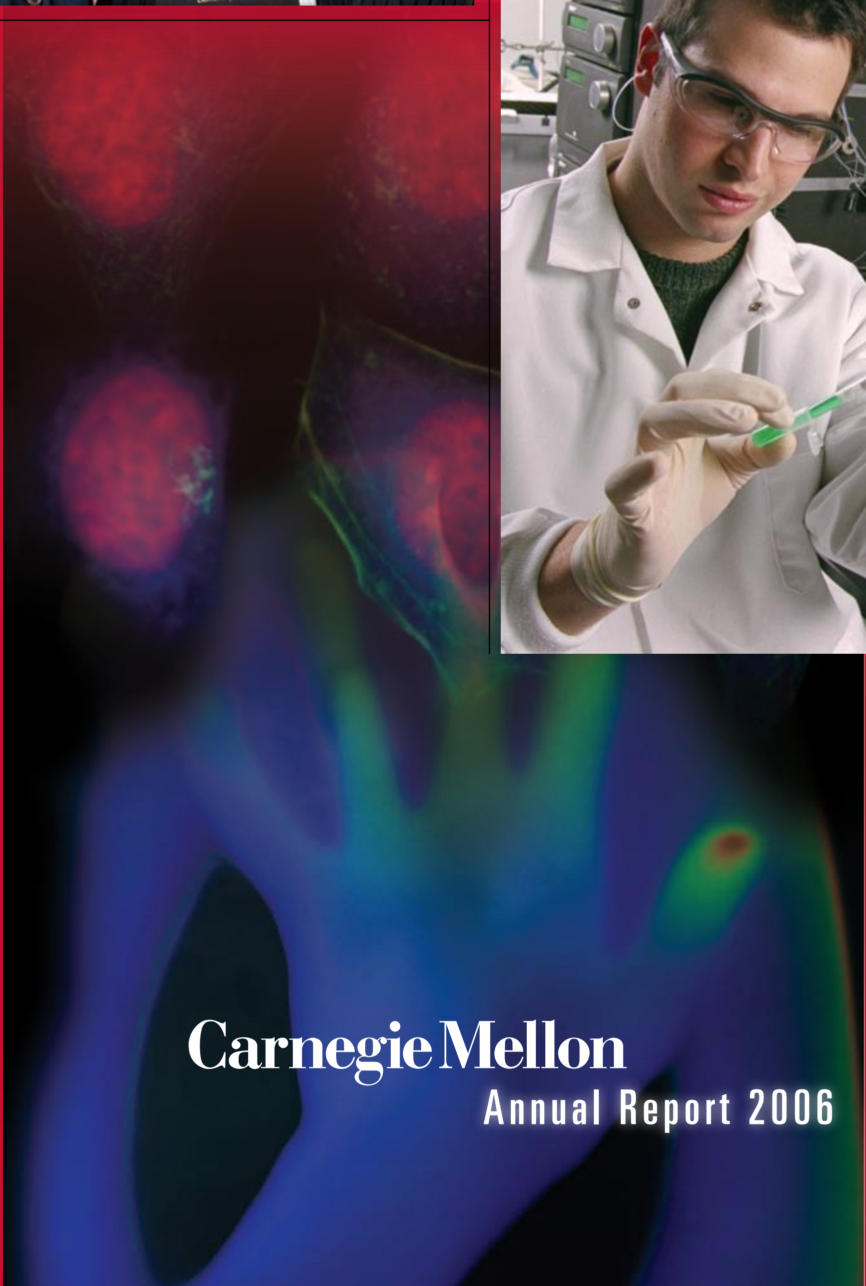

Carnegie Mellon
Annual Report 2006

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Momentum in Life Sciences

Jared L. Cohon

In 1998, shortly after I became President, Carnegie Mellon adopted a revised strategic plan to guide us as we made decisions about the university's future. Biotechnology was one of the areas of research and education where we determined we could have a significant impact.

From the vantage point of 2006, that decision looks prescient. In 1998, we did not foresee that the first mapping of the human genome would be accomplished as soon as the spring of 2000. We did not know that imaging technologies would advance so quickly, nor that nano-scale research would have already generated new avenues for inquiry. These landmark intellectual achievements have opened up vast possibilities for all of the life sciences, and especially at the place where information technology, engineering, and cognitive psychology intersect with the research frontiers of biology and medicine.

Carnegie Mellon's leadership in information technology, and our history of collaboration with the University of Pittsburgh and the University of Pittsburgh Medical Center have made Pittsburgh a powerhouse for such research. The past five years have seen a steady increase in federal funding for health-care research at Carnegie Mellon and almost all of these projects involve significant collaborations with the university down Forbes Avenue. The partnership between Pittsburgh's two research universities is something that University of Pittsburgh Chancellor Mark Nordenberg and I are immensely proud of. There is no other partnership like it in American higher education. Our work together crosses disciplinary lines; it is a tremendous source of economic dynamism in western Pennsyvlania; and, most important, the contributions we are making are leading to lasting improvements to human health and welfare.

This past year the momentum has increased, as several large-scale, intellectually ambitious projects received funding in highly competitive grant processes:

- A five year, $15 million renewable grant from the National Science Foundation established an Engineering Research Center on Quality of Life Technologies, co-directed by Takeo Kanade of the Robotics Institute and Rory Cooper of Bioengineering, Rehabilitation Science and Technology at the University of Pittsburgh. This center is committed to developing such practical technologies as mobility assistants, personal care monitoring systems, and other systems to assist the aging and those with disabilities, as well as their caregivers, with a primary goal of improving the quality of independent living in a cost-effective way. This was one of only five centers—in all areas of technology—that NSF funded. Incidentally, the Pittsburgh Life Sciences Greenhouse had provided early support for this research with a $500,000 grant, a terrific example of the impact of seed funding and the effectiveness of this collaborative initiative among the state government, local foundations, the life sciences industry and the two universities.
- A five-year, $13.3 million grant from the National Institutes of Health (NIH) supports a National Technology Center for Networks and Pathways. Under the leadership of Professor Alan Waggoner, the research team will focus on developing fluorescent probe and imaging technologies to investigate regulatory pathways and networks in living cells. The aim is to create molecular biosensors for preclinical research to map the many cell-signaling networks involved in disease. Ultimately, Waggoner hopes that such biosensors will be used in hospital- and office-based diagnostic medicine.
- The Pittsburgh Mind-Body Center's NIH funding was renewed with an $8 million grant. The work of Sheldon Cohen, Vicki Helgeson, and Michael Scheier and their colleagues at Carnegie Mellon and the University of Pittsburgh explores the role of social and psychological factors in health and healing.
- Carnegie Mellon and the University of Pittsburgh Medical Center (UPMC) began an innovative and interdisciplinary doctoral program in computational biology, under the

direction of Robert Murphy at Carnegie Mellon and Ivet Behar at UPMC. The combined resources of the two universities, including the Pittsburgh Supercomputing Center, give this doctoral program unique strengths.

- The Howard Hughes Medical Institute awarded a major grant to the Mellon College of Science in support of interdisciplinary initiatives in undergraduate science education. The grant will support new courses, such as " Information, Entropy, and Noise in the Brain," and a course that integrates electronics and optics for biology. The HHMI funds will also strengthen the successful Summer Research Institute for rising sophomores and offer introductory biology courses in a variety of "flavors" tailored to the diverse interests of science, social science, and engineering students who are pursuing biological studies.

There is much more, of course, across every college and discipline but these examples serve to convey our progress. And it's been progress very much the Carnegie Mellon way: based on innovative and interdisciplinary (and inter-institutional) collaboration.

International Growth

Our 1998 strategic plan also called for the expansion of our education and research mission globally, and on that front we have also made progress this year.

- Our undergraduate offerings in business and computer science in Doha, Qatar, are entering their third year; we broke ground in March 2006 for our new building on that campus in Education City. The project is totally funded by the Qatar Foundation. Our 120 students are thriving there, and we have made a number of productive connections between our undergraduates in Doha and Pittsburgh. Research collaborations in Doha have emerged quickly, especially in cybersecurity and other IT fields.
- We also strengthened formal ties with universities in Taiwan, China and Singapore, and agreed to expand the number of doctoral students sponsored by Taiwan's Industrial Technology Research Institute (ITRI).
- The Heinz School is now in Adelaide, Australia, offering professional master's degree programs in Public Policy and Management and in Information Technology Management. The Entertainment Technology Center also began offering its multidisciplinary program in Adelaide as well. These programs immediately attracted an applicant pool far larger than we had expected: there is clearly a hunger for the kind of education Carnegie Mellon can provide.

