds were used to fund capital projects. On April 16, 2001, the University paid $10.0 million of the bonds outstanding principal which results in a final payment of $78.0 million due upon maturity of the issue in fiscal year 2034. The 1998 Bonds structured as multiple mode obligations currently bear variable market-based interest rates determined daily by the bonds' remarketing agent. Average interest rates on the 1998 Bonds were 0.19% and .20% during fiscal years 2011 and 2010, respectively.

With respect to the 1998 Bonds, Carnegie Mellon has entered into a separate Standby Bond Purchase Agreement ("SBPA") with an investment banking firm that has agreed to purchase the bonds under certain circumstances. The SBPA for the 1998 Bonds has optional termination dates exercisable by the investment bank scheduled on July 1 of 2012 through 2015, with a final expiration date of December 31, 2015.

***Series 2002 Bonds***
On March 27, 2002, Carnegie Mellon issued, through ACHEBA, University Revenue Bonds, Series 2002, with a face value of $44.7 million (the "2002 Bonds"). The proceeds of the 2002 Bonds were used to fund capital projects. In fiscal year 2007, the University refinanced $5.0 million of the 2002 Bonds with the issuance of bonds in 2007. The remaining 2002 Bonds mature at $7.7 million in fiscal year 2028 and $32.0 million in fiscal year 2032. The 2002 Bonds maturing in fiscal year 2032 are subject to mandatory sinking fund redemption. The sinking fund requires payments of $8.0 million per year in fiscal years 2029 through 2032. The 2002 Bonds bear fixed rates of interest, and the effective interest rate on the 2002 Bonds, including the effect of the original issue discount, is 5.3%.

***Series 2008 Bonds***

On April 10, 2008, Carnegie Mellon issued, through the ACHEBA, Variable Rate University Revenue Bonds, Series A of 2008, with a face value of $120.8 million (the “2008 Bonds”). The proceeds of the 2008 Bonds were used to finance the cost of refunding all of the outstanding 2006 Bonds and the 2007 Bonds. The 2006 and 2007 Bonds were called for optional redemption, at a redemption price of 100% of the principal amount plus accrued interest, pursuant to the optional redemption provisions. The 2008 Bonds are subject to a mandatory sinking fund redemption as follows: $5.1 million in fiscal year 2027, $30.0 million in fiscal year 2035, $30.0 million in fiscal year 2036, $30.0 million in fiscal year 2037, and $25.7 million in fiscal year 2038. The 2008 Bonds currently pay interest at a variable market rate determined daily by the bonds’ remarketing agent. Average interest rates on the 2008 Bonds were 0.19% and 0.20% during fiscal years 2011 and 2010, respectively.

For the 2008 Bonds, Carnegie Mellon has entered into a separate SBPA with an investment banking firm that has agreed to purchase the bonds under certain circumstances. The SBPA for the 2008 Bonds is renewed every 364 days, with the next renewal date being April 6, 2012. In the event the investment banking firm does not wish to renew the agreement, it must provide notification 60 days prior to the expiration date.

***Series 2009 Bonds***

On August 5, 2009, Carnegie Mellon issued through PHEFA, Fixed Rate Revenue Bonds, Series 2009, with a face value of $172.4 million (the “2009 Bonds”). The proceeds of the 2009 Bonds, including an original issue premium of $10.8 million, were used to finance the cost of refunding all the outstanding 1995 Bonds, to fund certain capital acquisitions and projects, and to pay certain costs of issuance of the Bonds. The 2009 Bonds mature at $52.4 million in fiscal year 2018, $60.0 million in fiscal year 2020, and $60.0 million in fiscal year 2022. The 2009 Bonds bear fixed rates of interest, and the effective interest rate on the 2009 Bonds, including the effect of the original issue premium, is 4.5%.

