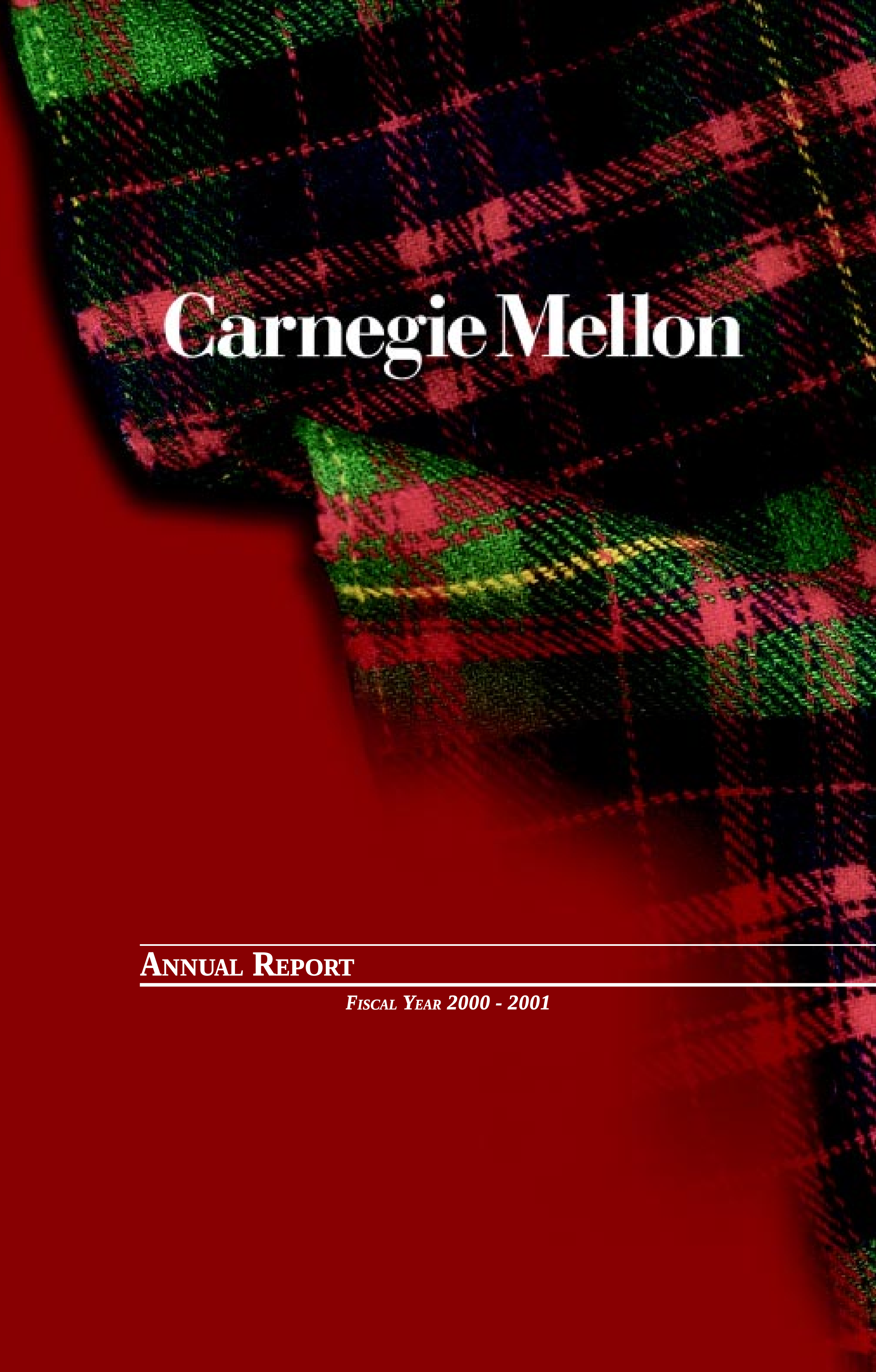

Carnegie Mellon

Annual Report

Fiscal Year 2000 - 2001

Carnegie Mellon

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On the Cover

Carnegie Mellon Tartan Plaid

Design by Jim Bainbridge

From the President

Carnegie Mellon started its second century in 2000-2001 in a position of strength. With a history of progress and accomplishment, rising from its modest beginnings to be one of the world's leading research universities, Carnegie Mellon is poised for even greater impact and success.

Guiding the university's development is a strategic plan put in place in 1998-99 and featuring a few key priorities: undergraduate programs; interdisciplinary research and education, especially in four selected areas of emphasis; diversity; and regional and international impact.

The demand for our undergraduate programs is extremely strong. For the fall of 2001, we broke another record with 17,000 applications for 1,300 places in our first-year class. These freshmen — the class of 2005 — are in the second class admitted under criteria altered to put more weight on leadership potential, extracurricular activities and other indicators of breadth. These students found a campus with more opportunities to pursue interests outside of their majors and outside of the classroom through more multidisciplinary courses, community-based courses and metacurricular activities.

We continued to build on our tradition of success in interdisciplinary research and education information. The university continued to be recognized through various rankings for its information technology leadership — in business, public policy and the social sciences, as well as engineering and computer science — and more tangibly as the leading recipient of competitive research awards from the National Science Foundation. Good progress was made on new initiatives such as our Entertainment Technology Center, the Universal Library Project and the Consortium for High-Dependability Computing (in cooperation with NASA and 12 major information technology corporations.) The Pittsburgh Supercomputing Center — a joint activity with the University of Pittsburgh — was selected by the NSF to build and run the new terascale facility, the most powerful computer available for public use.

Biotechnology is one of the most intellectually exciting and socially important fields. A major planning effort with partner institutions in Pittsburgh advanced, with completion expected during fall 2001. Even before the completion of the plan, the university launched the Medical Robotics and Information Technology program in partnership with West Penn Allegheny Hospital, and our new Bone Tissue Engineering Center continued to expand. The university also established the Center for Computational Functional Genomics. These and other developments will be assisted by an allocation from the Commonwealth of Pennsylvania of funds recovered from the settlement with tobacco companies.

The new Center for Arts and Society is the focal point for increased teaching and scholarships at the interface of fine arts and humanities. In the area of environment — the last of our selected interdisciplinary themes — Carnegie Mellon became the nation's largest purchaser of wind energy.

Carnegie Mellon is already a very diverse institution in many ways, especially with regard to international representation. The last year saw significant increases in African American students in our first-year class and the faculty. And, we sustained the large increase in women in the undergraduate computer science program achieved in the previous year.