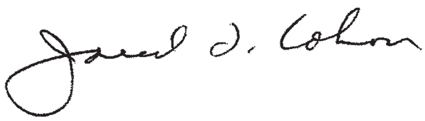
Becoming global also means for us enhancing international content of the curriculum, especially for undergraduate students on the Pittsburgh campus. Using a portion of a special award for academic leadership from the Carnegie Corporation, funding was provided for seven new courses—one in each college or school—with an international focus. An Information Systems project course will have students in Pittsburgh designing a piece of software with team members at Singapore Management University. Other courses focus on the ethical issues of global poverty, and biotechnology issues across cultures.

Regional Economic Impact

We continue to be proud of the entrepreneurial spirit that is generating new economic development opportunities in western Pennsylvania. Some 14 new companies were spun out by the university last year, indicative both of the effectiveness of our reformulated technology transfer operations and the healthy entrepreneurial spirit on campus. Once again this year, Tepper School MBA students took top honors in the national "Global Moot Corp" business plan competition for a biotechnology venture in neurobiology.

In December, Google announced it was opening a new research office (with about 100 new jobs) in Pittsburgh, to take advantage of Carnegie Mellon's machine learning expertise. Google named Professor Andrew Moore as director of the new Pittsburgh office, and they have moved into offices in the Collaborative Innovation Center, alongside Intel, Apple and other information technology leaders. This on-campus collaboration model puts technology transfer even more integrally into Carnegie Mellon's culture, an advantage for students, faculty, and our private- sector partners.

The financial underpinnings of all of this activity over the last fiscal year are detailed in the pages of this report. Although we continue to face constraints on resources, we believe we are responding to these constraints prudently, while creatively fulfilling our fundamental mission of education, research, and transfer of knowledge to society. By making planned investments in the future of the university and moving forward vigorously to expand our base of financial support, we are confident that Carnegie Mellon will continue to make important contributions to the world far into the future.



JARED L. COHON
President
Carnegie Mellon University
October 18, 2006

Faculty Honors
2005-2006

National Academy of Engineering Members

Christina H. Amon, Raymond J. Lane Distinguished Professor of Mechanical Engineering
Egon Balas, university professor of industrial administration and applied mathematics and Thomas Lord Professor of Operations Research
Manuel Blum, Bruce Nelson Professor of Computer Science
Pradeep K. Khosla, Philip and Marsha Dowd Professor of Engineering and Robotics and Dean of the College of Engineering
Krzysztof A. Matyjaszewski, J. C. Warner Professor of Natural Science

Presidential Early Career Award for Science and Engineering, 2005

Russell Schwartz, assistant professor of biological sciences and computer science

National Science Foundation Early Career Awards, 2006

Jonathan Aldrich, assistant professor, Institute for Software Research International
David Anderson, assistant professor of computer science
Alexie Efros, assistant professor of computer science and robotics
Rahul Telang, assistant professor of information systems
Eric Xing, assistant professor of computer science

Dr. A. H. Heineken Prize for Cognitive Science, Royal Netherlands Academy of Arts and Sciences

John R. Anderson, Richard King Mellon Professor of Psychology and Computer Science
2006 Vannevar Bush Award for lifelong contributions to science, National Science Board
Raj Reddy, Mozah Bint Nasser University Professor of Computer Science and Robotics

2005 Honda Prize for contributions to eco-technology

Raj Reddy, Mozah Bint Nasser University Professor of Computer Science and Robotics

Scientific American "Top 50"of 2005

Nathan Urban, assistant professor of biological sciences

Popular Science magazine "Brilliant 10" of 2005

Doug James, assistant professor of computer science and robotics

William Metcalf Award, Engineering Society of Western Pennsylvania

Jared L. Cohon, president of the university and professor of civil and environmental Engineering

Sonia Kovalesky Prize, Society for Industrial and Applied Mathematics

Irene Fonseca, Mellon College of Science Professor of Mathematics

2005 TIAA-CREF Paul A. Samuelson Award for Outstanding Scholarly Writing on Lifelong Financial Security

Richard C. Green, Richard M. and Margaret S. Cyert Professor of Economics and Management

Outstanding Statistical Application Award, 2005

Christopher Genovese, professor of statistics, and Larry Wasserman, professor of statistics

Patricia R. Barchas Award in Sociophysiology, American Psychosomatic Society

Sheldon R. Cohen, Robert E. Doherty Professor of Psychology

Continued

Faculty Honors
2005-2006 Continued

Sunnydale Fellow, National Society of Government (United Kingdom)
Denise Rousseau, H.J. Heinz II Professor of Organizational Behavior

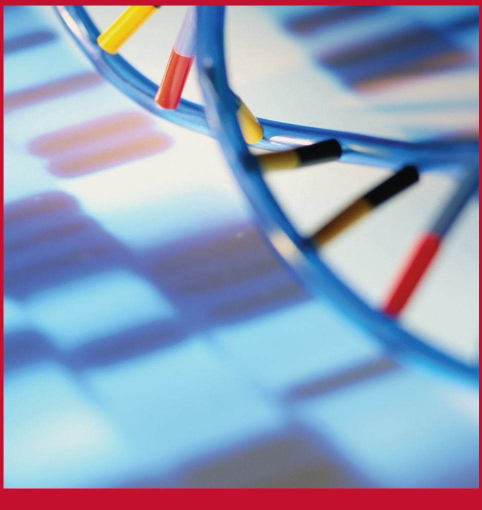
Steven B. Gold Award, for contributions to public financial management, Association for Public Policy and Management
Robert P. Strauss, professor of economics and public policy

Robert Wood Johnson Foundation Investigator Award in Health Policy Research
Jonathan P. Caulkins, professor of operations research and public policy

Women in Science Awards, Women and Girls Foundation of Southwestern Pennsylvania
Jeannette Wing, President's Professor of Computer Science and Head of Computer Science Department
Manuela Veloso, Herbert Simon Professor of Computer Science

2005 Bruno Pontecorvo Prize from the Scientific Council of the Joint Institute for Nuclear Research (Russia)
Lincoln Wolfenstein, Professor Emeritus of Physics

This listing includes honors announced July 1, 2005-June 30 2006.
For errors or omissions, please call Catherine Davidson at 412-268-5262.




ABSOLUTE JAVA

Discussion of Financial Results from the Chief Financial Officer

Carnegie Mellon's record of innovation—in education, in research, and in transfer of knowledge to society—has fueled the university's rise to global prominence in recent decades. With an endowment fund that is substantially smaller than almost all of our peer institutions, Carnegie Mellon has made the most of its assets, both financial and intellectual, to have significant impact on the world.

Building the financial structure to support the university's future is a major strategic goal. To this end, the Board of Trustees has approved planned operating deficits to fund a significant investment in the University's advancement efforts, building fundraising, alumni relations and marketing programs to permanently increase our capacity to generate private support.

Our performance continues to be strong. Careful management of our expenses, especially rising health care and energy costs, has continued; while there was a $9.4 million operating deficit in this fiscal year, this deficit was significantly lower than had been budgeted.

The university's endowment also had a strong year, growing by more than 12.4 percent through a combination of new gifts and an almost 15 percent return on the long-term investment pool. Other new sources of revenue included income from the University's new degree programs in Qatar and South Australia. Sponsored project income rose again this year, and new funding was announced for several major new research initiatives, especially in biotechnology and life sciences.

This year saw the opening of the new Collaborative Innovation Center on campus, an innovative facility housing corporate research programs for work with faculty and students. We are also investing in new research buildings; site preparation and construction have begun on the Gates Complex for Computer Science, and plans are underway for major renovations to chemical engineering laboratories in Doherty Hall.

In 2006, Standard and Poor's renewed the university's AA- bond rating, affirming the strength and stability of the university's financial portfolio, and recognizing the continuing demand and strength of our academic programs as well as the growth of our fundraising and alumni programs. Standard and Poor's report also confirmed that the university had ample capacity to issue additional debt in the next fiscal year to partially fund the facility expansion discussed above. As part of our debt management strategy, the university entered into an agreement to synthetically fix $100 million of debt by executing a forward swap agreement with an effective date of December 1, 2006.

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSTION

The Consolidated Statement of Financial Position presents the assets, liabilities, and net assets of the University at the end of the fiscal year. A comparison of the University's assets, liabilities, and net assets for the past five years follows.

($ in millions)

	2006	2005	2004	2003	2002	2001
Total assets	$ 1,947	$ 1,801	$ 1,670	$ 1,499	$ 1,484	$ 1,547
Total liabilities	526	491	464	452	438	393
Total net assets	1,421	1,310	1,206	1,047	1,046	1,154
Total liabilities and net assets	**$ 1,947**	**$ 1,801**	**$ 1,670**	**$ 1,499**	**$ 1,484**	**$ 1,547**

Total net assets at June 30, 2006 were $1.4 billion representing an 8.5% increase over the prior year. Carnegie Mellon's largest asset, its investment portfolio, which represents 63.4% of Carnegie Mellon's total assets, was valued at $1.2 billion at June 30, 2006, an increase of $127 million over 2005. Carnegie Mellon's investments and endowment values are discussed in greater detail in the "Highlights from the Treasurer and Chief Investment Officer." Capital assets which include the University's investment in land, buildings, and equipment, net of accumulated depreciation, represents 27.3% of the University's assets.

