ANNUAL REPORT

Carnegie Mellon

2001-2002

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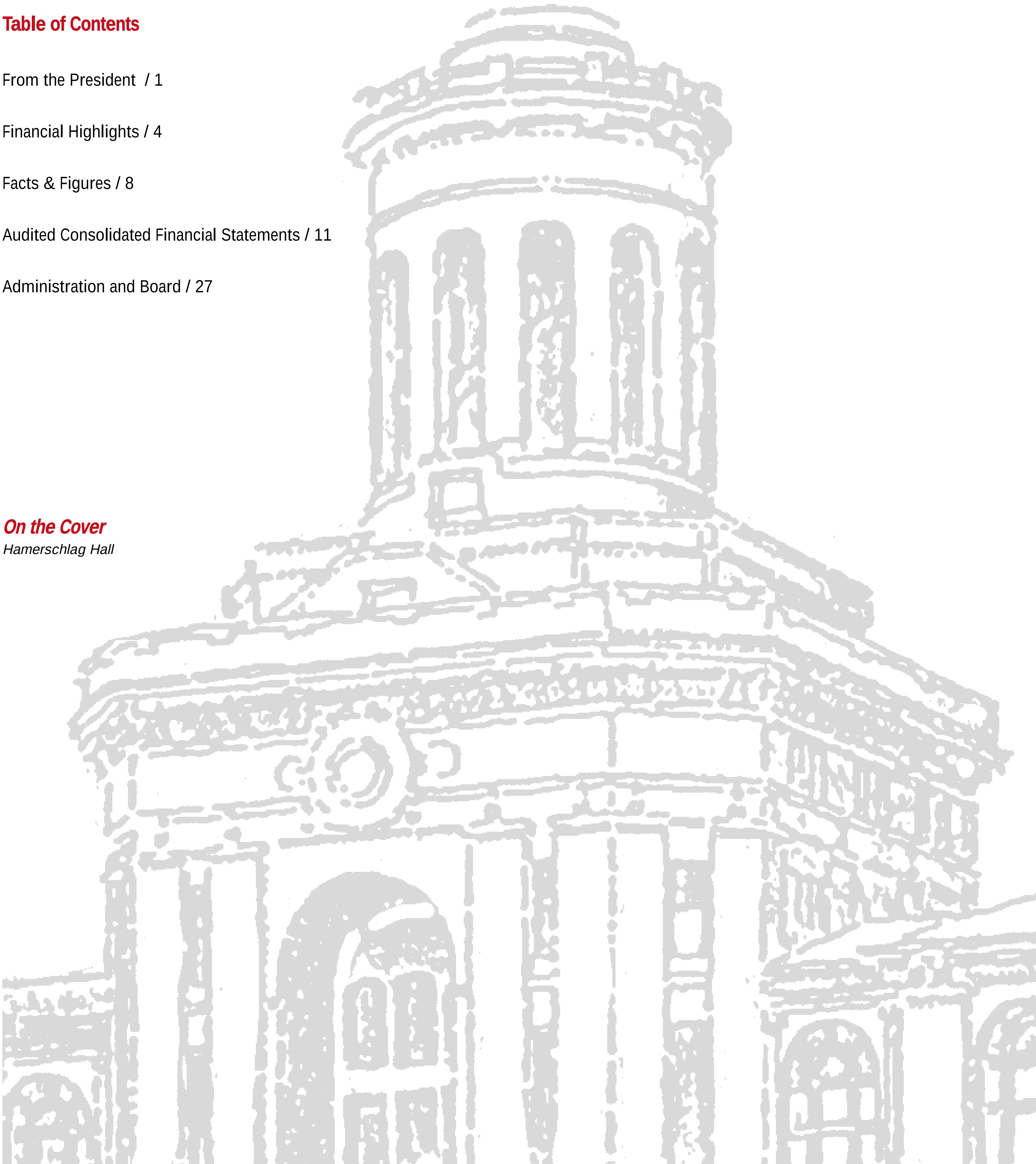


On the Cover

Hamerschlag Hall

The world has become a faster, more complicated, more interconnected and more international place. As I begin my second term as president of Carnegie Mellon University, I believe more than ever that today's world *needs* what Carnegie Mellon has to offer.

- In a world where security issues have risen to the fore, our work in homeland security grows increasingly important every day, with projects ranging from robots that can search through rubble to facial identification software.

Carnegie Mellon researchers, both faculty and students, continue to apply their knowledge and expertise to solve real-world problems. For example, students in our Mobile Robot Development course are developing robots that can traverse the dark pressure-filled passageways of coal mines to provide accurate pictures of their chambers and hallways. When completed, the robot will be capable of exploring and evaluating the boundaries and conditions similar to those that may have contributed to the Quecreek mining accident in southwestern Pennsylvania.

In addition, the university's Center for Computer and Communications Security (C3S) has been awarded a $35.5 million grant over the next five years from the Department of Defense to create a new network security paradigm to tackle the challenges related to Internet security, data storage and privacy issues stemming from America's ongoing war against terrorism.