The university has committed itself to working with local organizations and the state government to help southwestern Pennsylvania develop economically. A particularly effective new initiative is the Pittsburgh Digital Greenhouse, a partnership with the University of Pittsburgh and The Pennsylvania State University. Despite difficult global economic conditions the Greenhouse has attracted more than 20 corporate members, some of which have already opened systems-on-a-chip design centers in Pittsburgh.
In addition to this and other local initiatives, the university has been exploring new programs in selected countries, especially in Latin America and Asia.

Every institution in America was affected by the terrorist attacks of September 11, 2001. It was a terrible event that has left us uncertain about the future. But, at the same time:

- We are reminded that our key asset and contribution is the people — students, teachers, staff, alumni, investors, partners — of Carnegie Mellon. Their ability to solve problems, master and create technology that is socially relevant and responsible, and produce art and scholarship that taps our emotions and explores fundamental questions are more critical to our world and to our future than ever before.

- As we look to the future, we see our faculty experts and our technology and policy leadership being applied to the nation's most critical needs. And we see the areas of focus we had identified in our strategic plan taking on particular relevance in the context of our latest social, economic, technological and political challenges.

- Carnegie Mellon has formed a research institute with a group of faculty who have deep experience with current U.S. government security-related science and technology programs and strategies. Carnegie Mellon appreciates the nation's need to move quickly, but deliberately, to address a new range of issues that are likely to require technology and policy expertise as well as seasoned program management experience.

  It is too soon to say just which areas are most promising or important. Our expertise covers advanced information technology and policy, integrated national planning for addressing cyber threats to a variety of systems, robotics and distributed information systems, computer security and dependability, human-computer interaction and artificial intelligence, computer vision and vehicles, cell and tissue engineering, and forensic science and pathology.

Carnegie Mellon stands on a solid foundation, poised for continued progress and ready to support the nation's most pressing needs.

Jared L. Cohon,
President, Carnegie Mellon University

October 16, 2001

Financial Highlights

Introduction

Carnegie Mellon's overall financial results for fiscal year 2001 are dominated by investment performance and reflect a weakening equity sector. However, our operating results reflect continued strength in our education and research activities, and the university's adherence to managing within a balanced budget. Current market conditions underscore the importance of focus on our core mission and sound business practices to ensure Carnegie Mellon's success during these challenging economic times. Fiscal year 2001 operating results reflect that focus.

The basics of Carnegie Mellon's business model remain strong. Our educational and research programs continue to be ranked among top universities, as reflected by both independent rankings, and more important, demand. We continue to strengthen our core disciplinary and interdisciplinary programs, while also exploring extensions of selected educational and research programs. These programmatic extensions are in terms of both venue and mode of delivery. Basic research continues to flourish with strong support from the government and private sources. Our applied research results continue to contribute to commercialization of technology through licenses and company formation. Fiscal year 2001 operating results reflect both the pursuit of new initiatives that align with our strategic plan, and our vigilance in identifying and closing programs and activities that no longer fit within our strategic direction, or are no longer financially viable.

Philanthropic support for Carnegie Mellon was very strong in fiscal year 2001. The university completed its Centennial Capital Campaign midway through the year, significantly exceeding our overall goal. While the current economic environment will pose significant challenges for fundraising, the university's capabilities for fundraising have developed during the Centennial Campaign.

Overall net assets declined in fiscal year 2001 due to investment losses in our long-term investment portfolio. Despite the current turbulence in the market, the administration and the Investment Committee of the Board of Trustees maintain their long-term view on the university's investment portfolio.

Review of Balance Sheet

Total assets at June 30, 2001 were $1.55 billion, 5.0% lower than June 30, 2000. Investments, which represent 61.3% of total assets, declined by $71.5 million or 7.0%. This significant reduction in assets was due to declines in the equity portion of our long-term investment portfolio, consistent with U.S. and international equity markets generally. Cash and cash equivalents declined by $28.3 million. The use of cash is primarily associated with $54.2 million of capital expenditures, a prepayment of $10.0 million in long-term debt, offset by approximately $44.8 million of cash provided by operations. Accounts receivable increased by about $7.5 million, primarily in sponsored research. Land, buildings and equipment, net of depreciation, increased by $13.7 million.

Total net assets declined by $81.3 million, or 6.6%. The decline in net assets results exclusively from nonoperating activities, including net losses on investments.

Endowment: The earnings from the endowment provide an important subsidy supporting mission-related operations and financial aid for students. The endowment also serves as a buffer to short-term economic shifts in core revenue streams. The university's long-term objective is to grow the real purchasing power (net of inflation and the distribution of earnings to operations) of the endowment over the long run. During any short-term horizon, such as the current environment, the endowment can suffer losses. However, the university's investment and spending policies position the endowment to grow over the long term.

Fiscal year 2001 was a brutal year for marketable equities, excluding value-oriented stocks. The Nasdaq composite was down 45.3%; the S&P 500 was down 14.8%; the MSCI All World Free Excluding US Index was down 23.8%. The dot-com bubble burst, causing a negative impact to public and alternative markets. While the equity impact on our long-term investments, including the endowment, was buffered by our non-venture alternative investments and fixed income, the overall results for the year were still painful. The market value of the endowment declined by $72.2 million, to end the year at $756.9 million. This reduction in market value reflects the net impact of $67.2 million in investment losses, $41.9 million in distributions to operations in accordance with the university's spending policy, and $36.9 million in gifts and other additions to the endowment. Carnegie Mellon's endowment total investment return for fiscal year 2001 was –8.5%, as compared to our benchmark[1] return of –10.5%. The rate of net income distributed to operations for fiscal year 2001 was 5.3% of the average endowment market value for the year.

The Investment Committee of the Board of Trustees directs the management of the endowment and other long-term investments. The university retains Wilshire Associates to assist the administration and the Investment Committee in establishing and implementing its investment policy. During fiscal year 2001 our asset allocation policy for the long-term investment pool had an equity exposure of 68% with an additional 5% exposure in hedge funds. The remaining 27% was allocated to fixed income. The Investment Committee

[1] The university's benchmark for its long-term investment pool is: 50% Wilshire 5000, 27% Lehman Aggregate, 23% MSCI ACWI Free Excluding US.

recently approved a revised long-term policy that will increase the equity exposure to 80%, maintaining a 5% exposure in hedge funds, and reducing our fixed income allocation to 15%. The university's equity and hedge exposures reflect diversification within asset classes. We will implement the change in policy over time. Our investment policy balances return objectives and institutional risk tolerance, within the context of our short-term liquidity requirements and long-term liabilities.

