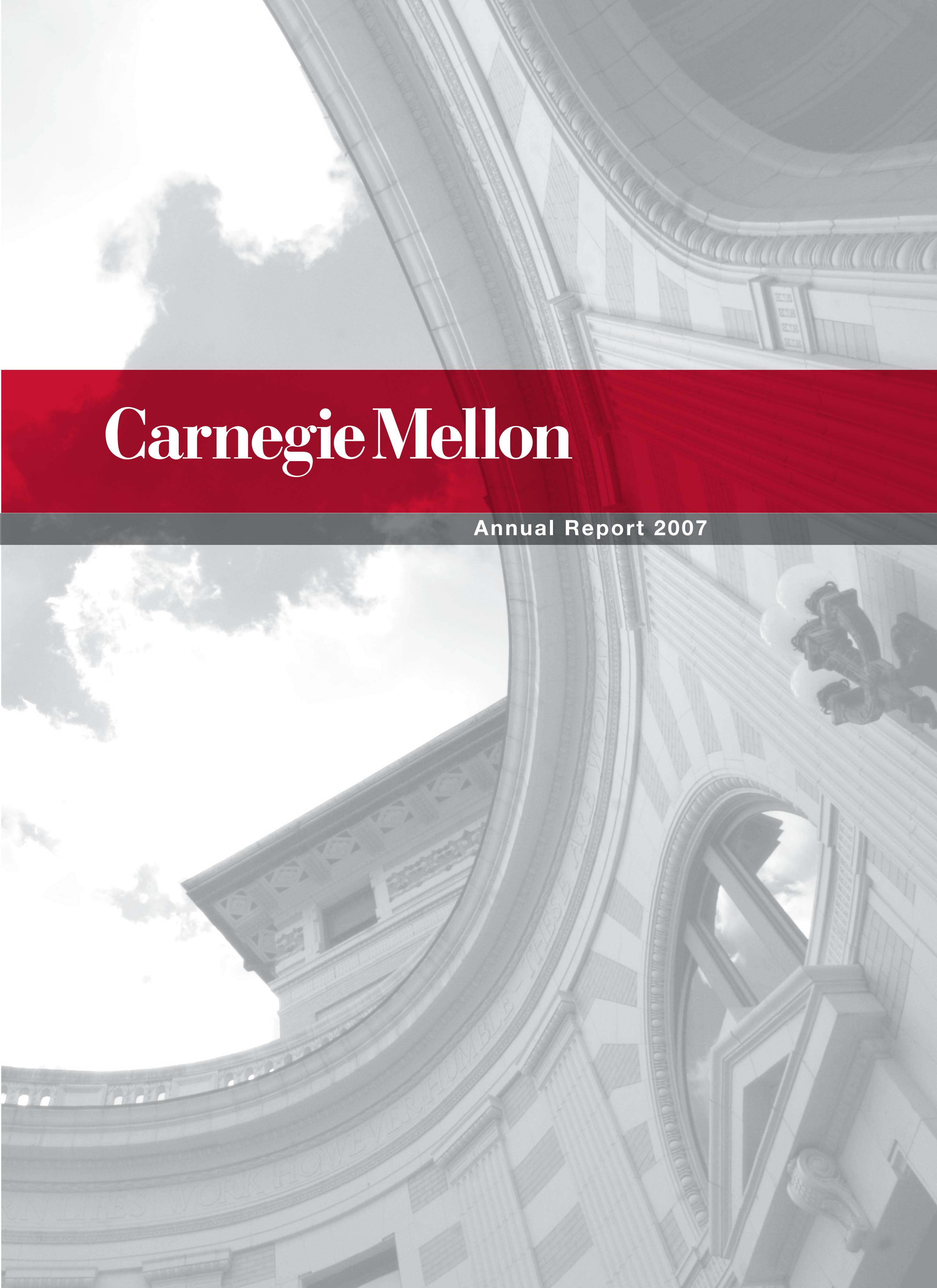

Carnegie Mellon

Annual Report 2007

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Jared L. Cohon, President

A Year of Progress and Achievement

It has been another year of achievement at Carnegie Mellon University. In this report that focuses on university finances we also recognize additional markers of success in fulfilling the important education and research missions of the university including recruiting and retaining outstanding faculty and students.

In teaching future leaders, in research in our areas of strength, in global expansion and in regional impact, 2007 brought significant progress and continued promise.

Students

More than 18,000 applications were received for the 1,400 places in the freshman class. That is an increase of 20 percent over last year, which was up 20 percent over the previous year. This has allowed us to recruit a wonderful class of students who already bring experiences as inventors, community service leaders, problem solvers; a large percentage already have had study experience outside the U.S. While some of the increase in applications reflects national trends, this strong interest among accomplished high school seniors shows that they recognize the value of Carnegie Mellon's rigorous education in preparing them for the future.

Faculty

Carnegie Mellon has a long tradition of developing our own faculty stars. Unlike some other universities which hire scholars who have established careers and reputations, Carnegie Mellon has tended to hire faculty at early stages of their academic careers, attracting and nurturing those who are comfortable working in the university's unique interdisciplinary culture. We support them as best we can, but mostly we get out of the way. Many of our most prominent faculty members have thrived in this way: they are like magnets for pulling in talented students and colleagues, they make major contributions to knowledge in their fields of inquiry, and they bring resources and luster to Carnegie Mellon. The presence and impact of such individuals help to define this place.

This year's best example is one of our youngest assistant professors, Luis von Ahn. Professor von Ahn has already been recognized as an extraordinary rising talent in computer science. His work creatively explores differences in the ways computers and humans process information and puts these differences to use: most famously he invented "captchas," those graphic images which websites use to assure that real people—not machines—are signing up for their networks, providing protection from spam and other abuses. More recently, Professor von Ahn devised ingenious online games to get people to provide verbal tags for web images, adding to the value of online image searches. For this kind of innovative thinking, Professor von Ahn was honored in fall 2006 with a MacArthur Foundation "genius" grant, and lauded in several media lists of top innovators. We are very proud of him, as we are proud of the other faculty members who received special honors this year (see page 3) for their achievements as scholars and teachers.

Other highlights of this academic year at Carnegie Mellon include achievements in many key areas:

Research Centers

New or expanded centers were founded to focus research and teaching activities in some new directions in several colleges:

- The Institute for Social Innovation opened at the Heinz School to encourage teaching and research in entrepreneurial approaches to solving social and policy problems.
- With support from Microsoft, a new Center for Computational Thinking was established at the School of Computer Science to promote this approach to problem solving in a wide range of applications.
- The Center for Nonlinear Analysis, led by Professor Irene Fonseca in the Department of Mathematical Sciences, received major National Science Foundation support for their interdisciplinary work in applying math to problems in science and engineering, particularly in materials science.

Degree Programs

- A new master's of engineering in technology innovation management began at the Carnegie Institute of Technology (CIT), a major step in preparing students to understand and support innovation in their careers and compete in the global marketplace.
- A new interdisciplinary bachelor's degree program was established in computational finance, one of the first undergraduate programs anywhere, building on the success of Carnegie Mellon's strong graduate programs in this field.
- Two new doctoral programs, one in computational biology and one in structural biology and biophysics, have also been introduced. Both are offered jointly with the University of Pittsburgh and blend biology with computer science, physics and engineering, where Pittsburgh has emerged as a world center. These degrees are preparing the future leaders of science, and advancing knowledge that will affect the future of biological and medical research.

Global Presence

- Carnegie Mellon's programs in Adelaide, Australia, received high praise during an accreditation review by the U.S. Middle States Commission on Higher Education as "a first-rate operation, and a model for other American universities seeking to operate sites abroad."
- A major new education and research collaboration in engineering and computer science was established with Portugal's Ministry of Science and Higher Education in October 2006. Already, new degree programs in information security and in human computer interaction are in place, and research projects are underway.
- In March 2007, we held the first graduation ceremony for students in the Kobe, Japan master's program in information technology-information security; all students successfully obtained full-time employment or entered a Ph.D. program upon graduating. That same month, we also broke ground for Carnegie Mellon's building in Qatar's "Education City," the location of our Carnegie Mellon Qatar Campus in Doha, providing space designed expressly for the undergraduate programs there.

Research and Learning

- Major research findings were reported in areas all across campus: in understanding how consumers make purchasing decisions; in understanding the deep, biological interrelation of health and personal happiness; in improving hydrogen-powered vehicles and reducing carbon emissions at power plants; in unraveling the complex biology of the brain; in monitoring the safety of bridges and dams; in measuring and mitigating harmful air pollution; in using a robot to plumb the depths of the earth's deepest sinkhole (as a test run for future NASA missions); and in creating stunning simulations of the first nano-seconds of the universe.
- Creative energy in the fine arts this year included a Spring 2007 Design and Social Change class, where students used trash to re-create amazing new artifacts, later sold to benefit a local nonprofit; the design and construction of a modular "zero energy" house for our entry into the 2007 Solar Decathlon; and in acclaimed School of Drama productions which ranged from Greek tragedy in *The Oresteia Trilogy* to the lively contemporary music theater production of *Sideshow*.
- Outreach activities received support this year with an endowment gift from Mark Gelfand to establish the Leonard Gelfand Center for Social Learning and Outreach. This program coordinates more than 85 school support projects by students and faculty, and is a key element in our impact on western Pennsylvania. For example, Professor Natalie Ozeas of the School of Music is bringing keyboards and related music programs to 23 public schools in Pittsburgh, a project that has children enthusiastic about making music—and more excited about coming to school.
- The Meeting of the Minds symposium held each May at the University celebrates the integration of research into the undergraduate educational experience. This year was another terrific display of student discovery and creativity. Nearly 500 undergraduates from the seven schools and colleges within the university presented their research projects, ranging from studies of factors affecting sleep and the design of a robot to chalk messages on campus sidewalks to early childhood cognitive development and teaching engineering concepts to fourth graders. Their projects also included screenplays and musical compositions. This year, for the first time, there was a similar event on our Qatar campus, where almost half of the students participated with some impressive work.