- In a world where advances in biomedicine promise to cure disease, heal injuries and extend lives, Carnegie Mellon, in partnership with the University of Pittsburgh, has launched the Pittsburgh Life Sciences Greenhouse, which aims to attract and support new biotech companies and to invest in academic research. Carnegie Mellon's biotechnology plan taps interdisciplinary strengths in biomedical engineering, computational biology and chemistry, drug discovery tools, medical robotics, nanotechnology, neuroscience and tissue engineering. In July 2002, we further demonstrated our commitment to biotechnology by elevating the Biomedical and Health Engineering Program to department status.

- In a world where protecting the environment has become one of the most critical issues we face, Carnegie Mellon has always been ahead of the curve. Recently, the university became the largest single retail purchaser of wind energy in the country. We are proud of the members of our faculty who have led the way with path-breaking research in the area of "green chemistry," including a water purification process that replaces the need for harmful chlorine.

In true Carnegie Mellon spirit, our students also are demonstrating their commitment to the environment —both inside and outside the classroom.

This fall, a collaborative team of students from architecture, engineering and design competed in the Solar Decathlon in Washington, D.C. Working together with community support, they designed and built a sustainable, environmentally innovative home that is efficient, effective, attractive and affordable.

- In a world in which technology, society and the arts have become increasingly interdependent, Carnegie Mellon can boast a world class fine arts conservatory in the midst of a research university acclaimed for science and engineering. By exploring the intersection of the arts and humanities, Carnegie Mellon's scholars, artists, and students pursue a holistic approach to creativity and human expression. This distinctive focus stimulates new ways of understanding — and enhancing — our society and our world.

I believe we have achieved success by remaining true to our core values. Despite the major transformations that Carnegie Mellon has undergone since its establishment in 1900, we have remained committed to the vision embraced by our founder, Andrew Carnegie. For more than 100 years Carnegie Mellon has been devoted to solving problems and making an impact in the real world with our unique style of innovation, interdisciplinary collaboration and hard work.

I would add another characteristic of the Carnegie Mellon culture that uniquely positions this university to tackle the challenges of the future with the same vigor and level of achievement. That characteristic is our willingness to embrace change. Carnegie Mellon is a place where one of our most important traditions is change itself – along with the creativity and sense of purpose that results in *meaningful* change.

Of course, the key to ensuring that Carnegie Mellon's distinct voice will have continued impact on our nation and our world lies with our faculty, staff, alumni, and most importantly, with our students. That is why broadening and enriching the educational experience of our students remains one of our most critical strategic priorities. We are building upon our educational strength — programs distinctive in their rigor and focus — by expanding opportunities for intellectual and personal development within and beyond the classroom.

At Carnegie Mellon we develop broadly educated, humane leaders who make an impact in their professions, their communities, our nation and the world.

Jared L. Cohon
President, Carnegie Mellon University
October 23, 2002

Financial Highlights

Financial Highlights

Carnegie Mellon's overall financial results for fiscal year 2002 were adversely affected by investment performance and the continued weak equity markets for the second straight year. However, our operating results continue to reflect strong performance in our core education and research activities, and were managed with a balanced budget. Tuition and fees, net of financial aid, increased 10.9% to $175.4 million in fiscal year 2002 from $158.2 million in fiscal year 2001. We experienced a strong pattern of growth with an increase of 27.7% in sponsored research revenues to $244.4 million from $191.3 million last year. Fiscal year 2002 operating results confirm our commitment to our core mission and sound business practices.

Our educational and research programs continue to be highly ranked. Basic research continues to flourish with strong support from government and private sources. Our applied research results continue to contribute to commercialization of technology through licenses and company formation.

Philanthropic support for Carnegie Mellon's unrestricted operations for fiscal year 2002 was $10.5 million despite the current unfavorable conditions of the financial markets and we are deeply appreciative of this support. Carnegie Mellon's Office of University Advancement is currently planning for a new fundraising campaign.

Overall net assets declined at June 30, 2002, primarily due to losses in our long-term investment portfolio. The administration and the Investment Committee of the Board of Trustees maintain a long-term view with the investment portfolio.

Review of Balance Sheet

Total assets at June 30, 2002, were $1,484 million, 4.1% lower than a year ago. Investments, which represent 57% of total assets, declined by $102.5 million, or 10.8%. This reduction in assets for the second consecutive year was primarily 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 increased by $10.9 million.

During fiscal year 2002, Carnegie Mellon issued $44.7 million of tax-exempt bonds to fund capital projects, and at June 30, 2002, the unspent proceeds of $28.6 million were held in trust to pay for the completion of the projects.

Total net assets of the university declined by $107.4 million, or 9.3%. The decline in net assets results was principally due to net losses on investments.

Investments

The university maintains a large diversified position in the equity markets, both in small and large capitalization companies, as well as international and emerging markets. Earnings from the endowment provide a key source of funds to support mission-critical operations, and provide financial aid for our students. These earnings are applied to a variety of activities and programs, from general operations to very specific needs, such as scholarships and professorships. We will continue to attempt to maintain and increase the endowment's ability to fund initiatives that support the strategic plan of the university.