***Notes Payable***

On June 30, 2009, Carnegie Mellon issued a $18.4 million Promissory Note (“the Note”) to Carnegie Institute, d/b/a Carnegie Museums of Pittsburgh (“the Museum”), pursuant to the terms and conditions of the Purchase and Sale Agreement with the Museum dated August 7, 2008 and as amended February 27, 2009, for the acquisition of certain real estate and other property owned by the Museum in the amount of $23.0 million. Carnegie Mellon made a 20% down payment of $4.6 million on the closing date. Four equal installments of $4.6 million plus accrued interest are due upon each anniversary of the closing date for four consecutive years. The second installment of $4.6 million plus interest was paid in June 2011. The interest rate on the Note was 1.7% for the first year and is adjusted to an annual rate equal to the rolling monthly average yield of five-year US Treasury notes less 100 basis points. The interest rate calculated and paid for fiscal year 2011 was 1.0%. In consideration of the loan and to provide security to the Museum for payment of principal and interest on the note, Carnegie Mellon and the Museum entered into a Purchase Money Mortgage for the real estate and other property included in the Purchase and Sale Agreement.

***Dormitory Bonds and Mortgage Notes***

The dormitory bonds and mortgage notes mature in varying amounts through fiscal year 2024 and bear a fixed interest rate of 3.0%. Facilities of Carnegie Mellon and the revenues thereon are pledged as collateral on the dormitory bonds and mortgage notes.

***Collaborative Innovation Center Financing***

A lien has been recorded against the land on which the CIC building has been constructed related to a loan outstanding between the Pennsylvania Industrial Development Authority and the RIDC in connection with the CIC building. In addition, Carnegie Mellon has a financing obligation recorded in connection with the CIC building as of June 30, 2011 and 2010 in the amount of $28.8 million and $29.5 million, respectively. The interest rate associated with this financing obligation is 5.2%. Under terms of a space lease commitment, Carnegie Mellon makes monthly payments to RIDC which approximated $2.2 million in fiscal years 2011 and 2010. These monthly payments are applied to reduce the CIC financing obligation and record related interest expense. The space lease term concludes on January 31, 2015. The residual value of the financing obligation at the conclusion of the space lease term is approximately $26.0 million which represents the amount which Carnegie Mellon would have to pay in order to exercise a purchase option for the CIC building. The purchase option price is projected to be approximately $18.0 million plus an additional $8.0 million associated with a grant from the Commonwealth of Pennsylvania which may be required to be repaid.

The fair value of Carnegie Mellon's long-term debt obligations as of June 30, 2011 and 2010 are approximately $473.6 million and $479.8 million, respectively.

Cash paid for interest for the fiscal years ended June 30, 2011 and 2010, totaled $17.2 million and $13.0 million, respectively.

Aggregate maturities of bonds, notes and mortgages for each of the next five years ending June 30 are as follows (in thousands of dollars):

| | |
|---|---|
| 2012 | $ 6,570 |
| 2013 | 6,617 |
| 2014 | 2,067 |
| 2015 | 27,625 |
| 2016 | 1,239 |
| Thereafter | 414,470 |
| Total | $ 458,588 |

Carnegie Mellon has letter of credit agreements (or standby bond purchase agreements) with various financial institutions to purchase certain of the University's variable rate demand bonds in the event they cannot be remarketed. In the unlikely event that Carnegie Mellon could not renew or replace its credit support agreements or acquire credit from another source, the bonds would become due and payable at the termination dates of these agreements, and the principal amounts due for the outstanding bonds would be $120.8 million in 2012, $78.0 million in 2013, $0.0 million in 2014, $0.0 million in 2015, $0.0 million in 2016, and $212.1 million thereafter.

The University entered into a $50.0 million unsecured line of credit agreement that expires on October 19, 2011. No advances have been made to date.