The largest component of the University's liabilities is long-term debt at $335.5 million as of June 30, 2006. The University did not issue any new long-term debt in the current fiscal year and last issued long-term debt in 2002 with the issuance of $44.665 million of bonds. Long-term debt increased in the prior fiscal year, 2005, by $28.1 million primarily as a result of the University's financing obligation associated with a space lease commitment for the Collaborative Innovation Center (CIC). The composition of the University's long-term debt is discussed in greater detail in Note I of the Consolidated Financial Statements.

Carnegie Mellon's net assets as of June 30, 2006 are comprised of permanently restricted net assets, those for which the corpus of the gift may not be spent, of $391 million and $1 billion of expendable net assets which is comprised of unrestricted and temporarily restricted net assets where the funds may be expended, although spending may be restricted by donor designation. The University's net asset position has been steadily increasing, with an 8.5% increase in total net assets over the 2005 ending position, due to both investment performance and new gifts and commitments.

OVERVIEW OF CONSOLIDATED STATEMENTS OF ACTIVITIES

The Consolidated Statement of Activities presents the University's results of activities.

Financial Highlights

($ in thousands)

	2006	2005	2004	2003	2002
Unrestricted operating revenue	$ 728,338	676,241	$ 631,710	$ 576,993	$ 553,432
Unrestricted operating expenses	737,708	674,759	620,076	559,755	551,006
Change in operations	**(9,370)**	**1,482**	**11,634**	**17,238**	**2,426**
Change in unrestricted net assets from non-operating activities	**58,122**	**9,571**	**49,763**	**(5,634)**	**(67,965)**
Change in temporarily restricted net assets	**37,344**	**56,729**	**68,009**	**(22,528)**	**(57,473)**
Change in permanently restricted net assets	**25,255**	**36,046**	**29,222**	**12,141**	**15,576**
Change in net assets	**$ 111,351**	**$ 103,828**	**$ 158,628**	**$ 1,217**	**$ (107,436)**

Operating Results

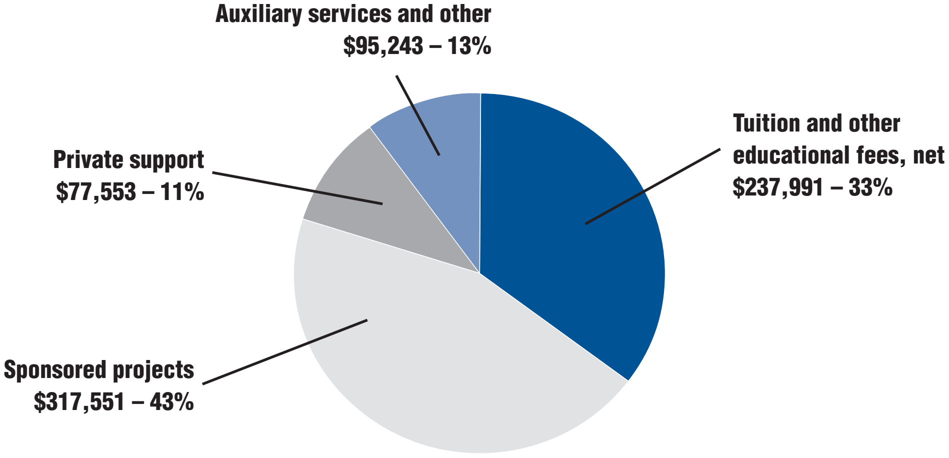
Our statements break out operating activities, which include operating revenues received for providing goods and services to the various constituencies of the University, and the respective operating expenses incurred to provide these goods and services and to carry out the mission of the University. The difference between operating revenues and operating expenses yields the change in unrestricted net assets from operations, or operating gain or loss. In the current year, the University has an operating loss of $9.4 million which is favorable as compared with the Board of Trustees approved budget. The approved budget included planned investment in the University's Capital Campaign and Advancement activities.

Operating Revenues

Carnegie Mellon is dependent upon four primary revenue categories for operations: tuition and other educational fees (net of financial aid), sponsored project activities (which includes research), private support (composed of investment income, contributions, and net assets released from restrictions), and auxiliary services and other revenues. Auxilary services and other revenues are composed of auxiliaries such as housing and meals, certain funding received for our Qatar Campus and programs in South Australia, and other miscellaneous revenues. Our fiscal year 2006 revenues remain relatively proportionate with the prior year.

Fiscal Year 2006 Unrestricted Operating Revenue

($ in thousands)



Tuition and other educational fees, net of financial aid, increased 4.5% to $238 million reflecting budgeted increases in tuition rates, increases in number of graduate students and programs, and increased demand for executive education. The following tables provide detailed information on enrolled students, including undergraduate, graduate and non-degree, in the fall semesters of 2005 and 2004 by school and undergraduate admissions information.

Fall 2005 and 2004 Semester Enrollment

School	2005-2006 Undergraduate	2005-2006 Graduate	Total Number of Students	Percentage	2004-2005 Undergraduate	2004-2005 Graduate
Carnegie Institute of Technology	1,512	892	2,404	24%	1,489	889
College of Fine Arts	938	244	1,182	12%	952	226
College of Humanities and Social Sciences	1,080	263	1,343	13%	1,045	271
David A. Tepper School of Business	437	916	1,353	14%	464	935
H. John Heinz III School of Public Policy and Management	—	533	533	5%	—	509
Mellon College of Science	667	249	916	9%	620	229
School of Computer Science	531	678	1,209	12%	532	635
Interdisciplinary	241	619	860	9%	246	580
CMU-Q	88	—	88	1%	41	—
Non-Degree & Other	—	—	129	1%	—	—
Total	5,494	4,394	10,017	100%	5,389	4,274

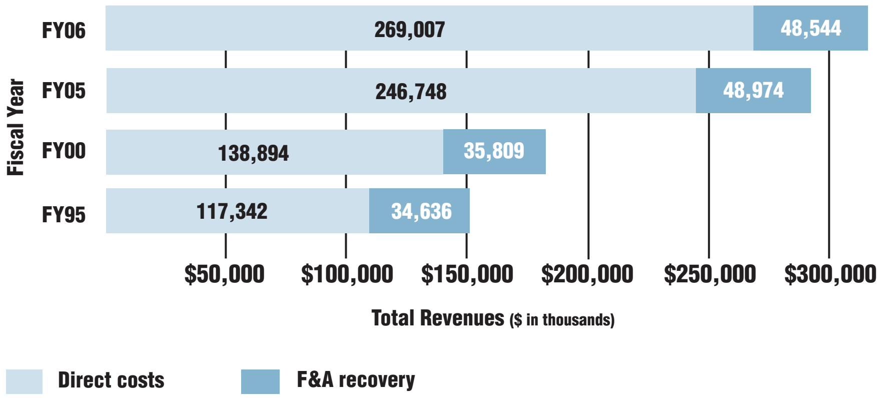
Undergraduate Admissions - Fall Semester

	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
Applications	15,777	14,113	14,467	14,271	16,696
Acceptances	6,135	5,858	5,561	5,440	5,211
Matriculations	1,409	1,394	1,341	1,365	1,318

In fiscal year 2006, ***sponsored projects*** activity provided 43.6% or $318 million of the University's total operating revenues, which represents 7.4% growth over the prior year. This reflects a 72.0% growth in funding received from the Department of Defense which is largely related to increased spending on the Unmanned Ground Vehicle project in the National Robotic Engineering Consortium. Sponsored Projects revenues are comprised of: federal support (87%), Foundation/Non-profit (2%), Industry (6%), State (3%), and non-federal (2%).

As the chart below details, and as supported by the Faculty Honors previously listed in this report, Carnegie Mellon faculty continue to be nationally recognized for their many achievements. Over the past decade, the University's sponsored project revenue stream has grown from $152 million in 1995 to $318 million in 2006, a 109% increase.

Sponsored Projects Revenue



Consistent with the past two years, the Board of Trustees' approved ***endowment draw*** for the fiscal year ended June 30, 2006 was 5%, which contributed $36.8M to fund operations. Endowment support as a percent of operations has been steadily declining over the past decade from an average of 6.9% for the decade, to 5.4% in fiscal year 2005, to 5% in fiscal year 2006. The endowment is discussed in greater detail in the "Financial Highlights from the Treasurer and Chief Investment Officer."

Operating Expenses

In fiscal year 2006, operating expenses totaled $737.7 million, a $63 million (9.3%) increase over fiscal year 2005 with personnel costs remaining the University's single largest category of expense. A significant portion ($24 million), or 3.6% of the 9.3% increase, is due to the growth in our sponsored projects as most of the University's sponsored project portfolio is cost reimbursement. Additionally, $14 million, or 2% of the 9.3% growth, is due to expansion of our international programs.