Financial Strength

Continued momentum and success in teaching and research that was so much in evidence this year will depend on our ability to strengthen the financial foundation of the university. Our fundraising efforts are aimed at increasing that strength. There were several major gift commitments this year, including $10 million from John and Claire Bertucci to support a new facility and graduate fellowships at CIT. In June, the R.K. Mellon Foundation announced a $25 million gift to endow graduate fellowships in life sciences. We are very grateful to all our donors who have encouraged us with such generosity.

Finally, in May, the Board of Trustees extended to me the opportunity to lead this phenomenal university for a third five-year term. I accepted with enthusiasm, gratitude, and confidence of success in the years ahead. I could not be more honored to work every day alongside Carnegie Mellon students, faculty and staff; I could not be prouder of what they have accomplished, nor more optimistic about what is yet to come.

JARED L. COHON
President
Carnegie Mellon University
October 29, 2007

Faculty Honors
2006-2007

Burcu Akinci, *Associate Professor of Civil and Environmental Engineering, received the 2007 Walter L. Huber Civil Engineering Research Prize from the American Society of Civil Engineers, for notable research achievements by someone under 40.*

Jonathan Aldrich, *Assistant Professor at the Institute for Software Research International, received the 2007 AITO Dahl-Nygaard Junior Prize for groundbreaking work in object-oriented programming.*

Ronald (Shawn) Blanton, *Professor of Electrical and Computer Engineering, received a 2006 Emerald Award from Science Spectrum magazine, for outstanding leadership in recruiting and mentoring minorities for advanced degrees in science and technology.*

Randal Bryant, *University Professor of Computer Science and Dean of the School of Computer Science, received the 2007 Emanuel R. Piore Award from the Institute of Electrical and Electronics Engineers for his distinguished contributions to simulation and verification of electronic systems.*

Brooke Feeney, *Associate Professor of Psychology, received first prize in the 2007 Mind Gym Academic Awards, for her work on the "dependency paradox."*

Stephen Fienberg, *Maurice Falk University Professor of Statistics and Social Science, was elected to the American Academy of Arts and Sciences.*

James F. Garrett, Jr., *Professor of Civil and Environmental Engineering, was named "Professor of the Year" by the Pittsburgh chapter of the American Society of Civil Engineers.*

Chris Hendrickson, *Duquesne Light Professor of Civil and Environmental Engineering, was named a fellow of the American Association for the Advancement of Science.*

C.Fred Higgs III, *Assistant Professor of Civil and Environmental Engineering, received an NSF Early Career Award.*

Mohammed F. Islam, *Assistant Professor of Chemical Engineering and Materials Science and Engineering, received a 2006 NSF Early Career Award.*

Pradeep K. Khosla, *Marsha and Philip Dowd Professor of Electrical and Computer Engineering and Dean of the Carnegie Institute of Technology, received the Cyber Education Champion award from the Business Software Alliance.*

David Klahr, *Professor of Psychology, was named to the National Academy of Education.*

Vivian Loftness, *University Professor of Architecture, was named to the Assurance Group for the World Business Council for Sustainable Development.*

H. Scott Matthews, *Associate Professor of Civil and Environmental Engineering and Engineering and Public Policy, received the Laudise Award for outstanding research in industrial ecology from the International Society of Industrial Ecology.*

M. Granger Morgan, *Lord University Professor of Engineering and head of Engineering and Public Policy, was elected to the National Academy of Sciences.*

Eckard Münck, *Professor of Chemistry, received the 2007 Alfred Bader Award for outstanding contributions to bioinorganic chemistry.*

Kavita Ramanan, *Associate Professor of Mathematical Sciences, received the 2006 Erlang Prize for her research contributions to applied probability. The prize was awarded by the Applied Probability Society, a division of the Institute for Operations Research and the Management Sciences (INFORMS).*

Rob Rutenbar, *Stephen Jatras Professor of Electrical and Computer Engineering, received the 2007 Circuits and Systems Society Industrial Pioneer Award from the Institute of Electrical and Electronics Engineers.*

Hagen Schempf, *Senior Scientist, National Robotics Engineering Center, was a recipient of the "100 Award" from R&D magazine for design of the Explorer robot used in inspecting underground natural gas pipelines.*

Wilfred Sieg, *Professor of Philosophy, was elected to the American Academy of Arts and Sciences.*

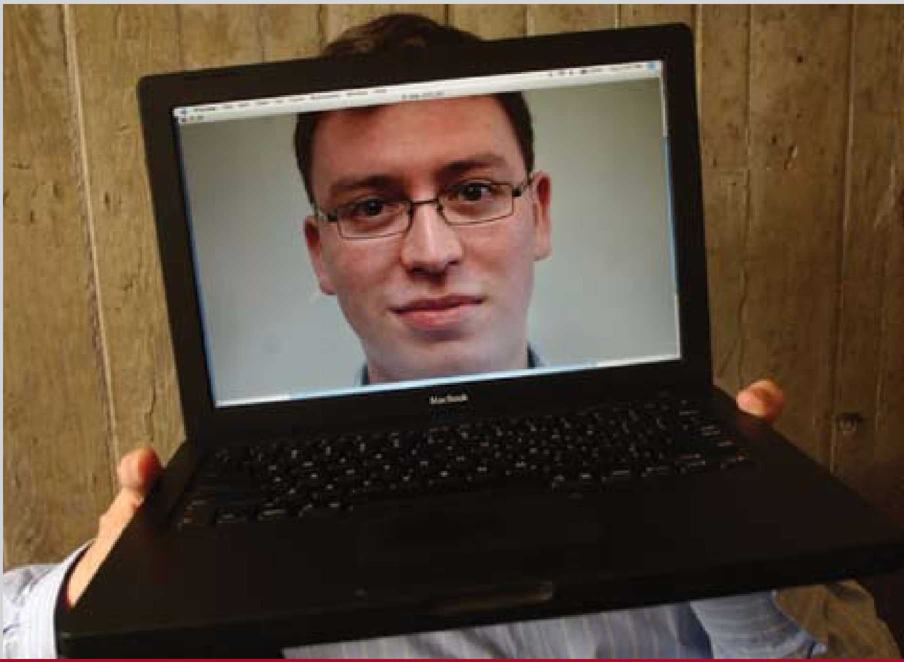
Luis von Ahn, *Assistant Professor of Computer Science, received a 2006 John D. and Catherine T. MacArthur Foundation "genius grant," and was named one of Popular Science magazine's "Brilliant 10."*

This listing includes honors announced July 1, 2006-June 30 2007.

For errors or omissions, please call Catherine Davidson at 412-268-1261.

Financial Highlights

Professor Luis von Ahn, inventor of "CAPTCHA" and recipient of the MacArthur Foundation "genius" grant.



The Meeting of the Minds Symposium celebrates the integration of research in undergraduate education.

Discussion of Financial Results from the Chief Financial Officer

Carnegie Mellon continued to advance in all areas of its mission. By gaining in both domestic and international recognition and rankings, by expanding its research portfolio with multi-disciplinary projects and diverse funding sources in a very competitive market, and by developing innovative and strategic global partnerships, fiscal year 2007 brought measurable progress and achievement.

As a relatively young institution experiencing significant and continual growth, these accomplishments are that much more impressive when viewed in conjunction with our financial resources. In comparison to almost all of our peer institutions, Carnegie Mellon's endowment fund contributes significantly less to our operating income. For this reason, the Board of Trustees approved sustained investments in the University's capacity to generate private support for endowment growth. A disciplined attention to controlling costs, a vigorous advancement effort, and exceptionally strong investment performance allowed the university to minimize its expected deficit this year. The University's long-term investment pool realized very strong returns of 20.4% in fiscal year 2007.

Improvements to facilities for learning and research continue. In fiscal year 2007, we began extensive renovation of chemical engineering labs in Doherty Hall, and opened a new café and other enhancements to the first floor of Hunt Library. Work on the School of Computer Science Complex and the Gates Center is underway, and in March we broke ground for a new building for Carnegie Mellon in Qatar.