Additions to Buildings and Equipment: The Baker Hall and Posner Hall additions were completed during fiscal year 2001. The Baker Hall addition accommodates realized growth in students and research activity in the College of Humanities and Social Sciences. The addition to Posner Hall accommodates the Carnegie Bosch Institute and growth in executive education programs. Both projects were funded through a combination of fundraising and debt financing. A third major project that commenced in fiscal year 2001 was the undergraduate science laboratory project. This project will result in a major addition to Doherty Hall, significantly expanding and enhancing interdisciplinary laboratories supporting science education. The undergraduate science laboratories are essential to our renewed efforts in biotechnology and support undergraduate students from all colleges. As state-of-the-art interdisciplinary science laboratories that combine the latest scientific and information technology, these facilities will bolster our continued success in recruiting top students in the sciences. In addition to these major building projects, significant investments were made to renovate and upgrade research laboratories, classrooms and the physical infrastructure of the campus.

Additions to capital assets were valued at $56.1 million, including moveable equipment of $17.6 million, contributed assets of $1.9 million, and buildings and construction of $36.6 million. These additions are offset by $42.4 million in depreciation and disposals, resulting in a net increase in capital assets of $13.7 million.

Long-term Debt: External debt outstanding at June 30, 2001 was $268.8 million representing 68.3% of total liabilities. This debt was reduced from $281.3 million at June 30, 2000. The $12.5 million reduction in outstanding debt primarily reflects a $10.0 million prepayment of principal funded by an estate gift supporting the Purnell Center for the Arts, and $2.1 million in scheduled capital lease and principal payments. Approximately 95% of the university's outstanding debt matures in 2025 and beyond. Management forecasts that current revenues will be sufficient to pay principal and interest on Carnegie Mellon's outstanding debt.

Review of Operating Highlights

Carnegie Mellon's operating results for fiscal year 2001 reflect our adherence to balanced operating budgets. Total operating revenue and support for fiscal year 2001 was $501.6 million, an increase of 6.4%. Operating expenses were $500.1 million, resulting in an increase in unrestricted net assets from operations of $1.5 million.

The university continues to evidence strength in core educational and research activities. Both tuition and research revenue demonstrated substantial real growth. While contributions overall increased significantly over fiscal year 2000 results, contributions supporting operations were lower in fiscal year 2001. Contributions to operations in fiscal year 2000 included a one-time $5 million contribution. In terms of nonoperating contributions, a $20 million gift from the Paul Mellon estate was received in fiscal year 2001. It is an unrestricted gift directed to the endowment. The university has designated the distribution of income for programmatic and facilities support in the arts and humanities.

Revenue: Sponsored research revenue increased by 9.5%, totaling $191.3 million in fiscal year 2001. This increase was associated with strong growth in federal support, with stable industrial support. The university has seen significant growth in research support in engineering, computer science, software engineering and the sciences. Major research grants reflected in fiscal year 2001 results include, terascale computing through the Pittsburgh Supercomputing Center, and a $1.8 million grant from the Sloan Foundation to create the Software Industry Center.

Net tuition revenue increased by 6.7%, totaling $158.2 million. Enrollment for the year remained stable, growing by about 1%. The remainder of the increase came from a blended tuition rate increase. While the university has capped undergraduate enrollment, demand continues to increase, as does Carnegie Mellon's selectivity in admissions. For example, applications have increased by 9.8% from fiscal year 1997 to fiscal year 2001, while the percentage of applicants admitted has been reduced from 46.7% to 35.8% during the same period.

Revenues from educational activities, including affiliates programs and executive education, evidenced significant growth, totaling $21.4 million. The combination of income from investments (largely unrestricted endowment revenue distributed to operations) and net assets released from restriction increased by about 2%.

Expenses: Operating expenses increased by 8.2%, totaling $500.1 million. Growth in expenditures was in line with institutional priorities. Growth in instruction and departmental research of 11.2% reflects institutional investments related to the strategic plan and Board of Trustees Advisory Board recommendations, as well as expenses associated with revenue-generating activities of the colleges and schools. Other areas of growth were in research expenses, academic support and student services. Administrative expenses were reduced with the completion of the Oracle financial system implementation.

Progress on University Initiatives

Centennial Campaign: The Centennial Campaign successfully concluded by raising $410.3 million, exceeding our target of $350 million by more than $60 million. The campaign contributed significantly to the endowment, high-priority capital projects and ongoing operations. Specifically, fundraising for the endowment has resulted in the creation of 61 endowed professorships, 110 new scholarships for undergraduates and 29 fellowships for graduate students. Money raised for facilities has supported the creation of the Purnell Center for the Arts, the University Center, Roberts Engineering Hall and Posner Hall, in addition to major renovations and other building additions.

The campaign's success is measured not only in terms of money raised, it was also very successful in significantly expanding our donor base and increasing the level of giving from the existing donor base. The foundation established during the Centennial Campaign will be critical to fundraising success going forward.

Strategic Plan: As President Cohon outlined in his letter, the university continues to make important progress toward realizing the priorities we established in our strategic plan. The financial results reflect the advancement of educational and research initiatives in biotechnology, information technology, environmental science and engineering, and the arts and humanities. Other areas of focus include regional economic development, increasing diversity and improving our financial strength.

In addition to initiatives at the Pittsburgh campus, Carnegie Mellon is establishing a research and educational presence in Silicon Valley at the NASA Ames Research Center, located at Moffett Field. Building on our strengths in information technology, initial focus for the research program in Silicon Valley will be on high dependability computing, with an educational focus on a master of science in information technology.

Programmatic Restructuring: The university has an extensive process of programmatic review for its academic and research programs and selected administrative departments, in addition to its ongoing financial reviews. During the course of the year the administration decided to restructure Carnegie Mellon Research Institute and Dining Services.

Carnegie Mellon Research Institute was an applied research arm of the university with a budget of about $17.4 million. The activities of the institute that were well aligned with the strategic direction and priorities of the university were integrated within academic units. Those activities that did not align strategically, or were not financially viable were either spun out or phased out. In addition to significantly improving the integration of strategic activities, administrative overhead associated with the programs will be reduced significantly.

Following an evaluation of Dining Services, the university decided to outsource the dining operation to Parkhurst Dining Services. All dining service employees that were previously university employees were transferred to Parkhurst in September 2000. The outsource arrangement will improve quality, value to our students and financial results of the dining program. Financially, the contract provided upfront funding for capital improvements and an annual facilities and administration payment to the university. In addition to managing previously internally run operations, Parkhurst manages the contracts with other outside vendors providing dining services on campus. The university will continue to evaluate outsourcing in other non-mission areas.

Future Outlook: The terrorist attack on the United States September 11, 2001 had a dramatic impact on our society. The loss of human life and devastation resulting from these attacks were incomprehensible. However, they have generated a renewed strength and tenacity in the nation's approach to the future.