($ in millions)	2006	2005	2004	2003	2002
Salaries and benefits	$ 452	$ 421	$ 392	$ 352	$ 325
Supplies and services	150	132	116	99	121
Occupancy and related expenses	49	40	37	36	35
Other operating expenses	31	31	30	28	23
Depreciation and amortization	44	43	40	39	42
Interest expense	12	8	5	6	5
Total Expenses	**$ 738**	**$ 675**	**$ 620**	**$ 560**	**$ 551**

Nonoperating Results

The University reports as nonoperating items realized and unrealized gains due to investment activities, certain majority-owned entity activities, any gains or losses on other financial instruments such as swap agreements, and other activities that are not directly related to our mission or are non-recurring in nature. In the current fiscal year, the increase in unrestricted net assets from nonoperating activities was $59.7 million, primarily driven by our investment results.

Also reflected in the current year Statement of Activities are $54.9 million of contributions (gifts and pledges) which includes $15.8 million of unrestricted contributions, $16.6 million of contributions which are expendable with donor restrictions, and $22.5 million of contributions for which the corpus is permanently restricted.

CONCLUSION

The financial results presented for fiscal year 2006 underscore Carnegie Mellon's commitment to maintaining fiscal restraint while continuing to enhance the programs that further our mission. This balance is never easy to achieve, and we are called upon to make some difficult choices. The success of the university's educational and research programs, both in the United States and overseas, and the impressive and ever-expanding impact of the research conducted here have encouraged us to hold steady on this path. We believe this is the right course to meet our responsibilities today while prudently laying the foundation for the university's even brighter future.

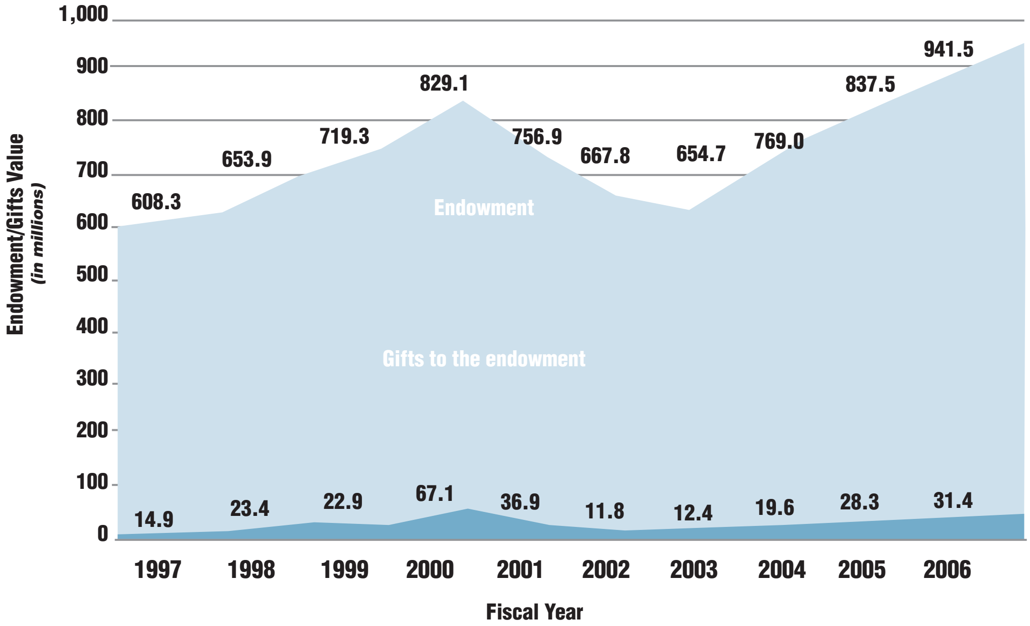
deborah j moon

DEBORAH J. MOON
Vice President and Chief Financial Officer
Carnegie Mellon University
October 18, 2006

Financial Highlights from the Treasurer and Chief Investment Officer

The endowment's market value grew by $104.0 million during the fiscal year and was valued at $941.5 million at June 30, 2006. The gain in market value reflects the net impact of $121.1 million in investment gains and $31.4 million in gifts and other additions, less an $11.7 million annuity fund transfer, and less $36.8 million in distributions to support university operations.

Endowment Market Value and Fiscal Year Gifts



The investment performance of Carnegie Mellon's long-term fund, for the fiscal year ended June 30, 2006, was 14.9%. This return reflects positive performance of financial markets in general, the growth oriented positioning of the portfolio against equity-based assets, and better than benchmark performance by most of the fund's money managers.

The twelve-month return for the S&P 500 Index was 8.6%; the MSCI All World Free Excluding US Index gained 28.4%; the Lehman Aggregate Bond Index declined 0.8% while the NASDAQ composite was up 6.47%.

Carnegie Mellon invests its endowment together with a portion of its working capital reserves in a diversified long-term fund. Distributions from the endowment provide a key source of support for a variety of activities and programs, from general operations to very specific needs, such as scholarships and professorships.

Endowment Fund

($ in millions)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Opening Value	534.2	608.3	653.9	719.3	829.1	756.9	667.8	654.7	769.0	837.5
Gifts/Transfers	14.9	23.4	22.9	67.1	36.9	11.8	12.4	19.6	28.3	31.4
Annuity Reclassification	—	—	—	—	—	—	—	—	—	(11.7)
Draw	(25.8)	(28.2)	(32.7)	(35.2)	(41.9)	(42.8)	(41.7)	(36.5)	(36.3)	(36.8)
Investment Performance	85.0	50.4	75.2	77.9	(67.2)	(58.1)	16.2	131.2	76.5	121.1
Closing Value	608.3	653.9	719.3	829.1	756.9	667.8	654.7	769.0	837.5	941.5
Draw Details										
Total Operating Expense	377.0	406.7	426.2	462.0	500.1	551.0	559.8	620.1	674.8	737.7
Draw % of Operating Expense	6.8%	6.9%	7.7%	7.6%	8.4%	7.8%	7.5%	5.9%	5.4%	5.0%

During the past decade the draw has provided approximately 6.9%, on average, of the university's operating budget. In fiscal year 2006, the draw represented approximately 5.0% of the university's operating budget, due to the growth in the operating budget related to sponsored projects.

During the year, Carnegie Mellon continued to implement its growth-oriented investment policy for the long-term fund. The fund's asset allocation policy calls for allocations of 20% to domestic equities; 20% to non-U.S. equities; 20% to non-marketable equities (i.e. buyout and venture funds); 15% to fixed income; 10% to hedge funds; 5% to real estate; 5% to natural resources; and 5% to opportunistic investments. The university continues to make significant progress in expanding its allocation to alternative non-liquid investment funds and has been successful in gaining access to several high quality venture capital and private equity funds.

The university's long-term investments must support both current and future generations of Carnegie Mellon students. With the continued generosity of the university's alumni and friends, we remain confident that the endowment will be able to provide for the university's current operating needs and generate additional resources for future growth.

JOHN M. MAZUR
Treasurer and Chief Investment Officer
Carnegie Mellon University
October 18, 2006

Update from the Vice President for University Advancement

Carnegie Mellon has made immense contributions to the world, both through direct application of research findings that have impact on the way we live and work, as well as through the lives and careers of our graduates. The university's unusual disciplinary mix of the arts, science and technology, business and policy, as well as its collaborative cross-disciplinary approach to problem-solving has been acclaimed as the new global model for responsive higher education.

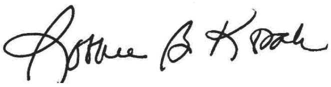
In contrast, historically, the level of private support for university activities has not kept pace with the university's success, especially in comparison with our peer institutions in the U.S. The university's endowment contributes a relatively small part—about 5% of the operating budget in 2006—which constrains the Board of Trustees in its ability to plan for the future, to support talented students, and to pursue a dynamic research agenda.

As a result, in 2004, the trustees approved a significantly larger investment in development, alumni relations, and marketing activities. That investment continued this year. The aim of this investment is to expand activities that will result in raising our external profile and securing substantial and ongoing support, both financial and non-financial, for Carnegie Mellon among its various constituencies. While we have ambitious annual fundraising and other goals, an equally important purpose is building the university's long-term capacity to raise funds and cultivate other kinds of resources.