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

($ in millions)

	2007	2006	2005	2004	2003	2002
Total assets	$ 2,424	$ 2,058	$ 1,801	$ 1,670	$ 1,499	$ 1,484
Total liabilities	783	637	491	464	452	438
Total net assets	1,641	1,421	1,310	1,206	1,047	1,046
Total Liabilities and Net Assets	**$ 2,424**	**$ 2,058**	**$ 1,801**	**$ 1,670**	**$ 1,499**	**$ 1,484**

Carnegie Mellon's assets increased by 17.8%, or $366 million, during fiscal year 2007 to $2.4 billion. Growth in the University's largest asset, its investment portfolio, which represents 59.6% of total assets, was 17.2%, or $212 million, with a June 30, 2007 ending value of $1.4 billion. Carnegie Mellon's investments and endowment values are discussed in greater detail in the "Financial Highlights from the Treasurer and Chief Investment Officer." Capital assets of $541 million include the University's investment in land, buildings, and equipment, net of accumulated depreciation and represent 22.3% of the University's assets.

Carnegie Mellon's liabilities increased by 22.9%, or $146 million, during fiscal year 2007. This increase was driven by the December 2006 issuance of an additional $115 million in bonds to finance a series of capital projects including the construction of the School of Computer Science Complex and the Gates Center and Phase II renovations to Doherty Hall for the chemical engineering labs, which are both in progress. Long-term debt, the largest component of the University's liabilities, was $450 million as of June 30, 2007, and includes $416 million of bond financed debt. 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 increased by 15.5%, or $220 million, during fiscal year 2007 to an ending value of $1.6 billion. The University's net assets as of June 30, 2007 are comprised of $423 million of permanently restricted net assets, those for which the corpus of the gift may not be spent, and $1.2 billion of expendable net assets, comprised of unrestricted and temporarily restricted net assets where the funds are permitted to be expended. Growth in net assets is being driven by strong investment performance and new gifts and commitments.

OVERVIEW OF CONSOLIDATED STATEMENTS OF ACTIVITIES

The Consolidated Statements of Activities present the University's results of activities. The University's summary Consolidated Statements of Activities follows.

($ in thousands)

	2007	2006	2005	2004	2003
Unrestricted operating revenue	$ 761,336	$ 728,338	$ 676,241	$ 631,710	$ 576,993
Unrestricted operating expenses	761,835	737,708	674,759	620,076	559,755
Change in operations	**($ 499)**	**($ 9,370)**	**$ 1,482**	**$ 11,634**	**$ 17,238**
Change in unrestricted net assets from nonoperating activities	**61,477**	**58,122**	**9,571**	**49,763**	**(5,634)**
Change in temporarily restricted net assets	**126,476**	**37,344**	**56,729**	**68,009**	**(22,528)**
Change in permanently restricted net assets	**32,871**	**25,255**	**36,046**	**29,222**	**12,141**
Change in net assets	**$ 220,325**	**$ 111,351**	**$ 103,828**	**$ 158,628**	**$ 1,217**

Change in Unrestricted Net Assets from Operations

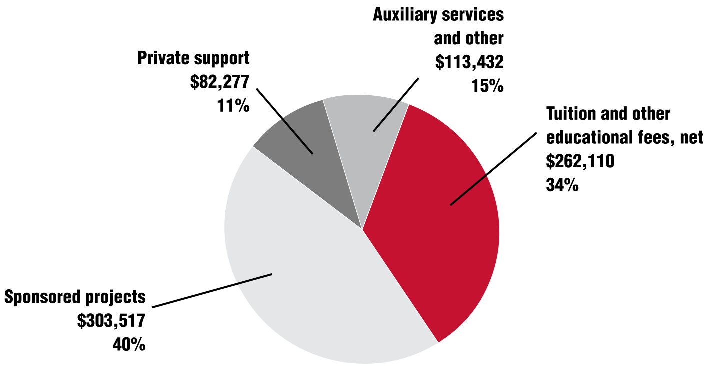
The University's Consolidated Statements of Activities include a measure for operating activities, which consists of operating revenues received for providing goods and services to the various constituencies of the University, and the respective operating expenses incurred to provide these goods and 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. For fiscal year 2007 the University's operations yielded a de minimus operating loss of $0.5 million, less than one tenth of one percent of the University operating budget. The University's audited results from operations compare favorably with the University's Board of Trustees approved budget which included continued planned investment in the University's Advancement and Computing Services divisions and a planned deficit from operations of $14.9 million.

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. Auxiliary services and other revenues are composed of auxiliaries (such as housing and dining), certain funding received in support of operations at our international locations, and other miscellaneous revenues.

FISCAL YEAR 2007 UNRESTRICTED OPERATING REVENUE

($ in thousands)



Tuition and other educational fees, net of financial aid, increased 10.1% to $262 million reflecting budgeted increases in tuition rates, increases in the number of graduate students and programs, and increased demand for executive education. The following tables provide detailed information on enrolled students, including undergraduate and graduate, in the fall semesters of 2006 and 2005 by school and undergraduate admissions information.

Fall 2006 and 2005 Semester Enrollment

School	2006-2007 Undergraduate	2006-2007 Graduate	Total Number of Students	Percentage	2005-2006 Undergraduate	2005-2006 Graduate
Carnegie Institute of Technology	1,591	929	2,520	25%	1,512	892
College of Fine Arts	923	238	1,161	12%	938	244
College of Humanities and Social Sciences	1,047	252	1,299	13%	1,080	263
David A. Tepper School of Business	428	920	1,348	13%	437	916
H. John Heinz III School of Public Policy and Management	—	557	557	6%	—	533
Mellon College of Science	706	243	949	9%	667	249
School of Computer Science	522	705	1,227	12%	531	678
Interdisciplinary	242	607	691	7%	241	619
CMU-Q	121	—	279	3%	88	—
Total	5,580	4,451	10,031	100%	5,494	4,394

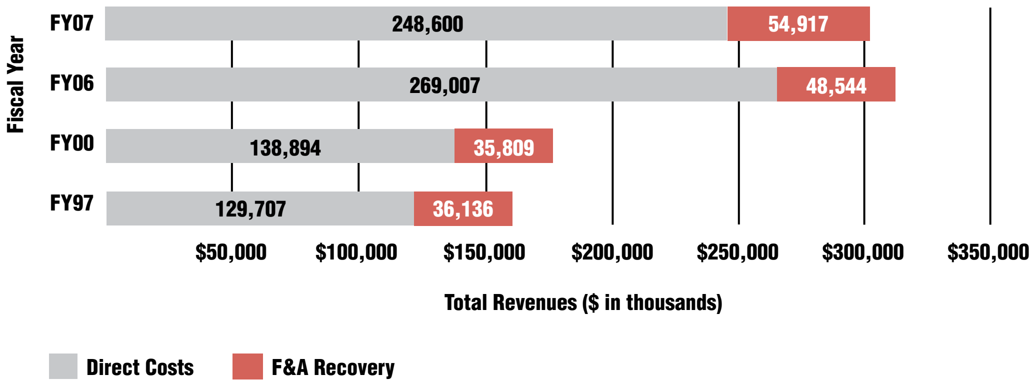
Undergraduate Admissions - Fall Semester

	2006-2007	2005-2006	2004-2005	2003-2004	2002-2003
Applications	18,864	15,777	14,113	14,467	14,271
Acceptances	6,357	6,135	5,858	5,561	5,440
Matriculations	1,428	1,409	1,394	1,341	1,365

Sponsored projects represent the largest source of revenues for Carnegie Mellon, reflecting the University's research intensity. As a leading research university, it is especially important for Carnegie Mellon's excellence and standing to succeed in securing federal research awards which are highly competitive and rigorously reviewed by our peers. As the following charts show, Carnegie Mellon has experienced significant increases in sponsored projects over the past decade with this revenue stream growing from $166 million in 1997 to $304 million in 2007, an 83.1% increase. Despite increasing competitiveness for basic research funding and amidst federal funding cuts, our faculty have managed to remain successful in maintaining funding for existing programs and attracting funding for innovative new programs.

In fiscal year 2007, sponsored projects activity provided 40% or $304 million of the University's total operating revenues, which represents a 4.4%, or $14 million, decrease from the prior year. Sponsored projects revenue includes sponsored research, other sponsored activities (e.g. health service and community service projects) and other sponsored instruction (e.g. graduate student awards). $12.8 million of the fiscal year 2007 decrease is attributable to a decrease in funding from the National Science Foundation, which is largely due to the one time purchase of the XT-3 supercomputer in the Pittsburgh Supercomputing Center in the 2006 fiscal year. Sponsored Projects revenues are comprised of: federal support (86%), foundation/non-profit (3%), industry (8%), state (2%), and non-federal (1%).

Sponsored Projects Revenue



Consistent with the past two years, the Board of Trustees' approved ***endowment draw*** (endowment spending policy) for the fiscal year ended June 30, 2007 was 5%, which contributed $40.5 million to fund operations. The rapid growth of our research and academic programs coupled with the relatively young age of the University (which is perhaps most transparent when comparing the endowment or financial resources of Carnegie Mellon with our peer institutions) has led to the steady decline of endowment support as a percent of operations over the past decade, from an average of 6.7% for the decade, to 5.3% in fiscal year 2007. The endowment is discussed in greater detail in the "Financial Highlights from the Treasurer and Chief Investment Officer."