## 11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30 (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Endowment earnings | $ 305,803 | $ 170,639 |
| Capital and other donor designations | 63,566 | 62,559 |
| Pledges and assets held in trust by others | 18,371 | 22,442 |
| Split interest agreements | 3,989 | 2,716 |
| Loan funds | 698 | 670 |
| Total | $ 392,427 | $ 259,026 |

Permanently restricted net assets as of June 30 are comprised of (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Endowment | $ 465,626 | $ 434,116 |
| Pledges and assets held in trust by others | 45,091 | 33,723 |
| Split interest agreements and other donor designations | 5,335 | 3,563 |
| Total | $ 516,052 | $ 471,402 |

## 12. Derivative Instruments and Hedging Activities

Carnegie Mellon has entered into the following interest rate swap agreements to minimize the effects of fluctuating interest rates:

| Swap Agreement | Effective Date | Notional Amount ($ in thousands) | Fixed Interest Rate Paid by CMU | Payment Equivalent Received (% of 1M LIBOR) | Term (in years) | Termination Date | Counterparty Cancellation Option |
|---|---|---|---|---|---|---|---|
| Oct 2004 spot | Oct 2004 | $ 50,000 | 3.0 | 67% | 15 | Oct 2019 | Oct 2014 |
| Apr 2006 forward | Dec 2006 | 100,000 | 3.4 | 67% | 22 | Dec 2028 | Dec 2016 |
| May 2007 spot | Jun 2007 | 5,125 | 3.8 | 67% | 20 | Mar 2027 | N/A |
| May 2007 forward* | Mar 2012 | 40,325 | 3.8 | 67% | 20 | Mar 2032 | N/A |

*The notional amount of the May 2007 forward starting swap decreases to $32.4 million in Mar 2028, $24.1 million in Mar 2029, $16.0 million in Mar 2030 and $8.0 million in Mar 2031.

As a result of the interest rate swap agreements, the following fair values were recorded as accounts payable and other liabilities in the Consolidated Statements of Financial Position for the years ended June 30, 2011 and 2010 (in thousands of dollars):

**Fair Values of Derivative Instruments**

| | Derivatives Reported as Liabilities | |
|---|---|---|
| **Date of Swap Agreement** | **2011** | **2010** |
| October 2004 | $ (5,441) | $ (5,884) |
| April 2006 forward | (16,309) | (18,905) |
| May 2007 spot | (841) | (1,024) |
| May 2007 forward | (5,883) | (6,303) |
| Total | $ (28,474) | $ (32,116) |

The fair value of these agreements is estimated to be an amount that Carnegie Mellon would receive (receivable) or pay (liability) to voluntarily terminate the agreement. Based upon the University's credit rating, the University is required to post collateral equal to the amount by which the liability value exceeds $25.0 million for each of its counterparties.

The following interest (expense) and mark to market gains/(losses) were recorded as other sources under nonoperating activities in the Consolidated Statements of Activities for the years ended June 30, 2011 and 2010 (in thousands of dollars):

| | Interest (Expense) Revenue | | Fair Value (Loss) Gain | | Total (Loss) Gain | |
|---|---|---|---|---|---|---|
| **Date of Swap Agreement** | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| **Interest rate swaps:** | | | | | | |
| October 2004 | $ (1,425) | $ (1,424) | $ 443 | $ (1,846) | $ (982) | $ (3,270) |
| April 2006 forward | (3,253) | (3,252) | 2,596 | (4,885) | (657) | (8,137) |
| May 2007 spot | (184) | (184) | 183 | (275) | (1) | (459) |
| May 2007 forward | - | - | 420 | (2,750) | 420 | (2,750) |
| Total | $ (4,862) | $ (4,860) | $ 3,642 | $ (9,756) | $ (1,220) | $ (14,616) |

Carnegie Mellon uses electricity forward contracts, which are physically settled, to hedge against the future changes in the cost of electricity. These contracts limit Carnegie Mellon's exposure to higher electricity rates; however, they could also limit the benefit of decreases in electricity rates. These contracts qualify for normal purchases and sales exemptions. These contracts are not required to be recognized on the balance sheet at fair value because Carnegie Mellon takes physical delivery of the electricity and the gains and losses are already recognized in the cost of the electricity.