The investment performance of the university's long-term investments for the fiscal year ending June 30, 2002, was –8.0%. While this mirrors our benchmark return, the results were disappointing. The investment performance reflects another very difficult year for equity markets during which principal indices demonstrated large declines for the second consecutive year. The 12-month return for the Nasdaq composite index was –32.3%; the S&P 500 index declined 19.2%; and, the MSCI All World Free Excluding US Index lost 8.2%.

The market value of the university's endowment declined by $89.1 million and was valued at $667.8 million at June 30, 2002. The reduction in market value reflects the net impact of $58.1 million in investment losses; $42.8 million in distributions to support the university operations; and, was offset by $11.8 million in gifts and other additions to the endowment.

During the year, we substantially implemented a new investment policy for our long-term investments to increase our exposure to equity-based assets. In broad terms, the new policy calls for allocations of 80% to equities, 15% to fixed income, and 5% to hedge funds. The greater equity allocation positions the overall endowment fund to benefit from the expected long-term outperformance of equities. We remain mindful of our stewardship responsibility for the university's long-term investments and that these funds must adequately meet the needs of current and future generations of Carnegie Mellon students. We remain confident that over the long term, the endowment fund will be better able, as a result of the new investment policy, to provide for current operating needs, while generating additional resources to support the university's future growth.

Additions to Buildings and Equipment

The university continued extensive construction activity on the main campus within the guidelines of the Master Plan approved by Pittsburgh City Council. Construction has neared completion on the 8-story addition to Doherty Hall for chemistry labs, where $17.2 million was expended in fiscal year 2002. Already, one lab has been occupied and full occupancy of the newly constructed labs is expected by spring 2003. Begun in 2001, this addition significantly expands and enhances interdisciplinary laboratories supporting science education. Considerable progress has occurred in the construction of the new freshman dormitory, where $3.2 million was expended in fiscal year 2002. It is expected that the dormitory will be available for use by first-year students in the fall 2003. These projects have been funded utilizing a combination of fundraising, debt financing, as well as future cash flows through the auxiliary operation of the new dormitory. In addition to these major building projects, significant investments were made to renovate and upgrade research laboratories, classrooms and physical infrastructure of the university.

Expenditures for land, buildings and equipment were $48.5 million in fiscal year 2002, including movable equipment of $20.2 million, and buildings and construction of $28.3 million. These additions are offset by $41.5 million in depreciation expense.

Long-Term Debt

External debt outstanding at June 30, 2002, was $310.5 million representing 70.9% of total liabilities. Long-term debt increased by $41.7 million from $268.8 million at June 30, 2001, principally as the result of a new $44.7 million fixed rate tax-exempt bond issue. Virtually all of the university's outstanding debt matures in 2025 and beyond. Management forecasts that operating revenues will be sufficient to pay principal and interest on Carnegie Mellon's outstanding debt.

Review of Operating Highlights

Operations for the year ended June 30, 2002, produced positive results and were managed within budget. The increase in unrestricted net assets from operations was $2.4 million in fiscal year 2002 compared to $1.5 million in fiscal year 2001.

Operating Revenue

Operating revenue was $566.1 million in fiscal year 2002 and increased 12.8% from fiscal year 2001. Net tuition revenue increased by 10.9%, totaling $175.4 million in fiscal 2002. The increase is principally the result of the blended tuition rate increase initiated in fiscal year 2001. While the university is operating at capacity for undergraduate enrollment, demand continues to remain at high levels, as does our selectivity in the admissions process. Enrollment for the 2002 fiscal year remained stable, growing about 1% from last year.

Sponsored research revenue increased by 27.7% from $191.3 million in fiscal year 2001 to $244.4 million in fiscal year 2002. Of the 27.7% increase, approximately 15% was attributable to the funding of the Terascale Computing System by the National Science Foundation. The remaining increases were experienced by Carnegie Mellon operations across the board. The federal government funded approximately 73% or $179 million of sponsored research revenue in fiscal year 2002 with $74 million from the National Science Foundation and $64 million from the United States Department of Defense. Carnegie Mellon is reimbursed for administrative and facilities costs under negotiated fixed contracts with carry-forward provisions. Carnegie Mellon makes accruals in the financial statements for any differences between the negotiated fixed rates and actual rates.

With increasing tuition and research revenue bases, the university continues to finance core education and research initiatives. With ever-increasing pressures evident in the economy, contributions that support operations in fiscal year 2002 approximated the level of support received in fiscal year 2001, though overall contribution revenues declined.

Due to a general economic decline and circumstances surrounding the tragic events of September 11, 2001, revenues from certain executive education programs declined, resulting in a 20.3% reduction in revenues from educational activities. The combination of income from investments, mostly revenues derived from unrestricted endowment distributed to operations, and net assets released from restriction decreased by 1.5%.