Operating Expenses

In fiscal year 2007, operating expenses totaled $762 million, a 3.3% or $24 million increase over fiscal year 2006. Personnel costs remain the University's single largest category of expense with $487 million in 2007, or 63.9% of total operating expenses. Fiscal year 2007 personnel costs increased 7.7% over fiscal year 2006, consistent with the University's growth in international programs, planned growth in Advancement and Computing Services, as well as annual salary increases and promotions. Interest expense has continued to rise with increases of $4 million in each of the last two fiscal years reflecting the variable component of the University's debt portfolio as well as the issuance of the additional $115 million of tax-exempt bond financing.

($ millions)	2007	2006	2005	2004	2003
Salaries and benefits	$ 487	$ 452	$ 421	$ 392	$ 352
Supplies and services	138	150	132	116	99
Occupancy and related expenses	47	49	40	37	36
Other operating expenses	29	31	31	30	28
Depreciation and amortization	45	44	43	40	39
Interest expense	16	12	8	5	6
Total Expenses	**$ 762**	**$ 738**	**$ 675**	**$ 620**	**$ 560**

Nonoperating Results

The University reports 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 as nonoperating items in its Consolidated Statements of Activities. In the current fiscal year, the increase in unrestricted net assets from nonoperating activities was $65.9 million, primarily driven by our investment results.

Also reflected in the fiscal year 2007 Consolidated Statements of Activities are $74.8 million of contributions (gifts and pledges) which includes $14.8 million of unrestricted contributions, $22.7 million of contributions which are expendable with donor restrictions, and $37.3 million of contributions for which the corpus is permanently restricted.

CONCLUSION

Carnegie Mellon plays an important role in the world, providing a unique education and powerful research results that have impact far beyond our campus. We have adopted an approach to financial management that combines sufficient support for the needs of today, with a willingness to invest prudently in creating long-term financial strength, and to assuring that classrooms, labs and dorms and their associated infrastructure are attractive settings for learning. This balanced approach, so evident in the operating results this year, provides a strong foundation for assuring that Carnegie Mellon will continue to flourish far into the future.

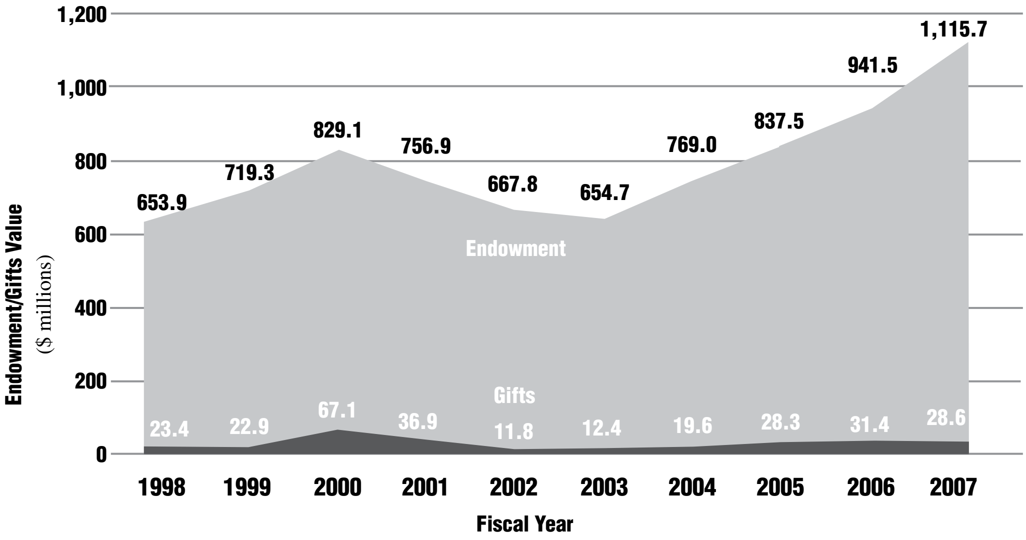
deborah j. moon

DEBORAH J. MOON
Vice President and Chief Financial Officer
Carnegie Mellon University
October 29, 2007

Financial Highlights from the Treasurer and Chief Investment Officer

Carnegie Mellon's endowment portfolio generated exceptionally strong results in fiscal year 2007, as its net investment returns of 20.4% produced record-setting investment gains of $186.1 million. The endowment's market value grew to $1,115.7 million as of June 30, 2007, up from $941.5 million as of June 30, 2006. This net advance of $174.2 million reflects the impact of $28.6 million from gifts and other sources and $186.1 million in investment gains, less $40.5 million distributed to support the University's operations.

Endowment Market Value and Fiscal Year Gifts Ending June 30th



The endowment's net investment performance of 20.4% in fiscal year 2007 compares favorably to 14.9% in fiscal year 2006 and reflects the positive results of strong capital market returns, as well as the University's diversified asset allocation. For comparison, the twelve month return was 20.6% for the S&P 500 Index, 29.6% for the MSCI All World Free (excluding the U.S.) Index and 6.1% for the Lehman Aggregate Bond Index.

Carnegie Mellon's endowment is invested in a diversified long-term fund, which also includes a portion of the university's working capital reserves. An annual cash distribution from the endowment (i.e., the draw) provides a key source of support for the University's various activities and programs, ranging from general operations to specific needs such as scholarships and professorships. The historical performance of the endowment, including distribution of the draw, is summarized below:

Endowment Fund

($ millions)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Opening Value	608.3	653.9	719.3	829.1	756.9	667.8	654.7	769.0	837.5	941.5
Gifts/Transfers	23.4	22.9	67.1	36.9	11.8	12.4	19.6	28.3	31.4	28.6
Annuity Reclassification	—	—	—	—	—	—	—	—	(11.7)	—
Draw	(28.2)	(32.7)	(35.2)	(41.9)	(42.8)	(41.7)	(36.5)	(36.3)	(36.8)	(40.5)
Investment Performance	50.4	75.2	77.9	(67.2)	(58.1)	16.2	131.2	76.5	121.2	186.1
Closing Value	653.9	719.3	829.1	756.9	667.8	654.7	769.0	837.5	941.5	1,115.7
Draw Details										
Total Operations	406.7	426.2	462.0	500.1	551.0	559.8	620.1	674.8	737.7	761.8
Draw % of Operations	6.9%	7.7%	7.6%	8.4%	7.8%	7.5%	5.9%	5.4%	5.0%	5.3%

During the last decade, the draw from the endowment has contributed, on average, approximately 6.7% of the University's annual operating budget. During fiscal year 2007, the draw from the endowment provided 5.3% of the University's operating budget, compared to 5.0% for fiscal year 2006. Viewed as a percentage of the annual budget, the relative support from the draw is, of course, affected not only by the growth in the endowment and the draw formula (see "Note F" of the consolidated financial statements), but also by the growth in the University's annual operating budget, which has increased by 87% since fiscal year 1998.

With the objective of maximizing risk-adjusted returns while maintaining adequate liquidity, Carnegie Mellon constructs its policy asset allocation using a combination of academic theory, quantitative analysis and informed market judgment. In fiscal year 2007, the University continued to work towards achieving the portfolio's growth-oriented asset allocation targets that were established in 2005, as reflected in the table below. Overall, the University's recent efforts have focused primarily on building out its alternative asset categories through relationships with high quality, outside investment managers, many of whom are difficult to access.

We note that during its July 2007 meeting, the university's Investment Committee authorized a modest revision to the portfolio's asset allocation targets, which are also reflected below. Given the nature of expected returns and estimated correlations between asset classes, the revised allocation is designed to further enhance investment returns while lowering overall portfolio volatility.

Policy Asset Allocations

	Ending 6/30/07	"As of 7/23/07"
U.S. Equities	20%	19%
Non-U.S. Equities	20%	19%
Fixed Income	15%	12%
Hedge Funds	10%	15%
Private Equity	20%	20%
Real Estate	5%	5%
Natural Resources	5%	5%
Opportunistic	5%	5%
Total	**100%**	**100%**

The University's long-term investment and spending policies are intended to balance the dual goals of supporting current and future generations of Carnegie Mellon students. With a long-term, equity-focused investment perspective, complemented by 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 while also preserving purchasing power to support future generations of students.

EDWARD J. GREFENSTETTE
Treasurer and Chief Investment Officer
Carnegie Mellon University
October 29, 2007

Update from the Vice President for University Advancement

No university in the *U.S. News and World Report Top 25* is younger than Carnegie Mellon University, and no institution of higher education has come farther faster. Our rise to international prominence is one of the great success stories in the history of U.S. higher education.

Carnegie Mellon also takes immense pride in this extraordinary legacy of impact on the world, especially notable given our comparative youthfulness as a university. Through collaborating and sharing perspectives across disciplines and focusing on addressing real world problems, Carnegie Mellon faculty have again and again defined new research fields and educational strategies and models that make a difference in the way we all live and work today and will the future.

What is equally remarkable is how all this was accomplished with a comparatively lean financial base. While our endowment surpassed the $1 billion mark this past year, it is still small compared to those universities with whom we compete for student and faculty talent. Endowment income contributes only about five percent of Carnegie Mellon's operating revenue, which is much lower than that of the private universities in our peer group.