### 13. Expenses by Functional Category

Operating expenses by functional category for the years ended June 30, 2011 and 2010 are as follows (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Instruction and departmental research | $ 316,236 | $ 310,632 |
| Sponsored projects | 319,031 | 294,804 |
| Administration and institutional support | 97,276 | 97,319 |
| Academic support | 90,905 | 88,020 |
| Student services | 43,755 | 42,625 |
| Auxiliary services and activities | 42,498 | 40,827 |
| Total | $ 909,701 | $ 874,227 |

Total fundraising expense of $15.7 million and $15.9 million ($15.3 million and $15.6 million in administration and institutional support) is included above for the years ended June 30, 2011 and 2010, respectively.

### 14. Commitments and Contingencies

Carnegie Mellon is a defendant in a number of legal actions seeking damages and other relief. While the final outcome of each action cannot be determined at this time, management has recorded a reserve in operating activities for those cases in which the loss is both probable and estimable. For the other legal actions that are not reserved, legal counsel and management are of the opinion that the liability, if any, will not have a material effect on Carnegie Mellon's consolidated financial statements.

Carnegie Mellon receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Entitlement to the recovery of the applicable direct and related indirect costs is generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and Carnegie Mellon's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon its financial position from those reviews and audits is remote.

Lease expense primarily related to facilities was $12.8 million and $12.2 million (excluding International donated space of $8.5 million and $9.0 million) for the years ending June 30, 2011 and 2010, respectively. Future minimum lease payments at June 30, 2011 are as follows (in thousands of dollars):

| | Operating Leases | Capital Leases |
|---|---|---|
| 2012 | $ 14,691 | $ 518 |
| 2013 | 8,128 | - |
| 2014 | 7,315 | - |
| 2015 | 4,848 | - |
| 2016 | 3,213 | - |
| Thereafter | 2,748 | - |
| Total | $ 40,943 | $ 518 |
| Less amount representing interest | | (15) |
| Present value of minimum capitalized lease payments | | $ 503 |

At June 30, 2011 and 2010 Carnegie Mellon had contractual obligations of approximately $1.3 million and $4.8 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $9.0 million.

Carnegie Mellon has four letters of credit with a commercial bank totaling $1.6 million. There were no draws against these letters of credits as of June 30, 2011 and 2010.

## 15. Retirement Plans and Other Post-Employment Benefits

Carnegie Mellon has various pension and retirement programs covering substantially all of its employees including a defined contribution plan sponsored by Carnegie Mellon. Annual contributions are made to the plans equal to amounts accrued for pension expense. Such plans are fully funded on a current basis. Retirement plan expense for the year ended June 30, 2011 and 2010 totaled $29.5 million and $28.0 million, respectively. Carnegie Mellon contributed $0.4 million to the Central Pension Fund of the International Union of Operating Engineers, a multi-employer plan in fiscal years 2011 and 2010. Under ERISA, as amended by the Multi-Employer Pension Plan Amendment Act of 1980, a contributor to a multi-employer plan is liable, upon termination of the plan or withdrawal from the plan, for the share of the plan’s unfunded vested liabilities. Information to enable Carnegie Mellon to determine its share or unfunded vested liabilities (if any) is not readily available.

Carnegie Mellon provides certain health care benefits for eligible retired employees. The liability for post retirement benefit obligations is recorded in the Consolidated Statements of Financial Position in accounts payable and other liabilities.

Cumulative amounts recognized in unrestricted net assets and not yet recognized as components of net periodic benefit cost consist of the following at June 30 (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Net actuarial gain | $ (6,801) | $ (7,168) |
| Prior service credit | (2,122) | (2,524) |
| Total | $ (8,923) | $ (9,692) |

The net actuarial gain at June 30, 2011 and June 30, 2010 of $6.8 million and $7.2 million respectively includes approximately $5.1 million of assumption changes resulting from Health Care Reform legislation passed in fiscal year 2010. Health Care Reform had implications for the University's Post-65 Retiree Major Medical Plan which pays primarily prescription drug benefits supplemental to Medicare Part D coverage. Medicare Part D plans offer richer coverage than was previously provided for prescriptions resulting in a decrease in the University's prescription drug costs.