Operating Expenses

Operating expenses increased by 12.7%, totaling $563.7 million due principally to the growth in sponsored research revenue and related research expenses. Instruction and departmental expenses decreased slightly in fiscal year 2002 from 2001 because of phasing out of the Carnegie Mellon Research Institute in fiscal 2001 and a reduction in variable expenses during fiscal year 2002 associated with reduced revenues from educational activities. Growth in all other expenses continues to align with institutional spending priorities for investments in programs related to the strategic plan.

Financial Outlook

With continued uncertainty in the economic outlook, specifically with respect to the capital markets, the university expects to remain strong in our key core competencies of education and research. Our forecast for fiscal year 2004 suggests continued demand for our educational and research programs. The university received in excess of 14,000 applications for the fall 2002 freshman class of 1,366. We do anticipate a need to enhance financial aid allocations to address reduced capabilities of students and parents to pay for 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. Our growth in research will require additional resources including operating space. We continue to anticipate challenges in fundraising in the short term and are projecting reductions in distributions from the endowment in fiscal 2004.

Cognizant of the demands and economic challenges we face, the university remains committed to operating within a balanced budget, while ensuring a continued sharp focus on strategic priorities and institutional excellence.

William G. Laird
Acting Chief Financial Officer
October 23, 2002

John M. Mazur
Treasurer and Chief Investment Officer
October 23, 2002

Facts & Figures

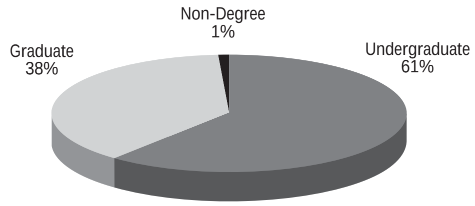
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
$ in millions										
Sponsored Research Revenue	$147	$151	$152	$165	$166	$170	$168	$175	$191	$244

	1998	1999	2000	2001	2002
Attendance Costs					
Undergraduate Tuition:					
Enrolled before Fall 2000	$20,275	$21,275	$22,300	$22,830	$23,820
Enrolled Fall 2000 or after	–	–	–	24,600	25,670
Room and Board	6,225	6,555	6,810	7,028	7,264
Financial Highlights:					
$ in millions					
Operating revenue by category					
Tuition and fees, net	$118	$132	$148	$158	$175
Sponsored research	170	168	175	191	244
Income on investments and cash equivalents	21	19	28	35	33
Contributions	23	24	19	11	11
Educational activities	12	9	17	22	17
Auxiliary services	30	30	31	29	31
Other sources	14	13	18	26	24
Net assets released from restrictions	28	33	35	30	31
Total	$416	$428	$471	$502	$566
Operating expenses by category					
Instruction and departmental research	$155	$167	$193	$214	$212
Sponsored research	139	143	147	161	221
Academic support	38	39	41	43	45
Student services	16	19	21	24	26
Administration and institutional support	29	30	30	30	32
Auxiliary services and activities	30	28	30	28	28
Total	$407	$426	$462	$500	$564

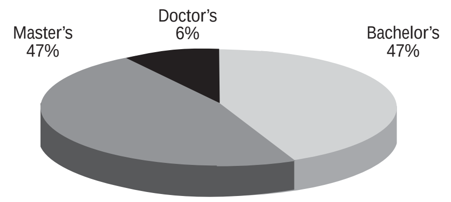
	1998	1999	2000	2001	2002
Undergraduate Admissions					
Applications	13,115	13,202	14,114	14,621	16,696
Acceptances	5,650	5,598	5,333	5,241	5,211
Matriculations	1,270	1,308	1,254	1,329	1,318
Enrollment					
Undergraduate	4,876	5,050	5,136	5,106	5,194
Graduate	2,894	3,013	3,174	3,290	3,278
Non-Degree	142	122	126	118	116
Total Enrollment	7,912	8,185	8,436	8,514	8,588

Selected Charts:

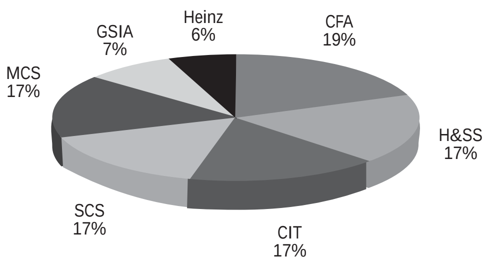
Fall 2001 Enrollment Headcount by Class
(Total = 8,588)



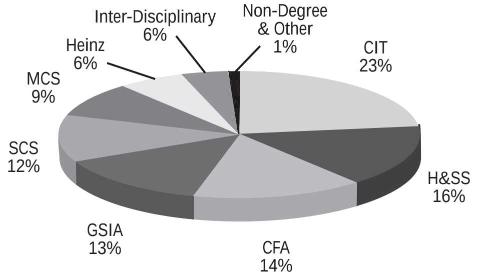
Degrees Granted
(Total = 2,602)



Academic Faculty by College
(Total = 1,249)



Fall 2001 Enrollment Headcount by College/School
(Total = 8,588)