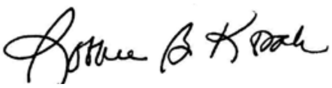
We are now engaged in a major fundraising effort to redress this imbalance. The campaign has two primary goals: the first is to add significantly to the endowment, and the second is to build the university's long-term capacity to raise private support. Moreover, the Board of Trustees has recognized that significant investment in all of university advancement activities is required to meet these objectives, as well as to more effectively engage alumni, corporations, foundations, and parents, in the life and future of the university. The results to date have proven them prescient.

In 2007, fundraising results once again surpassed projections. We were particularly gratified this year by several large endowment gift commitments in support of graduate fellowships in engineering, physics, and life sciences. Funding graduate fellowships is a high priority for Carnegie Mellon—a priority that is enthusiastically shared by these donors. Such gifts are not sudden explosions of funds that are spent and burn out quickly; they are permanent resources that provide support steadily every year. These gifts will provide fellowships to students for generations to come.

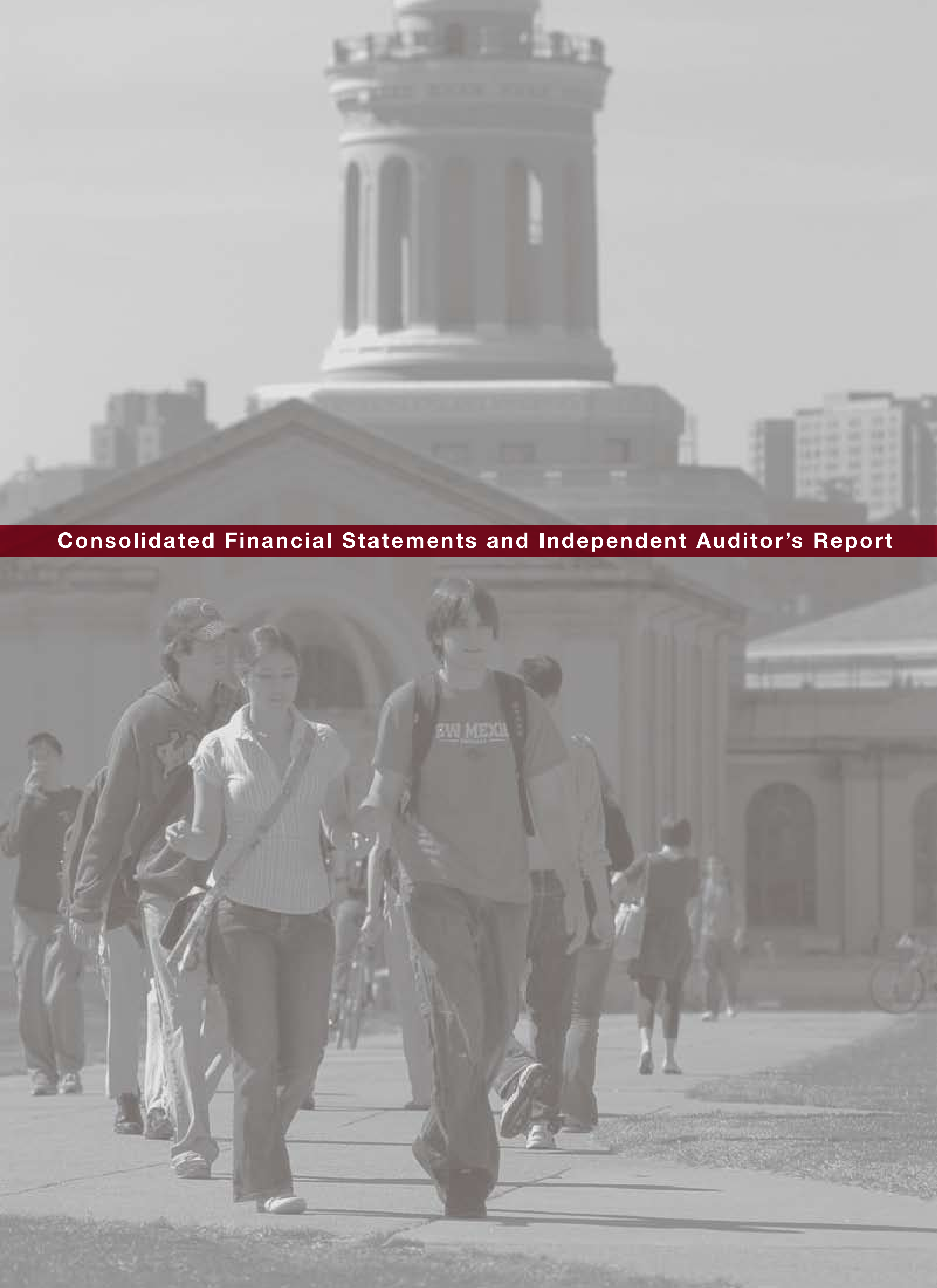
We have also seen results in building long-term relationships with our constituents, making our case meaningful and engaging to them in many ways. From a well-attended Homecoming last fall, when we celebrated the 100th anniversary of Margaret Morrison Carnegie College (our former women's college), to a dramatic increase in alumni chapters, programs and events throughout the U.S. and overseas, alumni and other university friends have enthusiastically responded to these new options to become involved with Carnegie Mellon. We have also been working with parents all over the globe to encourage their involvement and support. To serve our global constituencies 24/7, last fall, we unveiled a spectacular new website that tells the many stories of Carnegie Mellon and conveys the excitement of discovery and learning that pervades our campuses; the site has been getting rave reviews.

We are only at the beginning of what will be an aggressive and transformational campaign, but we are already encouraged by the generous response from donors. Led by President Cohon, who has been reappointed for a third term, we have in place highly trusted and dedicated leadership, and expansive vision that will move the fundraising campaign and long term relationships to continued success in their next phases.

Vital, strategic engagement of multiple constituents is critcal to the future growth and success of Carnegie Mellon. I look forward to reporting to you on the continuing progress of the university's advancement activities.



ROBBEE BAKER KOSAK
Vice President for University Advancement
Carnegie Mellon University
October 29, 2007



Consolidated Financial Statements and Independent Auditor's Report

Students from the first graduating class of the Carnegie Mellon Kobe Japan master's program.

Carnegie Mellon's "zero energy" house, the 2007 Solar Decathlon entry.

To the Board of Trustees
Carnegie Mellon University and Subsidiaries

In our opinion, the accompanying consolidated statements 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 its Subsidiaries at June 30, 2007 and June 30, 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note N and Note P, to the consolidated financial statements, in 2007 the University applied the provisions of SFAS No. 158 and changed its method of reporting post-retirement benefit obligations and in 2006 the University applied the provisions of FASB Interpretation No. 47 (FIN 47) and changed its method of reporting conditional asset retirement obligations.

PricewaterhouseCoopers LLP

PricewaterhouseCooopers LLP

Pittsburgh, Pennsylvania

October 29, 2007

Consolidated Statements of Financial Position

June 30, 2007 and 2006

($ in thousands)

	2007	2006
Assets:		
Cash and cash equivalents	$ 62,868	$ 25,787
Accrued interest and dividends	3,725	3,349
Accounts receivable, net (Note C)	55,618	59,230
Pledges receivable, net (Note D)	56,157	44,933
Loans receivable, net (Note C)	20,241	17,079
Collateral for securities loaned (Note E)	117,397	107,588
Investments, including loaned securities of $113,874 and $104,737, respectively (Note E)	1,443,758	1,231,949
Assets held in trust by others	13,288	11,707
Assets limited as to use (Note B)	76,834	—
Other assets	33,903	25,901
Land, buildings and equipment, net (Note H)	540,502	530,810
Total assets	**$ 2,424,291**	**$ 2,058,333**
Liabilities:		
Accounts payable and other liabilities	$ 98,212	$ 99,268
Deferred revenue	82,777	60,361
Federal loan programs	14,529	14,687
Present value of future annuities payable	20,326	19,727
Securities loan agreement payable (Note E)	117,397	107,588
Long-term debt (Note I)	449,515	335,492
Total liabilities	**$ 782,756**	**$ 637,123**
Net assets:		
Unrestricted	$ 723,038	$ 662,060
Temporarily restricted (Note J)	495,084	368,608
Permanently restricted (Note J)	423,413	390,542
Total net assets	**$ 1,641,535**	**$ 1,421,210**
Total liabilities and net assets	**$ 2,424,291**	**$ 2,058,333**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Activities

For the Year Ended June 30, 2007

($ in thousands)