We have made significant progress this year on many fronts:

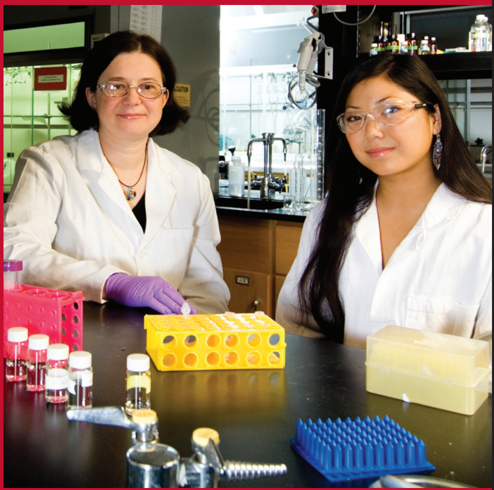
- Regional alumni activity has increased substantially in 20 locations in the United States and 10 cities in Asia. Alumni interest and involvement in Carnegie Mellon has been further enriched with a new alumni web site, which has been a great success. We are grateful to the Alumni Board for its strong encouragement and creativity in pursuing these activities.
- A new Parent Leadership Program has expanded contacts with parents of current students and recent graduates, and has found meaningful ways for them to make connections with the university. There was a substantial increase in the amount raised in annual gifts from parents both from the U.S. and from overseas.
- We began a donor society to honor those individuals, families and foundations and corporations who have given $1 million or more to support the university over the years. Currently numbering 201, the Highlands Circle was inaugurated at a spectacular weekend of festivities in October 2005, when we had a chance to recognize and thank these extraordinarily generous donors.
- A steady increase in new gifts raised at every level of giving puts us on target to achieve our long-term financial goals. In each of the last two years, record levels of philanthropy were attained.

Carnegie Mellon's success is important to the world. Our faculty, students, and graduates are taking on some of the most difficult and intractable challenges facing the global community. The role of the advancement team, in partnership with the president, the trustees, and the faculty, is to ensure that there is a healthy and stable financial structure to underpin this important work, both today and in the decades ahead. The success so far has been record-setting for Carnegie Mellon and has set the stage for the university to achieve even greater results in the next few years.



ROBBEE BAKER KOSAK
Vice President for University Advancement
Carnegie Mellon University
October 18, 2006

Consolidated Financial Statements and Independent Audiotrs' Report



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

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Carnegie Mellon University and Subsidiaries at June 30, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note P to the consolidated financial statements, the University applied the provisions of FASB Interpretation No. 47 (FIN 47) and changed its method of reporting conditional asset retirement obligations.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
October 18, 2006

Consolidated Statement of Financial Position

June 30, 2006

($ in thousands)

Assets:	
Cash and cash equivalents	$23,612
Accrued interest and dividends	3,349
Accounts receivable, net (Note C)	59,230
Pledges receivable, net (Note D)	44,933
Loans receivable, net (Note C)	17,079
Investments (Note E)	1,234,124
Assets held in trust by others	11,707
Other assets	22,162
Land, buildings and equipment, net (Note H)	530,810
Total assets	**$1,947,006**
Liabilities:	
Accounts payable and other liabilities	$93,117
Deferred revenue	62,773
Federal student loan funds	14,687
Present value of future annuities payable	19,727
Long-term debt (Note I)	335,492
Total liabilities	**$525,796**
Net assets:	
Unrestricted	662,060
Temporarily restricted (Note J)	368,608
Permanently restricted (Note J)	390,542
Total net assets	**$ 1,421,210**
Total liabilities and net assets	**$ 1,947,006**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Activities

For the Year Ended June 30, 2006

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Tuition and other educational fees, net of financial aid	$ 237,991	$ —	$ —	$ 237,991
Sponsored projects (Note G)	317,551	—	—	317,551
Investment income	30,854	9,848	278	40,980
Contributions (Note D)	15,771	16,621	22,483	54,875
Auxiliary services	39,622	—	—	39,622
Other sources	55,621	(196)	1,856	57,281
Net assets released from restrictions	30,928	(30,928)	—	—
Total revenue and other support	**$ 728,338**	**($ 4,655)**	**$ 24,617**	**$ 748,300**
Expenses:				
Salaries	$ 373,426	$ —	$ —	$ 373,426
Benefits	78,844	—	—	78,844
Supplies and services	150,238	—	—	150,238
Occupancy and related expenses	48,446	—	—	48,446
Other operating expenses	31,146	—	—	31,146
Depreciation and amortization	43,865	—	—	43,865
Interest expense	11,743	—	—	11,743
Total expenses	**$ 737,708**	**$ —**	**$ —**	**$ 737,708**
(Decrease) increase in net assets before nonoperating activities	**($9,370)**	**($ 4,655)**	**$ 24,617**	**$ 10,592**
Nonoperating activities:				
Net realized gains on investments	$16,608	$39,562	$ 318	$ 56,488
Net unrealized gains on investments	20,329	30,597	320	51,246
Other sources	(5,405)	—	—	(5,405)
Net assets released from restrictions	1,261	(1,261)	—	—
Net assets released from restrictions (Note B)	26,899	(26,899)	—	—
Total nonoperating activities	**$ 59,692**	**$ 41,999**	**$ 638**	**$ 102,329**
Increase in net assets before cumulative effect of a change in accounting principle	**$ 50,322**	**$ 37,344**	**$ 25,255**	**$ 112,921**
Cumulative effect of a change in accounting principle (Note P)	**(1,570)**	—	—	**(1,570)**
Increase in net assets after cumulative effect of a change in accounting principle	**$ 48,752**	**$ 37,344**	**$ 25,255**	**$ 111,351**
Net assets, June 30, 2005	**$ 613,308**	**$ 331,264**	**$ 365,287**	**$ 1,309,859**
Net assets, June 30, 2006	**$ 662,060**	**$ 368,608**	**$ 390,542**	**$ 1,421,210**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2006
($ in thousands)

Cash flows from operating activities:	
Increase in net assets	$ 111,351
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Realized gains on investments	(67,791)
Unrealized gains on investments	(51,246)
Depreciation and amortization	43,865
Gifts in kind	(1,505)
Loss on asset dispositions	1,600
Stock contributions pending liquidation	(3,748)
Loss on capital lease impairment	1,133
Cumulative effect of change in accounting principle	1,570
Provision for bad debt	(2,103)
Contributions held in trust by others	(151)
Contributions for land, buildings, equipment and permanent endowment	(30,691)
Changes in assets and liabilities:	
(Increase) decrease in:	
Accrued interest and dividends	(836)
Accounts receivable, net	10,168
Pledges receivable, net	6,563
Other assets	(4,640)
Increase (decrease) in:	
Accounts payable and other liabilities	13,887
Deferred revenue	14,791
Federal loan programs	80
Present value of future annuities payable	(10)
Net cash provided by operating activities	**42,287**
Cash flows from investing activities:	
Proceeds from sale and maturity of investments	2,728,429
Purchases of investments	(2,736,100)
Purchases of land, buildings and equipment	(64,803)
Disbursements of loans to students	(4,002)
Repayments of loans from students	4,828
Net cash used for investing activities	**(71,648)**
Cash flows from financing activities:	
Repayments of long-term debt	(2,144)
Contributions for land, buildings, equipment and permanent endowment	30,691
Net cash provided by financing activities	**28,547**
Net decrease in cash and cash equivalents	**(814)**
Cash and cash equivalents at beginning of year	**24,426**
Cash and cash equivalents at end of year	**$ 23,612**
Non-cash transactions:	
Additions to property, plant and equipment (accruals, gifts in kind, capital leases, FIN 47)	$ 8,280
Non-cash stock contributions	$ 3,748
Capital lease obligation	$ 2,678

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

June 30, 2006

Note A–Carnegie Mellon

Carnegie Mellon University ("Carnegie Mellon") is a private, not-for-profit educational and research institution. Carnegie Mellon currently enrolls about 10,000 students and grants approximately 3,000 bachelor's, master's and doctoral degrees each year. Approximately 89% of undergraduate students are from the United States of America. International students comprise approximately 11% of undergraduate, 40% of master's and 55% of Ph.D. students.

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

Note B–Summary of Significant Accounting Policies

Basis of Accounting and Reporting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Carnegie Mellon and other majority-owned entities. The consolidated entities are Carnegie Mellon Driver Training and Safety Institute, Inc., Technology Holdings, Schenley Golf Operating Corporation, SEI-Europe GmbH, and iCarnegie, Inc. All significant inter-entity transactions and balances have been eliminated in consolidation. Carnegie Mellon also is a joint sponsor with the University of Pittsburgh in MPC Corporation (MPC), a nonprofit related entity. The activities of MPC Corporation are not consolidated or recorded in Carnegie Mellon's consolidated financial statements.

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 specfic donor imposed or legal stipulations that can be fulfilled by actions of Carnegie Mellon pursuant to those stipulations or that expire by the passage of time.

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

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

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.

Cash Equivalents

Cash equivalents include U.S. treasury obligations, commercial paper and corporate notes with original 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 fair value as established by the major securities markets. The alternative investments, which are not readily marketable, are carried at estimated fair value as provided by the investment managers. The university reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Investments received as a gift are reflected as contributions at their market value at the date of the gift.