CFA	**College of Fine Arts**
CIT	**Carnegie Institute of Technology**
GSIA	**Graduate School of Industrial Administration**
H&SS	**College of Humanities and Social Sciences**
Heinz	**H. John Heinz III School of Public Policy and Management**
MCS	**Mellon College of Science**
SCS	**School of Computer Science**

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, 2002 and 2001, 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, 2002 and 2001, 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 23, 2002

Consolidated Statements of Financial Position

June 30, 2002 and 2001
($ in Thousands)

	2002	*2001*
Assets		
Cash and cash equivalents	$ 55,886	$ 45,026
Accrued interest and dividends	3,184	5,196
Accounts receivable, net (Note F)	45,987	48,115
Inventories, at cost	1,941	2,199
Prepaid and deferred charges	1,100	1,319
Pledges receivable (Note E)	37,907	39,131
Loans receivable (Note G)	14,216	15,765
Investments (Note C)	846,242	948,756
Assets held in trust by others	33,780	—
Other	7,379	9,597
Land, buildings and equipment, net (Note I)	436,366	432,184
Total assets	**$1,483,988**	**$1,547,288**
Liabilities		
Accounts payable and other liabilities	$ 57,273	$ 49,627
Deferred revenue	35,578	38,918
Federal loan programs	14,266	15,625
Present value of future annuities payable	20,194	20,672
Long-term debt (Note J)	310,491	268,824
Total liabilities	**437,802**	**393,666**
Net assets		
Unrestricted	37,691	44,037
Designated for plant activities	119,395	99,903
Unrestricted endowment (Note D)	244,646	286,246
Net investment in plant	127,522	164,607
Total unrestricted net assets	**529,254**	**594,793**
Accumulated endowment gains (Note D)	164,397	223,112
Pledges receivable	21,745	22,204
Life income funds	4,980	6,712
Other funds for operations	37,932	34,499
Total temporarily restricted net assets	**229,054**	**286,527**
Permanent endowment (Note D)	258,764	247,572
Pledges receivable	16,162	16,927
Other funds	12,952	7,803
Total permanently restricted net assets	**287,878**	**272,302**
Total net assets	**1,046,186**	**1,153,622**
Total liabilities and net assets	**$1,483,988**	**$1,547,288**

See notes to consolidated financial statements.

Consolidated Statements of Activities

For the Years Ended June 30, 2002 and 2001
($ in Thousands)

	2002	*2001*
Changes in unrestricted net assets:		
Operating revenue and support:		
Tuition and fees, net of financial aid	$175,433	$158,209
Sponsored research (Note H)	244,405	191,348
Income on investments and cash equivalents	32,890	34,947
Contributions (Note E)	10,520	11,009
Educational activities	17,007	21,351
Auxiliary services	31,423	29,031
Other sources	23,688	26,083
Net assets released from restrictions	30,723	29,653
Total operating revenue and support	**566,089**	**501,631**
Operating expenses:		
Instruction and departmental research	212,239	213,893
Sponsored research	221,016	160,669
Academic support	45,474	42,813
Student services	25,771	24,533
Administration and institutional support	31,503	29,873
Auxiliary services and activities	27,660	28,328
Total operating expenses	**563,663**	**500,109**
Increase in unrestricted net assets from operations	**2,426**	**1,522**
Nonoperating activities:		
Net realized losses on investments	(28,728)	(21,384)
Unrealized depreciation on investments	(28,061)	(35,210)
Contribution (Note E)	—	20,000
Other sources	(11,176)	(4,988)
Net assets released from restrictions	—	12,093
Decrease in unrestricted net assets from nonoperating activities	**(67,965)**	**(29,489)**
Decrease in unrestricted net assets	**(65,539)**	**(27,967)**
Changes in temporarily restricted net assets:		
Contributions and change in pledges receivable (Note E)	10,404	14,316
Income on investments	8,733	11,773
Net realized losses on investments	(15,282)	(10,540)
Unrealized depreciation on investments	(31,843)	(47,885)
Other sources	1,238	2,187
Net assets released from restrictions	(30,723)	(41,746)
Decrease in temporarily restricted net assets	**(57,473)**	**(71,895)**
Changes in permanently restricted net assets:		
Contributions and change in pledges receivable (Note E)	14,595	18,563
Investment income and other changes	981	15
Increase in permanently restricted net assets	**15,576**	**18,578**
Decrease in net assets	**$ (107,436)**	**$ (81,284)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2002 and 2001
($ in Thousands)