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Tuition and other educational fees revenue, net of financial aid	$ 262,110	$ —	$ —	$ 262,110
Sponsored projects revenue (Note G)	303,517	—	—	303,517
Investment income	35,555	11,382	185	47,122
Contributions revenue (Note D)	14,798	22,655	37,298	74,751
Auxiliary services revenue	40,957	—	—	40,957
Other sources	72,475	9,029	(6,992)	74,512
Net assets released from restrictions	31,924	(31,924)	—	—
Total revenue and other support	**$ 761,336**	**$ 11,142**	**$ 30,491**	**$ 802,969**
Expenses:				
Salaries	$ 402,288	$ —	$ —	$ 402,288
Benefits	84,091	—	—	84,091
Supplies and services	138,433	—	—	138,433
Occupancy and related expenses	47,380	—	—	47,380
Other operating expenses	29,280	—	—	29,280
Depreciation and amortization	44,916	—	—	44,916
Interest expense	15,447	—	—	15,447
Total expenses	**$ 761,835**	**$ —**	**$ —**	**$ 761,835**
(Decrease) increase in net assets before nonoperating activities	**($ 499)**	**$ 11,142**	**$ 30,491**	**$ 41,134**
Nonoperating activities:				
Net realized gain on investments	$ 33,708	$ 68,099	$ 596	$ 102,403
Net unrealized gain on investments	32,127	47,571	1,784	81,482
Other sources	(264)	—	—	(264)
Net assets released from restrictions	336	(336)	—	—
Total nonoperating activities	**$ 65,907**	**$ 115,334**	**$ 2,380**	**$ 183,621**
Increase in net assets before cumulative effect of a change in accounting principle	**$ 65,408**	**$ 126,476**	**$ 32,871**	**$ 224,755**
Cumulative effect of a change in accounting principle (Note N)	**(4,430)**	**—**	**—**	**(4,430)**
Increase in net assets	**$ 60,978**	**$ 126,476**	**$ 32,871**	**$ 220,325**
Net assets, June 30, 2006	**$ 662,060**	**$ 368,608**	**$ 390,542**	**$ 1,421,210**
Net assets, June 30, 2007	**$ 723,038**	**$ 495,084**	**$ 423,413**	**$ 1,641,535**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Activities

For the Year Ended June 30, 2006

($ in thousands)

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Tuition and other educational fees revenue, net of financial aid	$ 237,991	$ —	$ —	$ 237,991
Sponsored projects revenue (Note G)	317,551	—	—	317,551
Investment income	30,854	9,848	278	40,980
Contributions revenue (Note D)	15,771	16,621	22,483	54,875
Auxiliary services revenue	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 gain on investments	$ 16,608	$ 39,562	$ 318	$ 56,488
Net unrealized gain 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	$ 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 Statements of Cash Flows

For the Years Ended June 30, 2007 and 2006
($ in thousands)

	2007	2006
Cash flows from operating activities:		
Increase in net assets	$ 220,325	$ 111,351
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized gains on investments	(114,293)	(67,791)
Unrealized gains on investments	(81,482)	(51,246)
Depreciation and amortization	44,916	43,865
Gifts in kind	(266)	(1,505)
Loss on asset dispositions	832	1,600
Stock contributions pending liquidation	(210)	(3,748)
Loss on capital lease impairment	—	1,133
Cumulative effect of change in accounting principle	4,430	1,570
Provision for bad debt and other allowances	(1,086)	(2,103)
Contributions held in trust by others	(1,581)	(151)
Contributions for land, buildings, equipment and permanent endowment	(32,327)	(30,691)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest and dividends	(376)	(836)
Accounts receivable, net	4,069	10,168
Pledges receivable, net	(11,938)	6,563
Other assets	(5,283)	(4,640)
Increase (decrease) in:		
Accounts payable and other liabilities	(5,333)	13,887
Deferred revenue	22,416	14,791
Federal loan programs	(158)	80
Present value of future annuities payable	599	(10)
Net cash provided by operating activities	**$ 43,254**	**$ 42,287**
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	2,917,581	2,730,604
Purchases of investments	(2,933,615)	(2,736,100)
Assets limited as to use	(76,834)	—
Purchases of land, buildings and equipment	(56,570)	(64,803)
Disbursements of loans to students	(4,998)	(4,002)
Repayments of loans from students	3,783	4,828
Net cash used for investing activities	**($ 150,653)**	**($ 69,473)**
Cash flows from financing activities:		
Proceeds from issuance of indebtedness	120,125	—
Payment of bond issue costs	(1,835)	—
Repayments of long-term debt	(6,137)	(2,144)
Contributions for land, buildings, equipment and permanent endowment	32,327	30,691
Net cash provided by financing activities	**$ 144,480**	**$ 28,547**
Net increase in cash and cash equivalents	**37,081**	**1,361**
Cash and cash equivalents at beginning of year	**25,787**	**24,426**
Cash and cash equivalents at end of year	**$ 62,868**	**$ 25,787**
Non-cash transactions:		
Additions to property, plant and equipment (accruals, gifts in kind, capital leases, FIN 47)	$ 3,405	$ 8,280
Non-cash stock contributions	$ 210	$ 3,748
Capital lease obligation	—	$ 2,678

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

June 30, 2007 and 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 10,100 students and grants approximately 3,200 bachelors, masters and doctoral degrees each year. Approximately 88% of undergraduate students are from the United States of America. International students comprise approximately 12% of undergraduate, 38% of master's and 52% 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 revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

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

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

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

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

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

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the current year presentation.

During fiscal year 2007, Carnegie Mellon reviewed certain security lending activity and determined that $107.6 million should have been reflected gross as both collateral for securities loaned as an asset and securities loan agreement payable as a liability within the Consolidated Statement of Financial Position at June 30, 2006. Net assets at June 30, 2006 and the Consolidated Statement of Activities for the fiscal year 2006 were not impacted as a result of this adjustment. The University has reflected this transaction in their financial statements as of June 30, 2006 within the financial statements issued for June 30, 2007 for comparative purposes.

Changes in Accounting Principle

Effective June 30, 2007, Carnegie Mellon adopted Statement of Financial Accounting Standard No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans” (“SFAS 158”), and recorded a liability of $4.4 million, of which $4.4 million was recorded as a cumulative effect of change in accounting principle (see Note N).

Effective June 30, 2006, Carnegie Mellon adopted Financial Accounting Standards Board Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”) and recorded a liability of $1.9 million, of which $1.6 million was recorded as a cumulative effect of change in accounting principle (see Note P).

Cash Equivalents

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

Investments

Debt and equity securities held by Carnegie Mellon are carried at fair value as established by the major securities markets. The alternative investments are carried at estimated fair value as provided by the investment managers. Carnegie Mellon 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 could materially affect the amounts reported in the Consolidated Statements of Financial Position.

Endowment

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

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

Temporarily restricted endowment net assets include 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 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.

Assets Limited as to Use

Assets limited as to use in the amount of $76.8 million represent remaining proceeds from the issuance of the 2006 bonds, which are held by a trustee under the bond indenture for future capital expenditures.

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

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

Carnegie Mellon capitalizes interest during periods of construction, which was not significant in fiscal years 2006 and 2007.

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 Split Interest Agreements

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

Operating Activities

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

Student Financial Aid

Tuition and other educational fees are reported net of student financial aid of $78.6 million and $73.2 million for the years ended June 30, 2007 and 2006, respectively.

Sponsored Projects Revenue

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

Contributions Revenue

Contributions include gifts, grants and unconditional promises to give that are recognized as revenues in the period such commitments are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions to be received in future years are discounted, as of the date of the gift, at a risk free rate commensurate with the pledge payment schedule. An allowance is estimated for uncollectible contributions based upon historical patterns and any known uncollectible accounts.

Contributions with Restrictions Met in the Same Year

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

Capital Contributions

Donors' contributions to fund construction projects are classified as temporarily restricted net assets and are released from restriction through non-operating activities when the facility is placed in service. Contributions received after the asset is placed in service are classified as temporarily restricted net assets and are released from restriction through operating activities in the same fiscal year.

Auxiliary Services Revenue

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

Other Sources

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

Nonoperating Activities – Other Sources

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

- A $0.2 million loss and a $4.4 million gain in the fair value of the interest rate swap agreements as of June 30, 2007 and 2006, respectively (Note K);
- A non-recurring $9.7 million unfavorable settlement of litigation on a case which was originally filed in 2002 as of June 30, 2006.

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 non-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 consolidated financial statements and related accompanying footnote disclosures. Actual results could differ from those estimates and these differences could be material. Carnegie Mellon's significant estimates include: allowance for uncollectible accounts, asset retirement obligations, legal contingencies, accrued post retirement liability, and valuation of investments.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") which clarifies the accounting for uncertainties in income taxes recognized on an enterprise's financial statements in accordance with FASB Statement No. 109 ("SFAS 109"), "Accounting for Income Taxes". Under the interpretation, companies' financial statements will reflect expected future tax consequences of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2007. Carnegie Mellon has not completed all of the analyses to determine the impact of adoption of this new pronouncement.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Carnegie Mellon has not completed all of the analyses to determine the impact of adoption of this new pronouncement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), including an amendment to SFAS No. 115. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Carnegie Mellon has not completed all of the analyses to determine the impact of adoption of this new pronouncement.