The components of net periodic benefit costs for the years ended June 30, 2011 and 2010 are as follows (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Service cost | $ 792 | $ 997 |
| Interest cost | 829 | 1,304 |
| Amortization of prior service credit | (402) | (402) |
| Amortization of net gain | (411) | - |
| Net periodic benefit cost | $ 808 | $ 1,899 |

During fiscal year 2012, amortization of $0.4 million prior service credit and $0.4 million actuarial gain is expected to be recognized as components of net periodic benefit cost.

The reconciliation of the accumulated benefit obligation and funded status at June 30 is as follows (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Benefit obligation, beginning of year | $ 14,726 | $ 19,918 |
| Service cost | 792 | 997 |
| Interest cost | 829 | 1,304 |
| Assumption changes and actuarial gain | (44) | (7,210) |
| Benefit payments | (287) | (283) |
| Benefit obligation, end of year | $ 16,016 | $ 14,726 |
| Fair value of plans' assets | - | - |
| Funded status | $ 16,016 | $ 14,726 |

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2011 and 2010 was 5.5% and 5.4%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2011 and 2010 of 7.5% was assumed. The rate was assumed to decrease gradually to 5.0% by 2016 and remain at 5.0% thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed healthcare cost trend rate by 1.0% in each year would increase the benefit obligation as of June 30, 2011 and 2010 by $2.6 million and $2.5 million, respectively and increase the aggregate service cost and interest cost components for 2011 and 2010 by $0.3 million and $0.5 million, respectively. Decreasing the assumed health care cost trend rate by 1.0% in each year would decrease the benefit obligation as of June 30, 2011 and 2010 by $2.1 million and $2.0 million, respectively and decrease the aggregate service cost and interest cost components for 2011 and 2010 by $0.3 million and $0.4 million, respectively.

Expected benefits to be paid in future fiscal years are as follows (in thousands of dollars):

| June 30 | Retiree Contributions | Employer Payments | Total Expected Benefit Payments |
|---|---|---|---|
| 2012 | $ 909 | $ 344 | $ 1,253 |
| 2013 | 1,400 | 517 | 1,917 |
| 2014 | 1,773 | 647 | 2,420 |
| 2015 | 2,099 | 764 | 2,863 |
| 2016 | 2,438 | 864 | 3,302 |
| 2017-2020 | 16,661 | 5,360 | 22,021 |

In conjunction with an agreement made with the federal government, Carnegie Mellon has established a separate trust, which is available to general creditors only in the event of insolvency. Assets in the trust to fund post-retirement health care and other post-employment benefits are $23.3 million and $23.9 million at June 30, 2011 and 2010, respectively. These assets are reflected as investments in the accompanying Consolidated Statement of Financial Position. Carnegie Mellon will not make a contribution to the trust in fiscal year 2012 since the trust assets exceed the benefit obligation due to the actuarial gain recorded in fiscal year 2010 as a result of healthcare reform.

## 16. Related Party Transactions

Sponsored projects revenue for fiscal years 2011 and 2010 includes $11.8 million and $9.8 million, respectively, received from MPC Corporation (MPC), a nonprofit related entity of Carnegie Mellon and the University of Pittsburgh. The revenue primarily represents federal funding from various contracts received by MPC, for which MPC has subcontracted to Carnegie Mellon for support of a super computer and related activities.

Sponsored projects revenue for fiscal years 2011 and 2010 includes $1.7 million and $1.4 million, respectively, received from the Pittsburgh Life Sciences Greenhouse (PLSG), a nonprofit related entity of MPC.