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

Endowment

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

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

Temporarily restricted endowment net assets include term endowments, 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 accumulated appreciation on permanent endowment assets. The Trustees of Carnegie Mellon must annually authorize release of endowment gains 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 to be unrestricted and used for general purposes. New endowment funds or additions to existing funds are assigned shares in the investment pool based upon the per share market value at the end of the previous month. Income distributions from the investment pool are based upon the number of shares held by each participant and the approved spending rate (see Note F). Income distributions from the investment pool are based upon the "total return concept". The annual income distributed from the investment pool includes interest and dividends and could include a portion of the accumulated capital gains. Any capital gains not distributed currently are reinvested in the investment pool and are available for distribution from the endowment assets in future years.

Assets Held In Trust By Others

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

Various donors have established irrevocable trusts whereby Carnegie Mellon holds a remainder interest in the trust. The present value of the portion of the trusts estimated to be distributable to Carnegie Mellon upon the termination of the trusts is recorded as an asset.

Land, Buildings and Equipment

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

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

Carnegie Mellon capitalizes interest during periods of construction.

Federal Student Loan Funds

This liability represents Perkins loan funds provided to students by the federal government through Carnegie Mellon. Carnegie Mellon is required to collect the loans on behalf of the federal government. The amount due from the students is reported in the consolidated financial statements as a component of loans receivable.

Present Value of Future Annuities Payable

Carnegie Mellon's split interest agreements with donors consist primarily of gift annuities, unitrusts, lead trusts, charitable remainder annuity trusts and life income agreements. Assets held under these agreements are included in investments. Generally, contribution revenues are recognized at the dates the agreements are established, after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The discount rates utilized for split interest agreements are in the range of 2.3%-6.0%. Distributions from the trusts are recorded, in accordance with the donor's restrictions as contributions, and the carrying value of the assets are adjusted for changes in the fair value of the trust assets.

Operating Activities

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

Student Financial Aid

Tuition and other educational fees are reported net of student financial aid of $73.2 million.

Sponsored Project Revenues

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

Contributions

Contributions include gifts, grants and unconditional promises to give that are recognized as revenues in the period such commitments are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions to be received in future years are discounted, as of the date of the gift, at a U.S. Treasury rate commensurate with the pledge payment schedule. Allowance is made for uncollectible contributions based upon management's expectations regarding collection of outstanding promises to give.

Contributions with Restrictions Met in the Same Year

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

Capital Contributions

Donors' contributions to fund construction projects are classified as temporarily restricted net assets until the facility is placed in service. At that time, the temporarily restricted net assets are released from restriction through non-operating and replenish unrestricted net asset balances. Contributions received after the asset is placed in service are released from restriction through unrestricted operations.

Auxiliary Enterprises

Carnegie Mellon's auxiliary enterprises exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, Carnegie Mellon's auxiliaries consist principally of housing services, dining services, telecommunications, parking and the university store. Auxiliary enterprise revenues and expenses are reported as changes in unrestricted net assets.

Other Sources

Other sources revenues are comprised of funding received for Carnegie Mellon's Qatar Campus and programs in Australia and other miscellaneous revenues.

Nonoperating Activities

Nonoperating activities presented in the Consolidated Statement of Activities primarily include:

- realized and unrealized gains due to investment activities;
- a $4.4 million gain in the fair value of the interest rate swap agreements (Note K);
- a nonrecurring $9.7 million unfavorable settlement of litigation on a case which was originally filed in 2002.

Nonoperating Activities – Net Assets Released from Restrictions

During fiscal year 2006, Carnegie Mellon reviewed specific donor restrictions for its temporarily restricted contributions and determined that an additional $26.9 million of temporarily restricted net assets should be released from restrictions as the donor restrictions had expired.

Income Taxes

Carnegie Mellon is a not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes on related income pursuant to Section 501(a) of the Code.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period and accompanying notes. Actual results could differ from those estimates and these differences could be material. Carnegie Mellon's significant estimates include: allowance for uncollectible accounts, asset retirement obligations, legal contingencies, accrued post retirement liability, and valuation of investments.

Note C–Accounts and Loans Receivable

Accounts receivable at June 30, consist of the following:

$ in thousands

Sponsored project grants and contracts:	
Federal	$ 42,090
Other	8,590
Total sponsored projects	**$ 50,680**
Student accounts	7,184
Other	6,475
	$ 13,659
Allowance for doubtful accounts	(5,109)
Net accounts receivable	**$59,230**

Net loans receivable of approximately $17.1 million primarily represent student loans made under a federal loan program. These loans are reported net of an allowance for doubtful accounts of approximately $1.8 million.

Note D–Pledges Receivable and Contributions

Pledges as of June 30 are discounted to the present value of future cash flows as of the date of the gift, in accordance with the pledge payment schedule and are due as follows:

$ in thousands

	Temporarily Restricted	Permanently Restricted	Total
In one year or less	$ 745	$ 9,409	$ 10,154
Between one year and five years	14,552	27,431	41,983
More than five years	3,200	1,060	4,260
Present value of pledges	$ 18,497	$ 37,900	$ 56,397
Less:			
Unamortized discount	3,146	5,992	9,138
Allowance for unfulfilled pledges	730	1,596	2,326
Pledges receivable, net of allowance	**$ 14,621**	**$ 30,312**	**$ 44,933**

Pledges receivable, net of allowances, are intended for the endowment in the amount of $30.3 million and other donor restricted and unrestricted purposes in the amounts of $14.6 million.

Contribution revenue includes gifts, unconditional pledges to give and grants. Contributions are recorded in the appropriate net asset category based upon the direction of the donor or grantor.

Contributions for the fiscal year ended are as follows at June 30:

$ in thousands

	Gifts/Grants	Change in Pledges Receivable	Total
Unrestricted	$ 15,771	$ —	$ 15,771
Temporarily restricted	16,551	70	16,621
Permanently restricted	29,012	(6,529)	22,483
Total	**$ 61,334**	**$ (6,459)**	**$ 54,875**

Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met. Total combined conditional pledges for Carnegie Mellon were approximately $38.0 million as of June 30. The conditions for these pledges were not met, thus no amounts have been recorded as contribution revenue.

Note E–Investments

Investments by major category are as follows:

$ in thousands

Restricted cash and cash equivalents	$ 55,605
Fixed income	316,430
Common stock	644,152
Alternative investments	217,937
Total investments	**$ 1,234,124**

Investments are held for the following purposes:

$ in thousands

Endowment	$ 936,797
Reserves for plant	109,744
Split interest agreements	39,209
Other investments	148,374
Total investments	**$ 1,234,124**

Nearly all fixed income securities are U.S. investment grade and high yield bonds, asset backed securities, and United States Treasury and Agency obligations. Common stock investments are composed of approximately 67.1% domestic equities and 32.9% international and emerging market equities at June 30. Other investments are largely investments in domestic 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 an investment allocation policy for a particular investment pool. In addition, the above asset category allocations do not reflect the effective allocation exposures resulting from investment strategies that include derivatives. The following schedule summarizes the investment return for the fiscal year:

$ in thousands

Dividends and interest (Net of $4.4 million of investment fees)	$ 29,677
Net realized gains on sale of securities	67,791
Unrealized gains	51,246
Total return on investments	**$ 148,714**

Operating investment income includes dividends and interest earned on unrestricted funds and unrestricted accumulated gains of $11.3 million utilized for current operations.

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 with a fair value of $1.1 million at June 30. 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, the notional value of interest rate futures was $15.4 million. The value as of June 30 is negative, as the investment managers sold the securities in a short position.

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, the notional value of S&P 500 futures contracts was $82.9 million.

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

Under the terms of certain limited partnership agreements, Carnegie Mellon is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, Carnegie Mellon had unfunded commitments of approximately $187 million, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. Carnegie Mellon maintains sufficient liquidity in its investment portfolio to cover such calls.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following table summarizes these investments by strategy type at June 30.

Alternative investments strategy	Number of Funds	Fair value $ in thousands
Absolute Return	1	$ 10,270
Long/Short Equity	6	$ 43,425
Event Driven	2	$ 56,275
Aggressive, Distressed & Arbitrage Fixed Income	5	$ 10,510
Private Equity (Buyout) Funds	22	$ 32,425
Venture Capital	30	$ 45,505
Real Estate	6	$ 7,065
Natural Resources	5	$ 12,462
Total	**77**	**$217,937**
Total Investments		**$1,234,124**
% Alternative		**17.7%**

Note F–Endowment

The following table provides a summary of the changes in value of the endowment assets excluding pledges for the year ended June 30:

$ in thousands

Beginning of year endowment value	**$837,459**
Gifts and other additions:	
Contributions (excluding pledges)	29,787
Terminated life income trusts and income and gains reinvested	1,588
Transfer of gift annuities to investment assets	(11,657)
Total gifts and other additions	**$ 19,718**
Investment income:	
Interest and dividends	$ 16,444
Net realized gains on sale of securities	58,828
Net unrealized gains	45,885
Total investment income	**$ 121,157**
Income distributed for operating purposes:	
Cash and accrued interest and dividends	($ 16,444)
Accumulated realized investment gains	(20,365)
Total income distributed	**($ 36,809)**
End of year endowment value	**$ 941,525 (1)**

(1) includes $4,728 of endowment gifts pending investment

Endowment net assets at June 30 are classified as follows:

$ in thousands

Unrestricted	$ 300,280
Temporarily restricted	304,155
Permanently restricted	337,090
Total	**$ 941,525**

Carnegie Mellon maintains a total return spending policy. Endowment income distributions can consist of dividend and interest income and a withdrawal of accumulated capital gains, when necessary. The main objective of the total return spending policy is to separate spending policy from investment policy. This approach permits asset allocation decisions to be made independently of the need for current income. The spending rate for endowment is determined annually as a percentage of the trailing thirty-six month average of endowment market values at December 31. For fiscal year 2006, the spending rate was set at 5.0%. The actual spending rate based on average annual endowment market value for the fiscal year was 3.9%.