We are projecting continued economic uncertainty leading to weakness in the capital markets in the near term. However, educational and research activity in fiscal year 2002 remain strong. Our forecast for fiscal year 2003 suggests continued healthy demand for our educational programs. The significant demand vis-à-vis capacity provides flexibility in meeting enrollment targets; for example, already the university has seen an increase of nearly 15 % in applications for fall 2001. However, we do anticipate a need to enhance financial aid allocations to address reduced capabilities of students and parents to pay the full cost of attendance. Our research strengths are well positioned to help address areas of national priority, and our faculty have mobilized to coordinate these capabilities across the university. We anticipate challenges in fundraising in the short run and are projecting reductions in distributions from the endowment in fiscal year 2003. Despite the anticipated economic challenges, the administration remains committed to operating the university with a balanced budget while continuing to ensure excellence in our research and educational offerings.

Jeffrey W. Bolton,
Chief Financial Officer
October 16, 2001

Facts & Figures

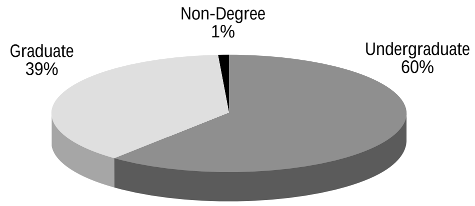
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
$ in millions										
Sponsored Research Revenue	$137	$147	$151	$152	$165	$166	$170	$168	$175	$191

	1997	1998	1999	2000	2001
Attendance Costs					
Undergraduate Tuition:					
Enrolled before Fall 2000	$19,400	$20,275	$21,275	$22,300	$22,830
Enrolled Fall 2000	–	–	–	–	24,600
Room and Board	6,080	6,225	6,555	6,810	7,028
Financial Highlights:					
$ in millions					
Operating revenue by category					
Tuition and fees, net	$109	$118	$132	$148	$158
Sponsored research	166	170	168	175	191
Income on investments and cash equivalents	20	21	19	28	35
Contributions	17	23	24	19	11
Educational activities	15	12	9	17	22
Auxiliary services	29	30	30	31	29
Other sources	16	14	13	18	26
Net assets released from restrictions	24	28	33	35	30
Total	$396	$416	$428	$471	$502
Operating expenses by category					
Instruction and departmental research	$143	$155	$167	$193	$214
Sponsored research	127	139	143	147	161
Academic support	37	38	39	41	43
Student services	16	16	19	21	24
Administration and institutional support	24	29	30	30	30
Auxiliary services and activities	30	30	28	30	28
Total	$377	$407	$426	$462	$500

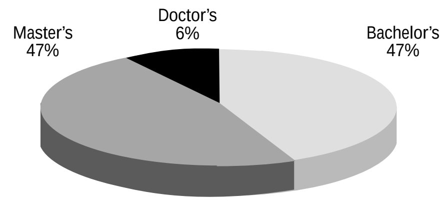
	1997	1998	1999	2000	2001
Undergraduate Admissions					
Applications	13,314	13,115	13,202	14,114	14,621
Acceptances	6,218	5,650	5,598	5,333	5,241
Matriculations	1,384	1,270	1,308	1,254	1,329
Enrollment					
Undergraduate	4,823	4,876	5,050	5,136	5,106
Graduate	2,809	2,894	3,013	3,174	3,290
Non-Degree	126	142	122	126	118
Total Enrollment	7,758	7,912	8,185	8,436	8,514

Selected Charts:

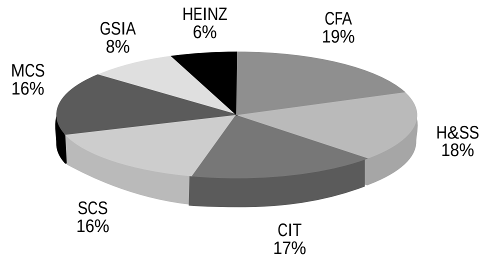
Fall 2000 Enrollment Headcount by Class (Total = 8,514)



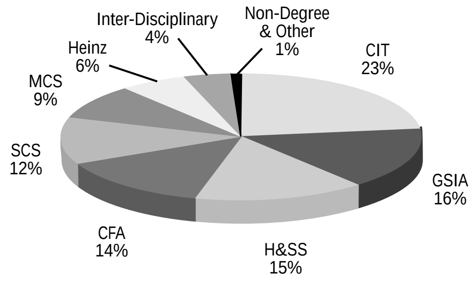
Degrees Granted (Total = 2,554)



Academic Faculty by College (Total = 1,233)



Fall 2000 Enrollment Headcount by College/School (Total = 8,514)



Audited Consolidated Financial Statements

To the Board of Trustees
Carnegie Mellon University and Subsidiaries
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Carnegie Mellon University and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Carnegie Mellon University and subsidiaries as of June 30, 2001 and 2000, 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.

Deloitte & Touche LLP

Pittsburgh, Pennsylvania
October 16, 2001

Consolidated Statements of Financial Position

June 30, 2001 and 2000
($ in Thousands)

	2001	*2000*
Assets		
Cash and cash equivalents	$ 45,026	$ 73,312
Accrued interest and dividends	5,196	4,744
Accounts receivable, net (Note F)	48,115	40,623
Inventories, at cost	2,199	2,129
Prepaid and deferred charges	1,319	991
Pledges receivable (Note E)	39,131	39,942
Loans receivable (Note G)	15,765	15,411
Investments (Note C)	948,756	1,020,226
Other assets	8,350	11,897
Land, buildings and equipment, net (Note I)	433,431	419,717
Total assets	**$ 1,547,288**	**$ 1,628,992**
Liabilities		
Accounts payable and other liabilities	$ 45,924	$ 40,587
Deferred revenue	42,621	38,416
Federal loan programs	15,625	15,254
Present value of future annuities payable	20,672	18,500
Long-term debt (Note J)	268,824	281,329
Total liabilities	**393,666**	**394,086**
Net assets		
Unrestricted	44,037	40,931
Designated for plant activities	99,903	127,306
Unrestricted endowment (Note D)	286,246	308,220
Net investment in plant	164,607	146,303
Total unrestricted net assets	**594,793**	**622,760**
Accumulated endowment gains (Note D)	223,112	289,516
Pledges receivable	22,204	23,281
Life income funds	6,712	11,803
Other funds for operations	34,499	33,822
Total temporarily restricted net assets	**286,527**	**358,422**
Permanent endowment (Note D)	247,572	231,385
Pledges receivable	16,927	16,661
Life income and other funds	7,803	5,678
Total permanently restricted net assets	**272,302**	**253,724**
Total net assets	**1,153,622**	**1,234,906**
Total liabilities and net assets	**$ 1,547,288**	**$ 1,628,992**

See notes to consolidated financial statements.