Carnegie Mellon is an owner as a tenant in common of the Bellefield Boiler Plant ("Bellefield") for the purpose of sharing of the steam produced by the plant. The Bellefield operates as such that all of the operating costs of the plant are passed to the owners in the form of steam prices. Carnegie Mellon is obligated for a percent of liabilities based upon use of steam produced by the Bellefield. As of June 30, 2011 and 2010, Carnegie Mellon's percentage obligation was 15.2%. Included in other assets at June 30, 2011 and 2010 are $0.7 million and $4.2 million, respectively. During fiscal year 2011, $4.1M of cumulative advances were refunded to Carnegie Mellon. The remaining $0.7M advance represents the fiscal year 2011 operating surplus. Included in occupancy and related expenses is $5.1 million and $5.0 million, respectively, for steam costs paid to the Bellefield for the years ended June 30, 2011 and 2010.

## 17. Conditional Asset Retirement Obligations

Asset retirement obligations are included within accounts payable and other liabilities in the Consolidated Statements of Financial Position. As of June 30, 2011 and 2010, $4.4 million and $4.8 million of conditional asset retirement obligations have been recorded, respectively.

The following table reconciles the asset retirement obligations as of June 30, 2011 and 2010 (in thousands of dollars):

| | 2011 | 2010 |
|---|---|---|
| Asset retirement obligations as of July 1 | $ 4,762 | $ 2,625 |
| Accretion expense | 171 | 187 |
| Liabilities assumed | - | 2,057 |
| Liabilities settled or disposed | (501) | (107) |
| Asset retirement obligations as of June 30 | $ 4,432 | $ 4,762 |

In fiscal year 2010, liabilities of $2.1 million were assumed in conjunction with the acquisition of real estate and other property purchased from National City Bank and Museum Park Hotel, LLC.

The discount rates used range from 2.5% to 3.0%. The expected aggregate undiscounted amount is $0.6M. The majority of the obligation will be paid out over the next 10 to 20 years.

## 18. Guarantees

In the ordinary course of business, Carnegie Mellon engages in transactions with third parties involving the provision of goods and/or services. The contracts for these transactions may require Carnegie Mellon to indemnify the third party or others under certain circumstances. The terms of indemnity vary from contract to contract. The amount of the liability associated with such indemnification obligations, if any, is not expected to be material.

Carnegie Mellon has contractually agreed to indemnify its trustees and officers, and in some cases its employees and agents, against certain liabilities incurred as a result of their service on behalf or at the request of Carnegie Mellon and also advances on behalf of those indemnified the costs incurred by them in defending certain claims. Carnegie Mellon carries insurance that limits its exposure for this indemnification obligation. The amount of the liability associated with any known pending or threatened claims covered by this indemnification obligation, if any, is not expected to be material.

Carnegie Mellon has contractually agreed to indemnify specified parties in connection with bond offerings in which it has been involved. The indemnification obligation covers losses, claims, damages, liabilities and other expenses incurred by the underwriters as a result of any untrue statements or material omissions made by Carnegie Mellon in connection with the bond offerings. The amount of the liability associated with any known pending or threatened claims covered by this indemnification obligation, if any, is not expected to be material.

Carnegie Mellon is a party to a loan program for its students who meet certain criteria called the Gate Loan program, which is administered by First Marblehead Corporation ("FMC"). For this program, Carnegie Mellon guarantees a certain percentage of loans provided by FMC to Carnegie Mellon students. The amount guaranteed is based on the percentage of indebtedness that becomes uncollectible. The amounts recorded in the Consolidated Statements of Financial Position in loans receivable and accounts payable and other liabilities as of June 30, 2011 and 2010 is approximately $1.2 million and $1.6 million and $1.5 million and $1.5 million, respectively. The maximum potential amount of future payments (undiscounted) that Carnegie Mellon could be required to make in the future under this program is approximately $7.4 million. This amount represents the full undiscounted balance, and does not include any recourse provisions for indebtedness that may become uncollectible.

## 19. Subsequent Events

The University has performed an evaluation of subsequent events through October 12, 2011, the date on which the consolidated financial statements were issued.

Subsequent to June 30, 2011, Carnegie Mellon sold its approximate 20% ownership interest in a publisher of research-based math curricula for $11.8 million (net of inventors share) and transferred the rights to related technology for $21.5 million payable over 10 years, of which 50% is payable to inventors of the technology.