	2002	*2001*
Cash flows from operating activities:		
Decrease in net assets	$ (107,436)	$ (81,284)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Realized losses on sales of investments	28,103	19,879
Unrealized depreciation on investments	59,904	83,095
Depreciation and amortization	41,559	42,077
Gifts in kind	(3,311)	(1,865)
Loss on asset dispositions	5,372	127
Contributions for land, buildings, equipment and permanent endowment	(14,304)	(24,195)
Contributions held in perpetual trusts	(5,152)	—
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued interest and dividends	2,012	(452)
Accounts receivable	2,128	(7,492)
Inventories	258	(70)
Prepaid and deferred charges	219	(328)
Pledges receivable	1,224	811
Other assets	2,617	3,097
Increase (decrease) in:		
Accounts payable and other liabilities	7,476	5,337
Federal loan programs	(1,359)	371
Deferred revenue	(3,340)	4,205
Present value of future annuities payable	(478)	2,172
Other, net	1,483	(705)
Net cash provided by operating activities	**16,975**	**44,780**
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,928,147	1,908,269
Purchases of investments	(1,913,640)	(1,939,767)
Purchases of land, buildings and equipment	(48,535)	(54,187)
Proceeds from sale of land, buildings and equipment	820	134
Disbursements of loans to students	(2,556)	(1,682)
Repayments of loans from students	2,733	2,027
Net cash used for investing activities	**(33,031)**	**(85,206)**
Cash flows from financing activities:		
Proceeds from long-term debt issuance	43,779	—
Deposit of proceeds with trustee	(43,469)	—
Payment of debt issuance costs	(493)	—
Withdrawal of trusteed bond funds for construction	14,947	—
Repayments of long-term debt	(2,152)	(12,055)
Contributions for land, buildings, equipment and permanent endowment	14,304	24,195
Net cash provided by financing activities	**26,916**	**12,140**
Net increase (decrease) in cash and cash equivalents	**10,860**	**(28,286)**
Cash and cash equivalents at beginning of year	**45,026**	**73,312**
Cash and cash equivalents at end of year	**$55,886**	**$45,026**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
June 30, 2002 and 2001

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 approximately 10% of undergraduate, 44% of master's and 60% 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.

Carrying values of accounts and loans receivable approximate their fair values.

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, certain investee operating results, and non-recurring or unusual expenses and additions. In addition, net assets released from donor restrictions for buildings are released into nonoperating 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 $164 million and $223 million on permanent endowment assets as of June 30, 2002 and 2001, 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 categories.

Reclassifications

Certain 2001 amounts have been reclassified to conform with the 2002 presentation.

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.

Note C—Investments

Investments by major category at June 30, 2002 and 2001, are as follows:

$ in thousands	*2002*	*2001*
Restricted cash and equivalents	$ 45,759	$ 47,301
Fixed income	237,187	343,785
Common stock	454,345	440,293
Other investments	108,951	117,377
Total	$846,242	$948,756

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, 2002 and 2001. Common stock investments are comprised of approximately 63% domestic equities and 37% international and emerging market equities at June 30, 2002. At June 30, 2001 approximately 60% of common stock investments consisted of domestic equities while the remaining 40% 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, 2002 and 2001:

$ in thousands	*2002*	*2001*
Dividends and interest	$26,095	$34,600
Net realized losses on sale of securities	(28,103)	(19,789)
Unrealized depreciation	(59,904)	(83,095)
Total return on investments	$(61,912)	$(68,284)

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 $15.9 million in fiscal 2002 and $12.1 million in fiscal 2001.

Carnegie Mellon and certain of its outside investment managers purchase and sell derivative instruments in order 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 $10.8 million and $7.5 million at June 30, 2002 and 2001, respectively. Certain of these foreign exchange contracts are entered into with respect to pending settlements of foreign securities transactions.

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, 2002 and 2001, the notional value of interest rate futures was $(19.4) million and $4.3 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, 2002 and 2001, the notional value of S&P 500 futures contracts was $53.2 million and $63.7 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, 2002 and 2001:

$ in thousands	*2002*	*2001*
Beginning of year endowment value	$756,930	$829,121
Gifts and other additions:		
Contributions (excluding pledges)	10,844	36,551
Terminated life income trusts and income and gains reinvested	630	253
Other transfers	305	96
Total gifts and other additions	11,779	36,900
Investment income:		
Interest and dividends	18,735	24,062
Realized loss on sale of securities	(24,387)	(16,757)
Unrealized depreciation	(52,480)	(74,473)
Total investment income	(58,132)	(67,168)
Income distributed for operating purposes:		
Cash and accrued interest and dividends	(18,518)	(24,062)
Accumulated realized gain on sale of securities	(24,252)	(17,861)
Total income distributed	(42,770)	(41,923)
End of year endowment value	$667,807	$756,930

Endowment net assets at June 30 are classified as follows:

$ in thousands	*2002*	*2001*
Unrestricted	$244,646	$286,246
Temporarily restricted	164,397	223,112
Permanently restricted	258,764	247,572
Total	$667,807	$756,930

The endowment's total investment return of (8.0)% and (8.5)% (net of fees) for the years ended June 30, 2002 and 2001, respectively, reflects the overall trend of the capital markets.

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 2002, based on the average endowment value, was 6.0% as compared to 5.3% in 2001.

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, 2002 and 2001 are as follows:

$ in thousands	*2002*		
	Gifts/Grants	*Decrease in Pledges Receivable*	*Total*
Unrestricted	$10,520		$10,520
Temporarily restricted	10,863	$ (459)	10,404
Permanently restricted	15,360	(765)	14,595
Total	$36,743	$(1,224)	$35,519

$ 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

Carnegie Mellon generally reports foundation grants as exchange contracts and accordingly, reports such revenues as sponsored research revenue in the accompanying Consolidated Statement of Activities. These revenues were $6.1 million and $1.0 million in the years ended June 30, 2002 and 2001, respectively.