Consolidated Statements of Activities

For the Years Ended June 30, 2001 and 2000
($ in Thousands)

	2001	*2000*
Changes in unrestricted net assets:		
Operating revenue and support:		
Tuition and fees, net of financial aid	$158,209	$148,279
Sponsored research (Note H)	191,348	174,703
Income on investments and cash equivalents	34,947	28,334
Contributions (Note E)	11,009	18,862
Educational activities	21,351	16,654
Auxiliary services	29,031	31,255
Other sources	26,083	18,539
Net assets released from restrictions	29,653	34,826
Total operating revenue and support	**501,631**	**471,452**
Operating expenses:		
Instruction and departmental research	213,893	192,414
Sponsored research	160,669	147,012
Academic support	42,813	41,036
Student services	24,533	21,055
Administration and institutional support	29,873	30,218
Auxiliary services and activities	28,328	30,313
Total operating expenses	**500,109**	**462,048**
Increase in unrestricted net assets from operations	**1,522**	**9,404**
Nonoperating activities:		
Net realized (losses) gains on investments	(21,384)	20,992
Unrealized depreciation on investments	(35,210)	(1,594)
Contribution (Note E)	20,000	—
Other sources	(4,988)	(5,249)
Net assets released from restrictions	12,093	10,414
(Decrease) Increase in unrestricted nonoperating activities	**(29,489)**	**24,563**
(Decrease) Increase in unrestricted net assets	**(27,967)**	**33,967**
Changes in temporarily restricted net assets:		
Contributions and decrease in pledges receivable (Note E)	14,316	12,002
Income on investments	11,773	9,920
Net realized (losses) gains on investments	(10,540)	39,127
Unrealized depreciation on investments	(47,885)	(2,832)
Other sources	2,187	3,690
Net assets released from restrictions	(41,746)	(45,240)
(Decrease) Increase in temporarily restricted activities	**(71,895)**	**16,667**
Changes in permanently restricted net assets:		
Contributions and decrease in pledges receivable (Note E)	18,563	26,444
Investment income and gains reinvested	15	427
Increase in permanently restricted net assets	**18,578**	**26,871**
(Decrease) Increase in net assets	**$ (81,284)**	**$ 77,505**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2001 and 2000
($ in Thousands)

	2001	*2000*
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (81,284)	$ 77,505
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized losses (gains) on sales of investments	19,879	(60,119)
Unrealized depreciation on investments	83,095	4,426
Depreciation	42,077	41,181
Gifts in kind	(1,865)	(1,857)
Loss (gain) on equipment dispositions	127	(192)
Contributions for land, buildings, equipment and permanent endowment	(24,195)	(35,052)
(Increase) decrease in accrued interest and dividends	(452)	1,082
(Increase) decrease in accounts receivable	(7,492)	12,500
(Increase) in inventories	(70)	(241)
(Increase) decrease in prepaid and deferred charges	(328)	968
Decrease in pledges receivable	811	17,471
Decrease (increase) in other assets	3,097	(2,326)
Increase (decrease) in accounts payable and other liabilities	5,337	(5,458)
Increase in students and other deposits	371	432
Increase in deferred revenue	4,205	5,862
Change in present value of annuities	2,172	2,680
Other, net	(705)	(483)
Net cash provided by operating activities	**44,780**	**58,379**
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,908,269	1,940,989
Purchases of investments	(1,939,767)	(1,997,417)
Purchases of land, buildings and equipment	(54,187)	(47,658)
Proceeds from sale of land, buildings and equipment	134	2,285
Disbursements of loans to students	(1,682)	(3,132)
Repayments of loans from students	2,027	2,793
Net cash used for investing activities	**(85,206)**	**(102,140)**
Cash flows from financing activities:		
Repayments of principal of indebtedness	(12,055)	(2,587)
Contributions for land, buildings, equipment and permanent endowment	24,195	35,052
Net cash provided by financing activities	**12,140**	**32,465**
Net decrease in cash and cash equivalents	**(28,286)**	**(11,296)**
Cash and cash equivalents at beginning of year	**73,312**	**84,608**
Cash and cash equivalents at end of year	**$ 45,026**	**$ 73,312**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

Note A—Carnegie Mellon

Carnegie Mellon University (Carnegie Mellon) is a private, not-for-profit educational and research institution. Carnegie Mellon enrolls about 8,500 students and grants approximately 2,600 bachelor's, master's and doctor's degrees each year. (Approximately 90% of undergraduate students are from the United States. International students comprise 10% of undergraduate, 38% of master's and 58% of Ph.D. students.)

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

Note B—Summary of Significant Accounting Policies

Basis of Accounting and Reporting

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

The consolidated financial statements of Carnegie Mellon include the accounts of the university and its wholly owned subsidiaries. The accounts of the wholly owned subsidiaries are not significant; intercompany transactions have been eliminated in consolidation.

Carnegie Mellon's net assets and revenues, 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 donor-imposed or legal stipulations that may or will be met either by actions of Carnegie Mellon and/or 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. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions between applicable classes of net assets.

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

- As changes in permanently restricted net assets if so restricted by the 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.

The federal loan program fund balance and certain benefits reserves are classified as liabilities.

Equity securities with readily determinable fair values and all debt securities are measured at fair value with gains and losses reported in the statement of activities.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to Carnegie Mellon, the internal operating accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives specified. These financial statements, however, have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions.

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.

Contributions for Plant Activities

Donors' contributions to fund construction projects are classified as temporarily restricted net assets until the facility is placed in service. At that time, the temporarily restricted net assets are released from restriction and replenish unrestricted net asset balances designated for plant activities.

Operations

Revenues received and expenses incurred in conducting the programs and services of Carnegie Mellon are presented in the financial statements as operating activities. Nonoperating results include realized and unrealized gains and losses due to investment results. Unusual expenses and additions are also recorded as non-operating. In addition, net assets released from donor restrictions for buildings are released into non-operating activities when the building is put into service.

Cash Equivalents

Cash equivalents include U.S. treasury obligations, commercial paper and corporate notes with maturities of three months or less, except that such instruments purchased with endowment and annuity and life income assets on deposit with trustees are classified as investments.

Investments

Debt and equity securities held by Carnegie Mellon are carried at market values as established by the major securities markets. Diversified, non-liquid holdings are carried at market values based upon financial information provided by the portfolio managers. Investments received as a gift are reflected as contributions at their fair 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 in the values of investment securities will occur in the near term and it is reasonably possible that such changes could materially affect the amounts reported in the 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 held in custody by an outside trustee.