Note C—Accounts and Loans Receivable

Accounts receivable at June 30, 2007 and 2006, consist of the following:

Accounts Receivable

$ in thousands	2007	2006
Sponsored project grants and contracts:		
Federal	$ 32,830	$ 42,090
Other	8,852	8,590
Total sponsored projects	**$ 41,682**	**$ 50,680**
Student accounts	6,480	7,184
Other	11,464	6,475
	$ 17,944	$ 13,659
Allowance for doubtful accounts	(4,008)	(5,109)
Net accounts receivable	**$ 55,618**	**$ 59,230**

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

Loans Receivable

Net loans receivable of approximately $20.2 million and $17.1 million, as of June 30, 2007 and 2006, respectively, primarily represent student loans made under a federal loan program including loans under the Gate Loan Program (see Note Q). These loans are reported net of an allowance for doubtful accounts of approximately $0.5 million and $1.8 million as of June 30, 2007 and 2006, respectively.

Note D—Pledges Receivable and Contributions

Pledges as of June 30, 2007 and 2006 are discounted to the present value of future cash flows as of the date of the gift and are due as follows:

$ in thousands			2007
	Temporarily Restricted	Permanently Restricted	Total
In one year or less	$ 438	$ 7,547	$ 7,985
Between one year and five years	19,877	41,174	61,051
More than five years	2,800	400	3,200
Present value of pledges	$ 23,115	$ 49,121	$ 72,236
Less:			
Unamortized discount	5,012	8,027	13,039
Allowance for unfulfilled pledges	900	2,140	3,040
Pledges receivable, net of allowances	**$ 17,203**	**$ 38,954**	**$ 56,157**

$ in thousands			2006
	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 allowances	**$ 14,621**	**$ 30,312**	**$ 44,933**

Pledges receivable, as of June 30, 2007 and 2006, net of allowances, are intended for the endowment in the amounts of $39.0 million and $30.3 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $17.2 million and $14.6 million, respectively.

Contribution revenue includes gifts, unconditional pledges to give and grants and are recorded in the appropriate net asset category based upon donor stipulations. Contributions for the fiscal years ended June 30, 2007 and 2006 are as follows:

$ in thousands	2007	2006
Unrestricted	$14,798	$15,771
Temporarily restricted	22,655	16,621
Permanently restricted	37,298	22,483
Total	**$ 74,751**	**$ 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 as contribution revenue when the conditions are substantially met. Total combined conditional pledges for Carnegie Mellon were approximately $40.3 million and $38.0 million as of June 30, 2007 and 2006, respectively. These amounts were not recognized as contribution revenue during the respective fiscal year as the conditions had not been met.

Note E—Investments

Investments by major category at June 30, 2007 and 2006, are as follows:

$ in thousands	2007	2006
Restricted cash and cash equivalents	$ 55,235	$ 53,430
Fixed income	356,975	319,862
Common stock	690,311	640,720
Other investments	341,237	217,937
Total investments	**$ 1,443,758**	**$ 1,231,949**

Investments are held for the following purposes:

$ in thousands	2007	2006
Endowment	$ 1,110,555	$ 936,797
Reserves for working capital and plant — Short Term	109,292	107,570
Reserves for working capital and plant — Long Term	161,952	131,791
Split interest agreements	42,791	39,209
Other investments	19,168	16,582
Total investments	**$ 1,443,758**	**$ 1,231,949**

At June 30, 2007 and 2006 investment securities having a fair value of $113.9 million and $104.7 million, respectively, were lent to various brokerage firms through a securities lending agent. The loaned securities are returnable on demand and are collateralized by cash deposits. Carnegie Mellon has recorded the fair value of the collateral received of $117.4 million and $107.6 million and an offsetting liability for the return of the collateral on the Statements of Financial Position at June 30, 2007 and 2006, respectively.

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 at June 30, 2007 are composed of approximately 49.4% domestic equities and 50.6% international and emerging market equities. Common stock investments at June 30, 2006 were composed of approximately 67.1% domestic equities and 32.9% international and emerging market equities. Alternative investments are largely investments in buyout funds, venture capital, real estate, and hedge funds.

The allocation to each major category in the table above represents the actual allocation of the short term and long term investment pools on a combined basis. Each investment pool maintains a unique investment strategy. Actual allocations on a combined basis should not be interpreted as an investment allocation policy for a particular investment pool. In addition, the above asset category allocations do not reflect the effective allocation exposures resulting from investment strategies that include derivatives. The following schedule summarizes the investment return for the fiscal years ended June 30, 2007 and 2006:

$ in thousands	2007	2006
Dividends and interest (Net of $4.5 million and $4.4 million of investment fees)	$ 35,232	$ 29,677
Net realized gains on sale of investments	114,293	67,791
Net unrealized gains on investments	81,482	51,246
Total return on investments	**$ 231,007**	**$ 148,714**

Operating investment income as reported on the Statement of Activities includes dividends and interest earned on unrestricted funds as well as unrestricted accumulated gains utilized for current operations in the amounts of $11.9 million and $11.3 million in the years ended June 30, 2007 and 2006, respectively. These gains are included in net realized gains in the above table.

Certain of Carnegie Mellon's outside investment managers, including alternative asset managers, are authorized and do, in fact, purchase and sell derivative instruments in order to manage interest rate risks, foreign currency fluctuations and other market positions. For instance, certain domestic equity investment managers utilize S&P 500 futures contracts to obtain cost-efficient exposure to the S&P 500 Index, which is a portfolio benchmark. At June 30, 2007 and 2006, the notional value of S&P 500 futures contracts held by these outside investment managers were $99.8 million and $82.9 million, respectively.

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

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

Under the terms of certain limited partnership agreements, Carnegie Mellon is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, 2007 and 2006, Carnegie Mellon had unfunded commitments of approximately $290.0 million and $187.0 million, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. Carnegie Mellon maintains sufficient liquidity in its investment portfolio to cover such calls.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following table summarizes these investments by strategy type at June 30, 2007 and 2006:

Alternative investments strategy	Number of Funds	2007 Fair value $ in thousands
Absolute Return	1	$ 10,878
Long/Short Equity	7	64,097
Event Driven	2	64,973
Aggressive, Distressed & Arbitrage Fixed Income	10	31,427
Private Equity (Buyout) Funds	31	45,900
Venture Capital	36	68,600
Real Estate	9	36,004
Natural Resources	12	19,357
Total	**108**	**$341,237**
Total Investments		**$1,443,758**
% Alternative		**23.6%**

Alternative investments strategy	Number of Funds	2006 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		**$1,231,949**
% Alternative		**17.7%**

Note F–Endowments

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

$ in thousands	2007	2006
Beginning of year endowment value	**$ 941,525**	**$ 837,459**
Gifts and other additions:		
Contributions (excluding pledges)	27,397	29,787
Terminated life income trusts and income and gains reinvested	1,197	1,588
Transfer of gift annuities to investment assets	—	(11,657)
Total gifts and other additions	**$ 28,594**	**$ 19,718**
Investment income:		
Interest and dividends	$ 18,403	$ 16,444
Net realized gains on sale of securities	99,335	58,828
Net unrealized gains	68,363	45,885
Total investment income	**$ 186,101**	**$ 121,157**
Income distributed for operating purposes:		
Cash and accrued interest and dividends	($ 18,403)	($ 16,444)
Accumulated realized investment gains	(22,077)	(20,365)
Total income distributed	**($ 40,480)**	**($ 36,809)**
End of year endowment value	**$ 1,115,740**	**$ 941,525** (1)

(1) Includes $5,185 and $4,728 of endowment gifts pending investment and other accruals in fiscal years 2007 and 2006, respectively.

Endowment net assets at June 30 are classified as follows:

$ in thousands	2007	2006
Unrestricted	$ 343,755	$ 300,280
Temporarily restricted	407,399	304,155
Permanently restricted	364,586	337,090
Total	**$ 1,115,740**	**$ 941,525**

Unless the donor specifies that only a certain amount of the endowment may be spent, Pennsylvania Act 141 allows organizations to choose a total return spending policy strategy, whereby the board of trustees may annually elect to spend between two and seven percent of the fair market value of the endowment.

Carnegie Mellon maintains a total return spending policy. Endowment income distributions can consist of dividend and interest income and a withdrawal of accumulated capital gains, when necessary. The main objective of the total return spending policy is to separate spending policy from investment policy. This approach permits asset allocation decisions to be made independently of the need for current income. The endowment spending rate is determined annually as a percentage of the trailing thirty-six month average of endowment market values at December 31. For fiscal years 2007 and 2006, the approved spending rate was set at 5.0%. The actual spending rate based on June 30 endowment market values for the fiscal years ended 2007 and 2006 was 3.6% and 3.9%, respectively.

Note G–Sponsored Projects Revenue

The major components of sponsored projects revenue for the years ended June 30, 2007 and 2006, are as follows:

$ in thousands	2007	2006
Federal		
Direct	$ 210,543	$ 234,655
Indirect	49,362	42,854
Total Federal	**$ 259,905**	**$ 277,509**
State, industrial and other		
Direct	$ 38,057	$ 34,352
Indirect	5,555	5,690
Total state, industrial and other	**43,612**	**40,042**
Total sponsored projects revenue	**$ 303,517**	**$ 317,551**

Included in other sponsored projects revenue for the fiscal years ended June 30, 2007 and 2006 are amounts from private sources (foundation grants) which amounted to $6.6 million and $5.9 million, respectively.