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

Pledges and outside trusts as of June 30, 2002 and 2001, are discounted to the present value of future cash flows and are due as follows:

$ in thousands	*2002*			
	Discount Rate	*Temporarily Restricted*	*Permanently Restricted*	*Total*
In one year or less	2.1%	$ 4,236	$ 5,632	$ 9,868
Between one year and five years	3.5%	9,153	6,562	15,715
More than five years	4.5%	9,023	4,643	13,666
Present value of pledges		22,412	16,837	39,249
Less allowance for unfulfilled pledges		(667)	(675)	(1,342)
Pledges receivable, net of allowance		$21,745	$16,162	$37,907

$ 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

Pledges receivable as of June 30, 2002 and 2001, net of allowances, are intended for the endowment in the amounts of $16.2 and $16.9 million, respectively, capital projects in the amounts of $4.5 million and $6.1 million, respectively, and other donor restricted purposes in the amounts of $17.2 million and $16.1 million, respectively.

For the years ended June 30, 2002 and 2001, Carnegie Mellon received gifts in kind valued at $3.3 and $1.9 million, respectively.

Note F—Accounts Receivable

Accounts receivable at June 30, 2002 and 2001, consist of the following:

$ in thousands	*2002*	*2001*
Research grants and contracts:		
Federal	$20,110	$20,644
Non-federal	17,385	17,643
Subtotal	37,495	38,287
Student accounts:		
Current	4,487	4,710
Delinquent	1,259	1,468
Subtotal	5,746	6,178
Reserve for doubtful accounts	(2,419)	(2,423)
Subtotal	3,327	3,755
Other	5,165	6,073
Total	$45,987	$48,115

Note G—Loans Receivable

Net student loans receivable of $14.2 million and $15.8 million include an allowance for doubtful accounts of $1.6 and $1.1 million at June 30, 2002 and 2001, respectively.

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, 2002 and 2001, are as follows:

$ in thousands	*2002*	*2001*
Federal		
Direct research revenue	$153,553	$120,021
Indirect research revenue	25,727	25,479
Subtotal - Federal	179,280	145,500
State, industrial and other		
Direct research revenue	53,665	38,825
Indirect research revenue	11,460	7,023
Subtotal - state, industrial and other	65,125	45,848
Total sponsored research revenue	$244,405	$191,348

Note I—Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2002 and 2001, consist of the following:

$ in thousands	*2002*	*2001*
Buildings	$526,844	$511,262
Utilities and building related assets	53,695	53,809
Moveable equipment	252,011	254,805
Subtotal	832,550	819,876
Accumulated depreciation	(428,625)	(410,179)
Subtotal	403,925	409,697
Land	7,323	7,839
Construction in progress	25,118	14,648
Total - Net	$436,366	$432,184

Assets Held in Trust by Others primarily represents proceeds from the issuance of bonds in 2002 (see Note J), which are held by a trustee under the bond indenture for future capital expenditures.

Buildings include $22.3 million in 2002 and 2001 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 %*	*2002*	*2001*
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	78,000
Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2002	5.125 - 5.5	43,786	—
Dormitory bonds/mortgage notes	2.75 - 3.50	3,077	3,311
Subtotal - bonds and mortgages		301,663	258,111
Capital lease obligations	5.0 - 7.5	8,828	10,713
Total		$310,491	$268,824

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 .70% to 3.25% 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 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 3.30% during the year. The 1998 Bonds are due December 2033.

On March 27, 2002, Carnegie Mellon issued through the Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2002, with a face value of $44,665,000, (the “2002 Bonds”). The proceeds of the 2002 Bonds will be used to fund capital projects. The 2002 Bonds mature $5 million in 2027, $7.665 million in 2028 and $32 million in 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 5.34%.

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 $237,300. As of June 30, 2002, securities with a market value of approximately $338,000 were on deposit.

Carnegie Mellon 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 $8.8 million as of June 30, 2002, 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 $7.4 million and $9.3 million at June 30, 2002 and 2001, 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 currently extends to fiscal 2005. The lease obligation was $1.4 million as of June 30, 2002 and 2001 respectively. The interest rate on the lease is 7.5%. Contract and grant revenues will support the payments on this lease.

The fair value of Carnegie Mellon’s long-term debt obligations as of June 30, 2002, is approximately $310,967,000. As of June 30, 2001, the fair value approximated the carrying value of these obligations.

Interest expense for the years ended June 30, 2002 and 2001, totaled $5.4 million and $10.2 million, respectively. Interest paid for the years ended June 30, 2002 and 2001, totaled $5.0 million and $10.7 million, respectively.