Endowment net assets classified as unrestricted 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 certain expendable gifts, and any retained income and appreciation thereon, that are restricted by the donor to a specific purpose. When the temporary restrictions on these funds have been met, the gifts ordinarily remain in the endowment to continue supporting the same activities as those specified by the donors, however, by Trustee designation, the funds are reclassified to unrestricted endowment net assets. This classification also includes all expendable, accumulated appreciation of $223 million and $290 million on permanent endowment assets as of June 30, 2001 and 2000 respectively. The Trustees of Carnegie Mellon must authorize release of endowment gains from temporarily restricted to unrestricted net assets according to Pennsylvania law.

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 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 quarter. Income distributions from the investment pool are based upon the earnings per share of the pool and the number of shares held by each participant at the beginning of the quarter. 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.

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 market value as of the date of the gift. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Plant assets are reflected net of accumulated depreciation calculated on a straight-line basis over the estimated economic lives. In addition, depreciation and operation and maintenance of plant expenses are allocated either directly or based on square footage to the functional expense and categories.

Reclassifications

Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

Fair Value

For all debt instruments, fair value approximates book value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Standards

In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133 “Accounting for Derivative Instruments and Hedging Activities” was issued. SFAS No. 133 (as amended by SFAS No. 137 and 138) is effective for fiscal year 2001. The implementation of these statements did not have a material impact on Carnegie Mellon’s results.

Note C—Investments

Investments by major category at June 30, 2001 and 2000 follow:

$ in thousands	*2001*	*2000*
Restricted cash and equivalents	$ 47,301	$ 101,238
Fixed income	343,785	328,960
Common stock	440,293	476,318
Other investments	117,377	113,710
Total	$ 948,756	$ 1,020,226

Nearly all fixed income securities are U.S. investment grade and high yield bonds, asset backed securities and United States Treasury and Agency obligations at June 30, 2001 and 2000.

Common stock investments are comprised of approximately 60% domestic equities and 40% international and emerging market equities at June 30, 2001. At June 30, 2000 approximately 52% of common stock investments consisted of domestic equities while the remaining 48% included international and emerging market equities. Other investments are largely domestic investments in buyout funds, venture capital, hedge funds and real estate.

The allocation to each major category represents the actual allocation of all investment pools on a combined basis. Each investment pool maintains a unique investment strategy. Actual allocations on a combined basis should not be interpreted as 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 years ended June 30, 2001 and 2000:

$ in thousands	*2001*	*2000*
Dividends and interest	$ 34,600	$ 38,681
Net realized (losses) gains on sale of securities	(19,789)	60,119
Unrealized depreciation	(83,095)	(4,426)
Total return on investments	$ (68,284)	$ 94,374

Operating income on investments and cash equivalents includes dividends and interest earned on unrestricted funds, and unrestricted accumulated gains utilized for current operations in the amount of $12.1 million in fiscal 2001.

In the management of the investments, Carnegie Mellon and certain of its outside investment managers purchase and sell derivative instruments. Derivatives are used to manage interest rate and foreign currency risk and 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 manage the portfolios' foreign currencies, relative to the currency exposures in their unhedged benchmarks, to protect the portfolios from potential foreign currency losses and to benefit from potential foreign currency 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). Carnegie Mellon had foreign exchange contracts totaling $7.5 million and $138.0 million at June 30, 2001 and 2000, respectively. Certain of these foreign exchange contracts are entered into with respect to pending settlements of foreign securities transactions.

Put and call options on the S&P 500 Index were previously utilized to hedge a portion of domestic equity market positions. The options provided a floor and cap on market fluctuations on a portion of the domestic common stock portfolio. The notional value of each group of the option contracts totaled $32.9 million, at June 30, 2000. The options are no longer utilized at June 30, 2001.

Investment managers purchase and sell interest rate futures to control the risk of fluctuations in market interest rates, relative to portfolio benchmarks, on the university's fixed income investments. At June 30, 2001 and 2000, the notional value of interest rate futures was $4.3 million and ($23.9 million), respectively. (Parentheses denote net short positions.)

Certain domestic equity investment managers purchase S&P 500 futures contracts to obtain cost efficient exposure to the S&P 500 Index when the S&P 500 Index is the portfolio benchmark. At June 30, 2001 and 2000, the notional value of S&P 500 futures contracts was $63.7 million and $38.2 million, respectively.

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

Note D—Endowment

The following table provides a summary of the changes in value of the endowment assets excluding pledges for the years ended June 30, 2001 and 2000:

$ in thousands	*2001*	*2000*
Beginning of year endowment value	$829,121	$719,320
Gifts and other additions:		
Contributions (excluding pledges)	36,551	26,870
Terminated life income trusts and income and gains reinvested	253	282
Other transfers	96	39,980
Total gifts and other additions	36,900	67,132
Investment income:		
Interest and dividends	24,062	21,822
Realized gain (loss) on sale of securities	(16,757)	60,193
Unrealized (depreciation)	(74,473)	(4,154)
Total investment income	(67,168)	77,861
Income distributed for operating purposes:		
Cash and accrued interest and dividends	(24,062)	(21,822)
Accumulated realized gain on sale of securities	(17,861)	(13,370)
Total income distributed	(41,923)	(35,192)
End of year endowment value	$756,930	$829,121

Endowment net assets at June 30 are classified as follows:

$ in thousands	*2001*	*2000*
Unrestricted	$286,246	$308,220
Temporarily restricted	223,112	289,516
Permanently restricted	247,572	231,385
Total	$756,930	$829,121

The endowment's total investment return of (8.5)% (net of fees) for the year reflects the diverse returns of the capital markets during this period. (Refer to Financial Highlights of Fiscal Year 2001, page 6, for a discussion of investment results and strategy.)

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. Separating spending policy from investment policy permits asset allocation decisions to be made independently of the need for current income.

The rate of net income distributed for 2001, based on the average endowment value, was 5.28% as compared to 4.67% in 2000.

Note E—Contributions and Pledges Receivable

Contribution revenue includes gifts, unconditional pledges to give and grants. Contributions are recorded in the appropriate net asset category based upon the intent of the donor or grantor. Contributions for the years ended June 30, 2001 and 2000 follow:

$ in thousands	*2001*		
	Gifts/Grants	*Increase (Decrease) in Pledges Receivable*	*Total*
Unrestricted	$ 31,009		$ 31,009
Temporarily restricted	15,393	$ (1,077)	14,316
Permanently restricted	18,297	266	18,563
Total	$ 64,699	$ (811)	$ 63,888

$ in thousands	*2000*		
	Gifts/Grants	*Decrease in Pledges Receivable*	*Total*
Unrestricted	$18,862		$ 18,862
Temporarily restricted	28,460	$ (16,458)	12,002
Permanently restricted	27,457	(1,013)	26,444
Total	$74,779	$ (17,471)	$ 57,308

Unrestricted nonoperating revenue in 2001 includes a $20 million gift deemed to be nonoperating due to the nature of the bequest.