Note G–Sponsored Project Revenues

The major components of sponsored projects revenue for the year ended are as follows:

$ in thousands	
Federal	
Direct	$ 234,655
Indirect	42,854
Total Federal	**$ 277,509**
State, industrial and other	
Direct	$ 34,352
Indirect	5,690
Total state, industrial and other	**40,042**
Total sponsored projects revenue	**$ 317,551**

Included in other sponsored projects revenue are amounts from private sources (foundation grants) which amounted to $5.9 million for the fiscal year ended June 30.

Note H–Land, Buildings and Equipment

Land, buildings and equipment at June 30 consisted of the following:

$ in thousands	
Buildings	$ 699,332
Utilities and building-related assets	53,249
Moveable equipment	238,350
Leasehold improvements	7,317
Subtotal	**$ 998,248**
Accumulated depreciation	(489,432)
Subtotal	**$ 508,816**
Land	8,131
Construction in progress	13,863
Land, buildings and equipment, net	**$ 530,810**

Included in the cost of buildings is $40.2 million for the Collaborative Innovation Center (CIC) and its original tenant improvements. The CIC building was constructed on land owned by Carnegie Mellon. This land is subject to a ground lease arrangement between Carnegie Mellon and the Regional Industrial Development Corporation (RIDC). The ground lease term concludes on March 20, 2038, but is subject to an additional four year renewal period exercisable at the RIDC's option.

Note I–Long-Term Debt

Long-term debt consists of the following as of June 30:

$ in thousands	Interest Rate	
Pennsylvania Higher Education Facilities Authority, Variable Rate Refunding Bonds, Series 1995	Variable	$ 176,800
Allegheny County Higher Education Building Authority, Variable Rate University Revenue Bonds, Series 1998	Variable	78,000
Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2002	5.125 - 5.5%	43,902
Dormitory bonds/mortgage notes	2.75 - 3.50%	2,368
Collaborative Innovation Center financing	5.017%	31,979
Subtotal - bonds and mortgages		**$ 333,049**
Capital lease obligations	5.0 - 7.5%	2,443
Total long-term debt		**$ 335,492**

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 1.74% to 4.00% during fiscal year 2006. In the event of default, Carnegie Mellon is required to buy back the bonds.

On December 30, 1998, Carnegie Mellon issued through the Allegheny County Higher Education Building Authority $88 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 1.60% to 4.02% during fiscal year 2006.

For the 1995 Bonds and 1998 Bonds, Carnegie Mellon has entered into separate Standby Bond Purchase agreements with investment banking firms that have agreed to purchase the bonds under certain circumstances. The Standby Bond Purchase Agreement for the 1995 Bonds is renewed every 364 days, with the next renewal date being October 25, 2006. The Standby Bond Purchase Agreement for the 1998 Bonds is scheduled to continue until December 31, 2015. There are provisions in the agreement however, allowing the investment bank to exit the contract at specified times in 2008, 2011 and 2014.

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 million (the “2002 Bonds”). The proceeds of the 2002 Bonds were used to fund capital projects. The 2002 Bonds mature at $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 a fixed interest rate of 3% (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.

A lien has been recorded against the land on which the CIC building has been constructed related to a loan outstanding between the Pennsylvania Industrial Development Authority and the RIDC in connection with the CIC building. In addition, Carnegie Mellon has a financing obligation recorded in connection with the CIC building in the amount of $32 million at June 30. The interest rate associated with this financing obligation is 5.017%. Under terms of a space lease commitment, Carnegie Mellon makes monthly payments to the RIDC which approximated $2.2 million during fiscal year 2006. These monthly payments are applied to reduce the CIC financing obligation and record related interest expense. The space lease term concludes on January 31, 2015. The residual value of the financing obligation at the conclusion of the space lease term is approximately $26.0 million which represents the amount which Carnegie Mellon would have to pay in order to exercise a purchase option for the CIC building. The purchase option price is projected to be approximately $18.0 million plus an additional $8.0 million associated with a grant from the Commonwealth of Pennsylvania which may be required to be repaid.

Carnegie Mellon's investments include $11.6 million required under its various debt agreements to be held until the related debt is retired.

The fair value of Carnegie Mellon's long-term debt obligations as of June 30, is approximately $337.0 million.

Cash paid for interest for the fiscal year ended June 30, totaled $11.4 million.

Aggregate maturities of bonds and mortgages for each of the next five years ending June 30 are as follows:

$ in thousands	
2007	$ 727
2008	761
2009	797
2010	804
2011	843
Thereafter	329,117
Total	**$ 333,049**

Note J–Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

$ in thousands	
Endowment earnings	304,155
Capital and other donor designations	39,868
Pledges and assets held in trust by others	18,110
Split interest agreements	5,959
Loan funds	516
Total	**$ 368,608**

Permanently restricted net assets as of June 30 are comprised of:

$ in thousands	
Endowment	337,090
Pledges and assets held in trust by others	38,527
Split interest agreements and other donor designations	14,925
Total	**$ 390,542**

Note K–Derivative Instruments and Hedging Activities

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

The interest rate swap agreement entered into in October 2004 has a notional amount of $50 million, with Carnegie Mellon paying a fixed interest rate of 3.0267% to the counterparty in exchange for a variable payment equivalent of 67% of LIBOR. The transaction's term is fifteen years with a termination date of October 1, 2019. This agreement also has an option on the part of the counterparty to cancel the agreement at any time after the expiration of ten years, which would be October 1, 2014. As a result of this agreement, interest expense of approximately $80,000 was recorded for the year ended June 30 in the Consolidated Statement of Activities.

The interest rate swap agreement entered into in April 2006 has an effective date of December 1, 2006. The notional amount of the agreement is $100 million. Under the terms of the agreement, Carnegie Mellon pays a fixed interest rate of 3.42988% to the counterparty in exchange for a variable payment equivalent to 67% of LIBOR. The transaction's term is twenty-two years with a termination date of December 1, 2028. This agreement also has an option on the part of the counterparty to terminate the agreement after the expiration of ten years or December 1, 2016.

The fair value of these agreements is estimated to be the amount that Carnegie Mellon would receive (receivable) or pay (liability) to voluntarily terminate the agreement. Carnegie Mellon estimates that it would receive approximately $2.0 million and $0.9 million as of June 30, for the October 2004 and April 2006 agreements, respectively. These amounts are recorded as assets in the Consolidated Statement of Financial Position. The change in the fair value of the agreements is recorded as other sources under nonoperating activities in the Consolidated Statement of Activities.

Carnegie Mellon uses an electricity forward contract, which is physically settled, to hedge against the future changes in the cost of electricity. This contract limits Carnegie Mellon's exposure to higher electricity rates; however, it could also limit the benefit of decreases in electricity rates. This contract is not required to be recognized on the balance sheet at fair value because Carnegie Mellon takes physical delivery of the electricity and the gains and losses are already recognized in the cost of the electricity.

Note L–Expenses by Functional Category

Operating expenses by functional category for the years ended June 30 are as follows:

$ in thousands	
Instruction and departmental research	$ 271,237
Sponsored projects	269,726
Academic support	60,169
Student services	37,746
Administration and institutional support	64,179
Auxiliary services and activities	34,651
Total	**$ 737,708**

Included in administration and institutional support is $17. 9 million of fundraising expenses which also includes costs of alumni relations, and marketing/media relations.

Note M–Commitments and Contingencies

Carnegie Mellon is a defendant in a number of legal actions seeking damages and other relief. While the final outcome of each action cannot be determined at this time, management has recorded a reserve in operating activities for those cases in which the loss is both probable and estimable. Included in non-operating activities is a nonrecurring $9.7 million unfavorable settlement of litagation on a case which was originally filed in 2002. For the other legal actions that are not reserved, legal counsel and management are of the opinion that the liability, if any, will not have a material effect on Carnegie Mellon's consolidated financial statements.