Aggregate maturities of bonds and mortgages for each of the five years ending June 30 are ($ in thousands):

2003	$ 144
2004	150
2005	159
2006	140
2007	144
Thereafter	300,926
Total	$301,663

Note K—Expenses by Natural Classification

Carnegie Mellon reports operating expenses in its Consolidated Statement of Activities by functional category. Operating expenses by natural category for the years ended June 30, 2002 and 2001 are as follows:

($ in thousands)	*2002*	*2001*
Salaries	$273,808	$254,499
Benefits	51,525	47,975
Travel and business	26,131	25,827
Contract purchases, supplies and shipping	66,183	31,852
Subcontracts	17,890	10,421
Professional fees	14,530	14,002
Maintenance and facilities’ costs	34,957	35,188
Other operating expenses	31,693	28,350
Depreciation and amortization	41,539	41,820
Interest expense	5,407	10,175
	$563,663	$500,109

Note L—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 was $7.7 million for each of the years ending June 30, 2002 and 2001. Future minimum lease payments at June 30, 2002 are as follows:

($ in thousands)	*Operating Leases*	*Capital Leases*
2003	$1,388	$2,472
2004	1,025	2,452
2005	699	3,865
2006	187	986
	$3,299	9,775
Less amount representing interest		(947)
Present value of minimum capitalized lease payments		$8,828

Note M—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 a defined contribution plan sponsored by the university 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. Retirement plan expense for the years ended June 30, 2002 and 2001, totaled $16.0 million and $15.3 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, 2002 and 2001:

Fiscal year ended June 30 ($ in thousands)	*2002*	*2001*
Benefit obligation	$ 9,711	$ 8,575
Unrecognized amounts, primarily transition obligation	2,268	2,570
Benefit obligation and funded status before separate trust at June 30	$11,979	$11,145
Liability in the Statements of Financial Position	$ 7,872	$ 6,563

Weighted-average assumptions as of June 30	*2002*	*2001*
Discount rate	7.0%	7.5%

Fiscal year ended June 30 ($ in thousands)	*2002*	*2001*
Benefit cost	$ 1,084	$ 802
Employer contribution	403	594
Plan participants' contributions	111	103
Benefits paid	416	493

The reconciliation of the accumulated benefit obligation at June 30, 2002 and 2001, was as follows:

($ in thousands)	*2002*	*2001*
Benefit obligation, beginning of year	$8,575	$4,633
Service cost	487	358
Interest cost	854	712
Plan amendments	(215)	14
Assumption changes and actuarial loss	315	3,248
Benefit payments	(305)	(390)
Benefit obligation, end of year	$9,711	$8,575

For measurement purposes, an 8.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5.0% for 2008 and remain at that level thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by 1 percent in each year would increase the benefit obligation as of June 30, 2002, by $1.8 million and increase the aggregrate service cost and interest cost components for 2002 by $.2 million. Decreasing the assumed health care cost trend rate by 1 percent in each year would decrease the benefit obligation as of June 30, 2002, by $1.4 million and decrease the aggregate service cost and interest cost components for 2002 by $.2 million.

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 2002 and 2001 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 $7.8 million and $.6 million, respectively, at June 30, 2002 and $6.5 million and $0.4 million, respectively, at June 30, 2001. These assets are reflected as investments in the accompanying Consolidated Statements of Financial Position. Total contributions for years ended June 30, 2002 and 2001, to fund the liability, including payments into the trust, totaled $0.5 million and $0.7 million, respectively.

Note N—Related Party Transactions

Sponsored research revenue for fiscal 2002 and 2001 includes $39.2 million and $9.5 million, respectively, in research funding received from MPC Corporation (“MPC”), a nonprofit corporate joint venture of Carnegie Mellon and the University of Pittsburgh. The funding primarily represents Federal funding under a $40.2 million contract received by MPC, for which MPC has subcontracted to Carnegie Mellon for the construction of a supercomputer and related activities. At June 30, 2002, the underlying net assets of MPC were not material to Carnegie Mellon.

In June 2002, Carnegie Mellon sold the net assets of Carnegie Technology Education (“CTE”), a wholly owned subsidiary, to iCarnegie, Inc. (“iCarnegie”) in exchange for stock representing an approximate 41% interest in iCarnegie, approximately $5.3 million in notes, and certain license royalties. Carnegie Mellon’s interest in iCarnegie has a carrying value of $0 as of June 30, 2002 and the notes from iCarnegie are fully reserved. Carnegie Mellon’s nonoperating activities for the years ended June 30, 2002 and 2001, include a $.6 million gain and a $2.5 million loss from CTE operations and the above noted transaction.

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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: 5,194 undergraduates; 2,078 master's and 1,200 doctoral students.

Number of faculty: 1,065 full-time and 184 part-time faculty; and 45 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: 55,682

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. Recognized twice as the "Most Wired College" by Yahoo! Internet Life, Carnegie Mellon boasts a university-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:

www.cmu.edu/

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

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

For more information about Carnegie Mellon, please contact:

Kyle E. Fisher-Morabito
Associate Vice President – University Advancement
Carnegie Mellon University
5000 Forbes Avenue
Pittsburgh, PA 15213-3890
Phone: 412-268-2900
Fax: 412-268-6827

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