Pledges and outside trusts as of June 30, 2001 and 2000 are discounted to the present value of future cash flows and are due as follows:

$ in thousands	*2001*			
	Discount Rate	*Temporarily Restricted*	*Permanently Restricted*	*Total*
In one year or less	3.7%	$ 3,879	$ 3,682	$ 7,561
Between one year and five years	4.6%	9,268	9,339	18,607
More than five years	5.3%	9,731	4,693	14,424
Present value of pledges		22,878	17,714	40,592
Less allowance for unfulfilled pledges		(674)	(787)	(1,461)
Pledges receivable, net of allowance		$22,204	$16,927	$39,131

$ in thousands	*2000*			
	Discount Rate	*Temporarily Restricted*	*Permanently Restricted*	*Total*
In one year or less	6.1%	$ 6,696	$ 5,234	$11,930
Between one year and five years	6.0%	5,787	7,005	12,792
More than five years	6.0%	11,485	5,239	16,724
Present value of pledges		23,968	17,478	41,446
Less allowance for unfulfilled pledges		(687)	(817)	(1,504)
Pledges receivable, net of allowance		$23,281	$16,661	$39,942

The pledges receivable as of June 30, 2001 and 2000, net of allowances, is intended for the endowment in the amounts of $16.9 million and $16.7 million, respectively, capital projects in the amounts of $6.1 million and $7.6 million, respectively and other donor restricted purposes in the amounts of $16.1 million and $15.6 million, respectively.

For the years ended June 30, 2001 and 2000, Carnegie Mellon received $1.9 million gifts in kind that were recorded as contributions in the statement of activities.

Note F—Accounts Receivable

Accounts receivable at June 30, 2001 and 2000 consist of the following:

$ in thousands	*2001*	*2000*
Research grants and contracts:		
Federal	$20,644	$22,190
Non-federal	17,643	10,203
Subtotal	38,287	32,393
Student accounts:		
Current	4,710	5,249
Delinquent	1,468	1,024
Subtotal	6,178	6,273
Reserve for doubtful accounts	(2,423)	(2,379)
Subtotal	3,755	3,894
Other	6,073	4,336
Total	$48,115	$40,623

Note G—Loans Receivable

Net student loans receivable of $15.8 million and $15.4 million include an allowance for doubtful accounts of $1.1 million at June 30, 2001 and 2000.

Note H—Sponsored Research

Direct research revenues represent reimbursement of costs incurred in direct support of research projects. Such revenue is recognized when the direct costs are incurred and is recorded in unrestricted net assets. In addition, research grants and contracts normally provide for the recovery of indirect costs supporting the research effort. Indirect research revenue is recorded at rates established in advance by Carnegie Mellon through negotiations with the United States Government and other sponsors. The recovery of indirect costs is recorded in unrestricted net assets.

The major components of sponsored research revenue for the years ended June 30, 2001 and 2000 are as follows:

$ in thousands	*2001*	*2000*
Federal		
Direct research revenue	$120,021	$ 97,006
Indirect research revenue	25,479	24,431
Subtotal - Federal	145,500	121,437
State, industrial and other		
Direct research revenue	38,825	41,888
Indirect research revenue	7,023	11,378
Subtotal - state, industrial and other	45,848	53,266
Total sponsored research revenue	$191,348	$174,703

Note I—Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2001 and 2000 consist of the following:

$ in thousands	*2001*	*2000*
Buildings	$511,262	$479,924
Utilities and building related assets	55,295	50,568
Moveable equipment	254,805	307,956
Subtotal	821,362	838,448
Accumulated depreciation	(410,418)	(439,754)
Subtotal	410,944	398,694
Land	7,839	7,839
Construction in progress	14,648	13,184
Total - Net	$433,431	$419,717

Buildings include $22.3 million in 2001 and 2000 representing the present value of minimum lease payments under capital lease arrangements.

Note J—Long-Term Debt

Long-term debt consists of the following bond issues and mortgages:

		June 30,	
$ in thousands	*Interest %*	*2001*	*2000*
Dormitory bonds/mortgage notes	2.75 - 3.50	$ 3,311	$ 3,544
Pennsylvania Higher Education Facilities Authority, Variable Rate Refunding Bonds, Series 1995	Variable	176,800	176,800
Allegheny County Higher Education Building Authority, Variable Rate University Revenue Bonds, Series 1998	Variable	78,000	88,000
Capital lease obligations	5.0 - 7.5	10,713	12,535
Other	Variable	–	450
Total		$268,824	$281,329

The dormitory bonds and mortgage notes mature in varying amounts through 2024 and bear interest at fixed rates that range from 2.75% through 3.5%. Facilities of Carnegie Mellon and the revenues thereon are pledged as collateral on the dormitory bonds and mortgage notes. Certain indentures related to these borrowings further provide, among other provisions, that Carnegie Mellon deposit in a collateral fund securities having a market value of at least $303,400. As of June 30, 2001, securities with a market value of approximately $424,000 were on deposit.

On November 1, 1995, Carnegie Mellon issued through the Pennsylvania Higher Education Facilities Authority $176.8 million of Carnegie Mellon University Variable Rate Revenue Refunding Bonds, Series 1995 (the “1995 Bonds”). The proceeds of the 1995 Bonds were used to repay the Washington County Higher Education Pooled Equipment Leasing program debt and the Pennsylvania Higher Education Facilities Authority Variable Rate Option Revenue Bonds, First Series of 1985. The $176.8 million debt issue consists of $50 million Series 1995A due 2025, $50 million Series 1995B due 2027, $50 million Series 1995C due 2029, and $26.8 million Series 1995D due 2030. The 1995 Bonds have certain financial covenants consistent with similar types of financing arrangements. The 1995 Bonds structured as multiple mode obligations currently bear interest at a variable market rate determined daily by the bonds’ remarketing agent. Interest was charged at rates ranging from .85% to 6.0% during the year.

On December 30, 1998, Carnegie Mellon issued through the Allegheny County Higher Education Building Authority $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. The 1998 Bonds are due December 2033.

The 1998 Bonds structured as multiple mode obligations currently bear interest at a variable market rate determined daily by the bonds’ remarketing agent. Interest was charged at rates ranging from .9% to 5.85% during the year.