Carnegie Mellon receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Entitlement to the recovery of the applicable direct and related indirect costs is generally 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 $12.4 million for the year ending June 30, which consists primarily of facilities expense. Future minimum lease payments are as follows:

$ in thousands	Operating Leases	Capital Leases
2007	$ 3,821	478
2008	2,930	445
2009	2,382	445
2010	2,144	449
2011	904	463
Thereafter	1,535	477
Total	**$ 13,716**	**$ 2,757**
Less amount representing interest		(314)
Present value of minimum capitalized lease payments		**$ 2,443**

At June 30, the University had contractual obligations of approximately $29 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $123.3 million, which will be financed with certain unexpended plant funds, gifts and debt.

Note N–Retirement Plans and Other Post-Employment Benefits

Carnegie Mellon has various pension and retirement programs covering substantially all of its employees including a defined contribution plan sponsored by Carnegie Mellon. Annual contributions are made to the plans equal to amounts accrued for pension expense. Such plans are fully funded on a current basis. Retirement plan expense for the year ended June 30, totaled $22.1 million. In addition, Carnegie Mellon contributed $0.3 million to the Central Pension Fund of the International Union of Operating Engineers, a multi-employer plan. Under ERISA, as amended by the Multi-Employer Pension Plan Amendment Act of 1980, a contributor to a multi-employer plan is liable, upon termination of the plan or withdrawal from the plan for the share of the plan's unfunded vested liabilities. Information to enable Carnegie Mellon to determine its share or unfunded vested liabilities (if any) is not readily available.

Carnegie Mellon provides certain health care benefits for eligible retired employees. Carnegie Mellon uses a measurement date of June 30 for the benefit obligation. The table below sets forth the health care plan's funded status at June 30:

$ in thousands	
Benefit obligation	$ 18,362
Unrecognized actuarial loss	(5,910)
Unrecognized prior service cost	4,134
Accrued benefit cost (included in accounts payable and other liabilities)	**$ 16,586**

The net periodic benefit cost for the year ended June 30 is as follows:

$ in thousands	
Benefit cost	2,158
Employer contribution	394
Plan participants' contributions	313
Benefits paid	706

The reconciliation of the accumulated benefit obligation at June 30 is as follows:

$ in thousands	
Benefit obligation, beginning of year	$ 18,132
Service cost	966
Interest cost	1,049
Assumption changes and actuarial loss	(1,391)
Benefit payments	(394)
Benefit obligation, end of year	**$ 18,362**

The assumed discount rate used for calculating the benefit obligation was 6.4%. A 9% annual rate of increase in the per capita cost of covered healthcare benefits was assumed. The rate was assumed to decrease gradually to 5.0% by 2010 and remain at that level thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed healthcare cost trend rate by 1% in each year would increase the benefit obligation as of June 30 by $3.3 million and increase the aggregate service cost and interest cost components for 2006 by $0.4 million. Decreasing the assumed health care cost trend rate by 1% in each year would decrease the benefit obligation as of June 30 by $2.6 million and decrease the aggregate service cost and interest cost components for 2006 by $0.3 million.

Expected benefits to be paid in future fiscal years are as follows:

($ in thousands) June 30	Retiree Contributions	Employer Payments	Total Expected Benefit Payments
2007	$ 491	$ 547	$ 1,038
2008	619	649	1,268
2009	774	751	1,525
2010	899	855	1,754
2011	1,053	931	1,984
2012-2016	7,014	5,842	12,856

In conjunction with an agreement made with the federal government, Carnegie Mellon has established a separate trust, which is available to general creditors only in the event of insolvency. Assets in the trust to fund post-retirement health care and other post-employment benefits are $16.4 million at June 30. These assets are reflected as investments in the accompanying Consolidated Statement of Financial Position. Carnegie Mellon will contribute an estimated $1.4 million to the plan in fiscal year 2007.

During fiscal year 2005, Carnegie Mellon elected to integrate its postretirement Medicare plan with the Medicare Part D prescription drug benefits provided for in the Act with Medicare being the primary payor. As a result of this election, the additional reduction in obligations was recognized in fiscal year 2005 and no future subsidy is expected.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, “Employer’s Accounting for Defined Benefit Pension and Other Post-retirement Plans” which is an amendment of SFAS no.’s 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This statement also requires an employer to measure the funded status of the plan as of the consolidated balance sheet date. Carnegie Mellon has not completed all of the analyses to determine the impact of the adoption of this new pronouncement.

Note O–Related Party Transactions

Sponsored research revenue for fiscal year 2006 includes $26.2 million received from MPC Corporation (MPC), a nonprofit related entity of Carnegie Mellon and the University of Pittsburgh. The funding primarily represents federal funding under a $92 million contract received by MPC, for which MPC has subcontracted to Carnegie Mellon for the construction of a supercomputer and related activities.

Sponsored research revenue for fiscal year 2006 includes $1.5 million received from the Pittsburgh Life Sciences Greenhouse (PLSG), a nonprofit related entity of MPC.

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 $5.8 million in notes, and certain license royalties. In October 2004, Carnegie Mellon converted $3.7 million of the outstanding notes to equity. Upon this conversion, Carnegie Mellon’s interest in iCarnegie is approximately 85%, and the entity is consolidated as of June 30.

Note P–Conditional Asset Retirement Obligations

In 2005, the Financial Accounting Standards Board issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations” (FIN 47), which is effective for Carnegie Mellon for the year ended June 30, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, “Accounting for Asset Retirement Obligations.” FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based upon the guidance in FIN 47, management of Carnegie Mellon determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

Upon initial application of FIN 47, Carnegie Mellon recognized approximately $1.6 million as the cumulative effect of a change in accounting principle in the Consolidated Statement of Activities. As of June 30, $1.9 million of conditional asset retirement obligations are included within other liabilities in the Consolidated Statement of Financial Position.

The following table illustrates the effect on the change in net assets as if this interpretation had been applied for the year ended June 30:

$ in thousands	
Increase from unrestricted operating as reported	($9,370)
Less: Total depreciation and interest accretion costs	(85)
Proforma increase from unrestricted operating activity	**($9,455)**

Note Q–Guarantees

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

Carnegie Mellon provides indemnification to trustees, officers, and in some cases employees and agents against certain liabilities incurred as a result of their service on behalf of, or at the request of, Carnegie Mellon and also advances on behalf of covered individuals' costs incurred in defending against certain claims. However, Carnegie Mellon carries insurance that limits its exposure under these indemnification provisions. The amount of the indemnification liability associated with any known pending or threatened claims covered by these indemnification provisions, if any, is not expected to be material.

Carnegie Mellon provides indemnification in connection with bond offerings in which it is involved. The indemnifications relate to losses, claims, damages, liabilities, and other expenses incurred by underwriters that would arise as a result of any untrue statements or material omissions made by Carnegie Mellon. The amount of the indemnification liability associated with any known pending or threatened claims covered by these indemnification provisions, if any, is not expected to be material.

Carnegie Mellon is also a party to a loan program for students who meet certain criteria called the Gate Loan program, which is administered by First Marblehead Corporation (FMC). In this program, Carnegie Mellon guarantees a certain percentage of loans to its students provided by FMC, which is based upon a percentage of indebtedness of borrowers that become uncollectible as part of the program. Because FMC assumes a first loan loss under this program, it is likely, given Carnegie Mellon's current experience, that Carnegie Mellon would not have to perform under this guarantee. The asset and liability recorded in the Consolidated Statement of Financial Position as of June 30 is approximately $2.7 and $3.8 million, respectively. The maximum potential amount of future payments (undiscounted) that Carnegie Mellon could be required to make in the future under this program is estimated to be approximately $7.8 million. This amount represents the full undiscounted balance, and does not include any recourse provisions for debts that may become uncollectible.

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Facts and Figures

TYPE OF UNIVERSITY
Private, coeducational, granting about 3,020 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 David A. Tepper School of Business [formerly Graduate School of Industrial Administration (GSIA)]; the H. John Heinz III School of Public Policy and Management; the Mellon College of Science; the School of Computer Science.

PHYSICAL SIZE
144-acre main campus; 84 campus-owned buildings; 2 branch campuses.

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

Branch campuses: Doha, Qatar, and Moffett Field within the NASA Ames Research Center, California

NUMBER OF STUDENTS
5,494 undergraduates; 2,845 master's and 1,549 doctoral students, and 129 special non-degree students.

NUMBER OF FACULTY
611 tenure-track faculty; 616 full-time and 194 part-time non-tenure-track faculty.

ATHLETICS
Team name is "The Tartans"; NCAA Division III classification; founding member of the University Athletic Association; 17 varsity sports; more than 60 intramural sports.

NUMBER OF ALUMNI
67,949

COMPUTERS
There are thousands of high-powered computer work stations and personal computers on our campuses; 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 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.

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