On November 1, 1995, Carnegie Mellon executed a guaranty whereby it guarantees the payment of principal and interest due on $19.3 million RIDC Regional Growth Fund Revenue Refunding Bonds (Carnegie Mellon University Software Engineering Institute Facility), Series 1995, issued through the Pennsylvania Higher Educational Facilities Authority. These bonds which had principal outstanding of $10.8 million as of June 30, 2001 were issued to refinance a prior debt issue used for construction of a building in accordance with the research contract for the Software Engineering Institute. Carnegie Mellon had a capital lease obligation in connection with this transaction in the amount of $9.3 million and $11.2 million at June 30, 2001 and 2000, respectively. The lease concludes in fiscal 2006 and has an interest rate of 5%.

On July 15, 1995, Carnegie Mellon and the Urban Redevelopment Authority of Pittsburgh (the "URA") entered into a capital lease for the land and buildings that are known as the Robotics Engineering Consortium (REC). The lease term is for seven years. The lease obligation was $1.4 million and $1.3 million as of June 30, 2001 and 2000 respectively. The interest rate on the lease is 7.5% and concludes in fiscal 2003. Contract and grant revenues will support the payments on this lease.

Interest expense for the years ended June 30, 2001 and 2000 totaled $10.2 million and $10.4 million, respectively. Interest paid for the years ended June 30, 2001 and 2000 totaled $10.7 million and $10.1 million, respectively.

Aggregate long-term debt maturities, including capital lease obligations, for each of the five years ending June 30 are ($ in thousands):

2002	$ 2,147
2003	3,604
2004	2,323
2005	2,441
2006	1,141
Thereafter	257,168
Total	$268,824

Note K—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, legal counsel and management are of the opinion that the liability, if any, in these legal actions will not have a material effect on Carnegie Mellon's financial statements.

Carnegie Mellon and its affiliates receive 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 conditioned 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 for the year ending June 30, 2001 and 2000, was $7.7 million and $7.6 million, respectively. Future minimum operating lease payments at June 30, 2001 are as follows ($ in thousands):

2002	$ 1,011
2003	993
2004	710
2005	388
Total minimum lease payments	$ 3,102

In order to support the working capital requirements of a consolidated wholly-owned subsidiary, a demand line of credit was established in the amount of $2.0 million in November 1999. The demand line of credit bears interest at the prime rate less 1% and is guaranteed by Carnegie Mellon. At June 30, 2001, $1.4 million was outstanding and reported in the Consolidated Statements of Financial Position as other liabilities.

Note L—Retirement Plans and Other Post-Employment Benefits

Carnegie Mellon has various pension and retirement programs covering substantially all of its employees. The two principal pension programs are TIAA-CREF, a defined contribution plan, and the SEIU National Industry Pension Fund, a multi-employer plan. Annual contributions are made to the plans equal to amounts accrued for pension expense. Such plans are fully funded on a current basis. Pension expense for the years ended June 30, 2001 and 2000 totaled $15.3 million and $13.4 million, respectively.

Carnegie Mellon provides certain health care benefits for eligible retired employees. The table below sets forth the health care plan's funded status at June 30, 2001 and 2000:

Fiscal year ended June 30 ($ in thousands)	*2001*	*2000*
Benefit obligation	$8,575	$4,633
Unrecognized amounts, primarily transition obligation	2,570	2,785
Benefit obligation and funded status before “rabbi” trust at June 30	$11,145	$7,418
Liability in the Statements of Financial Position	$ 6,563	$5,657

Weighted-average assumptions as of June 30	*2001*	*2000*
Discount rate	7.50%	8.00%

Fiscal year ended June 30 ($ in thousands)	*2001*	*2000*
Benefit cost	$802	$618
Employer contribution	390	320
Plan participants' contributions	103	64
Benefits paid	493	384

For measurement purposes, an 8.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5.0% for 2005 and remain at that level thereafter.

In conjunction with an agreement made with the federal government, the university has established a separate trust, which is available to general creditors, only in the event of insolvency. The expected return on plan assets for both 2001 and 2000 was 8.75% and was used in determining the benefit cost. Assets in the trust to fund post-retirement healthcare and other post-employment benefits are $6.5 million and $0.4 million, respectively at June 30, 2001 and $5.6 million and $0.7 million, respectively at June 30, 2000. These assets are reflected as investments in the accompanying Statements of Financial Position. Total contributions for years ended June 30, 2001 and 2000 to fund the liability, including payments into the trust, totaled $0.7 million and $0.6 million, respectively.

Administration and Board

Administration

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Indira Nair
Vice Provost for Education

Martin Prekop
Dean, College of Fine Arts

Gloriana St. Clair
University Librarian

Howard Wactlar
Vice Provost for Research Computing

* Alumnus(a)

Type of university: Private, coeducational, granting about 2,600 bachelor's, master's and doctor's degrees each year.

Number of colleges and schools: Seven—the Carnegie Institute of Technology (engineering); the College of Fine Arts; the College of Humanities and Social Sciences (liberal arts and professional studies); the Graduate School of Industrial Administration (business); the H. John Heinz III School of Public Policy and Management; the Mellon College of Science; the School of Computer Science.

Physical size: 105-acre main campus; 74 buildings.

Location: Five miles east of downtown Pittsburgh, bordered by 500-acre Schenley Park and three culturally active residential neighborhoods.

Number of students: 5,106 undergraduates; 2,172 master's and 1,118 doctoral students.

Number of faculty: 1,036 full-time and 197 part-time faculty; and 44 administrative faculty.

Athletics: Team name is "the Tartans"; NCAA Division III classification; founding member of the University Athletic Association; 17 varsity sports; more than 40 intramural sports.

Number of alumni: 54,154

Computers: There are thousands of high-powered computer workstations and personal computers on campus; all student rooms and apartments and all academic and research facilities are linked to the university's Andrew computing network. Being named the "Most Wired College" by Yahoo! Internet Life for the second consecutive year, Carnegie Mellon boasts a wide wireless network with access available to all administrative and dormitory buildings on campus.

History: Founded in 1900 by industrialist and philanthropist Andrew Carnegie as a technical school for working class Pittsburgh; became Carnegie Institute of Technology, or "Tech," in 1912; merged with the Mellon Institute of Research in 1967 to become Carnegie Mellon University.

Founder's motto: "My Heart Is in the Work," as inscribed by founder Andrew Carnegie in his "contract" to the city of Pittsburgh written in 1900.

For more insight into our vision for the future of Carnegie Mellon . . .

Please visit our Internet World Wide Web home page at:

http://www.cmu.edu/

The complete financial report and supplemental information on Carnegie Mellon's financial services can be found at the following address:

http://www.as.cmu.edu/~fsg/annual_reports/annual.html

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