Note H–Land, Buildings and Equipment

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

$ in thousands	2007	2006
Buildings	$ 708,469	$ 699,332
Utilities and building-related assets	52,716	53,249
Moveable equipment	220,346	238,350
Leasehold improvements	9,638	7,317
Subtotal	**$ 991,169**	**$ 998,248**
Accumulated depreciation	(498,892)	(489,432)
Subtotal	**$ 492,277**	**$ 508,816**
Land	9,200	8,131
Construction in progress	39,025	13,863
Land, buildings and equipment, net	**$ 540,502**	**$ 530,810**

Included in the cost of buildings is $40.6 million and $40.2 million for the Collaborative Innovation Center (CIC) and its tenant improvements for the years ended June 30, 2007 and 2006, respectively. The CIC building was constructed on land owned by Carnegie Mellon. This land is subject to a ground lease agreement between Carnegie Mellon and the Regional Industrial Development Corporation (RIDC). The ground lease term concludes on March 20, 2038, but is subject to an additional four year renewal period exercisable at the RIDC's option.

Note I–Long-Term Debt

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

$ in thousands	Interest %	2007	2006
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	5.1 - 5.5%	38,937	43,902
Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2006	Variable	115,000	—
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series 2007	Variable	5,125	—
Dormitory bonds/mortgage notes	2.8 - 3.5%	2,195	2,368
Collaborative Innovation Center financing	5.2%	31,398	31,979
Subtotal - bonds and mortgages		**$ 447,455**	**$ 333,049**
Capital lease obligations	5.0 - 7.5%	2,060	2,443
Total long-term debt		**$ 449,515**	**$ 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 consisted of $50.0 million Series 1995A due 2025, $50.0 million Series 1995B due 2027, $50.0 million Series 1995C due 2029, and $26.8 million Series 1995D due 2030. The 1995 Bonds have certain financial covenants including various ratio calculations. 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 3.1% to 4.1% during fiscal year 2007 and 1.7% to 4.0% 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 $88.0 million of Carnegie Mellon University Variable Rate Revenue Bonds, Series 1998 (the "1998 Bonds"). The proceeds of the 1998 Bonds were used to fund capital projects. On April 16, 2001, the University paid $10.0 million of the bonds outstanding principal which results in a final payment of $78.0 million due upon maturity of the issue in 2034. 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 3.2% to 4.0% during fiscal year 2007 and 1.6% to 4.0% 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 24, 2007. 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 $44.7 million (the “2002 Bonds”). The proceeds of the 2002 Bonds were used to fund capital projects. The 2002 Bonds mature at $5.0 million in 2027, $7.7 million in 2028 and $32.0 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 5.3%.

On March 1, 2007, Carnegie Mellon issued, through the Allegheny County Higher Education Building Authority, University Revenue Refunding Bonds, Series A of 2007, with a face value of $5.1 million (the “2007 Bonds”). The proceeds of the 2007 Bonds were used to refund $5.0 million of the Authority’s outstanding University Revenue Bonds, Series of 2002 and to pay all or a portion of the costs of issuance of the Bonds. The 2007 Bonds mature at $5.1 million in 2027. The 2007 Bonds currently bear interest at a variable market rate determined weekly by the bonds’ auction rate. Interest was charged at rates ranging from 3.1% to 3.7% during fiscal year 2007.

On December 13, 2006, Carnegie Mellon issued, through the Allegheny County Higher Education Building Authority, University Revenue Bonds, Series A and B of 2006, with a face value of $115.0 million (the “2006 Bonds”). The proceeds of the 2006 Bonds are being used to fund capital projects and to pay all or a portion of the costs of issuance of the Bonds. The 2006 Bonds mature at $30.0 million in 2034, $30.0 million in 2035, $30.0 million in 2036 and $25.0 million in 2037. The 2006 Bonds currently bear interest at a variable market rate determined weekly by the bonds’ auction rate. Interest was charged at rates ranging from 3.4% to 3.7% during fiscal year 2007. Assets limited as to use in the amount of $76.8 million represent remaining proceeds from the issuance of the 2006 bonds, which are held by a trustee under the bond indenture for future capital expenditures.

The dormitory bonds and mortgage notes mature in varying amounts through 2024 and bear a fixed interest rate of 3.0% (at fixed rates that range from 2.8% 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 as of June 30, 2007 and 2006 in the amount of $31.4 million and $32.0 million, respectively. The interest rate associated with this financing obligation is 5.2%. Under terms of a space lease commitment, Carnegie Mellon made monthly payments to RIDC which approximated $2.2 million in both fiscal years 2007 and 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 $11.9 million required under its 1995 Bond 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, 2007 and 2006 are approximately $451.0 million and $337.0 million, respectively.

Cash paid for interest for the fiscal years ended June 30, 2007 and 2006, totaled $15.7 million and $11.4 million, respectively.

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

$ in thousands	2007
2008	$ 758
2009	795
2010	803
2011	843
2012	886
Thereafter	443,370
Total	**$ 447,455**

Note J–Temporarily and Permanently Restricted Net Assets

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

$ in thousands	2007	2006
Endowment earnings	$ 407,399	$ 304,155
Capital and other donor designations	53,569	39,868
Pledges and assets held in trust by others	21,252	18,110
Split interest agreements	12,308	5,959
Loan Funds	556	516
Total	**$ 495,084**	**$ 368,608**

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

$ in thousands	2007	2006
Endowment	$ 364,586	$ 337,090
Pledges and assets held in trust by others	48,193	38,527
Split interest agreements and other donor designations	10,634	14,925
Total	**$ 423,413**	**$ 390,542**

Note K–Derivative Instruments and Hedging Activities

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

SWAP Agreement	Effective Date	Notional Amount ($ in thousands)	Fixed Interest Rate paid by CMU	Payment Equivalent Received (% of LIBOR)	Term (in years)	Termination Date	Counterparty Cancellation Option
Oct 2004 spot	Oct 2004	$50,000	3.0	67%	15	Oct 2019	Oct 2014
Apr 2006 forward	Dec 2006	100,000	3.4	67%	22	Dec 2028	Dec 2016
May 2007 spot	Jun 2007	5,125	3.8	67%	20	Mar 2027	NA
May 2007 forward	Mar 2012	40,325	3.8	67%	20	Mar 2032	NA
	Mar 2028	32,350					
	Mar 2029	24,125					
	Mar 2030	16,000					
	Mar 2031	7,950					
Total May 2007 forward		$120,750					

As a result of the interest rate swap agreements, the following interest expense/(revenue) and fair values were recorded for the years ended June 30, 2007 and 2006:

($ in thousands)

Date of SWAP Agreement	Interest Expense/(Revenue) 2007	Interest Expense/(Revenue) 2006	Fair Value Receivable/(Payable) 2007	Fair Value Receivable/(Payable) 2006
Oct 2004	$ (292)	$ 80	$ 1,612	$ 2,023
Apr 2006 forward	(89)	—	661	905
May 2007 spot	—-	—	10	—
May 2007 forward	—-	—	456	—

The fair value of these agreements is estimated to be an amount that Carnegie Mellon would receive (receivable) or pay (liability) to voluntarily terminate the agreement. These amounts are recorded as other 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. The contract qualifies for normal purchases and sales exceptions. 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, 2007 and 2006, are as follows:

$ in thousands	2007	2006
Instruction and departmental research	$ 302,374	$ 272,222
Sponsored projects	265,352	269,726
Academic support	65,024	60,169
Student services	38,410	37,746
Administration and institutional support	52,220	63,194
Auxiliary services and activities	38,455	34,651
Total	**$ 761,835**	**$ 737,708**

Included in administration and institutional support is $11.9 million and $10.7 million of fundraising expenses for the years ended June 30, 2007 and 2006, respectively.

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. 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. Included in nonoperating activities in fiscal year 2006 is a nonrecurring $9.7 million unfavorable settlement of litigation on a case which was originally filed in 2002. This settlement was paid during fiscal year 2007.

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

Lease expense, which consists primarily of facilities expense, was $11.6 million and $12.4 million for the years ending June 30, 2007 and 2006, respectively. Future minimum lease payments at June 30, 2007 are as follows:

$ in thousands	Operating Leases	Capital Leases
2008	$ 8,469	$ 451
2009	5,365	445
2010	4,535	458
2011	3,051	466
2012	2,497	477
Thereafter	9,304	—
Total	**$ 33,221**	**$ 2,297**
Less amount representing interest		(237)
Present value of minimum capitalized lease payments		**$ 2,060**

At June 30, 2007 and 2006 the University had contractual obligations of approximately $83.0 million and $29.0 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $111.7 million, which will be financed with certain unexpended plant funds, gifts and debt proceeds.

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, 2007 and 2006 totaled $23.9 million and $22.1 million, respectively. In addition, Carnegie Mellon contributed $0.3 million to the Central Pension Fund of the International Union of Operating Engineers, a multi-employer plan in fiscal years 2007 and 2006. 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. In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," ("SFAS 158") requiring the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the Consolidated Statement of Financial Position and to recognize changes in the funded status, in the year in which the changes occur, through unrestricted net assets. This statement also requires measurement of the funded status of the plan as of the date of the year-end statement of financial position. Carnegie Mellon uses a measurement date of June 30 for the benefit obligation so there is no impact from this requirement. Carnegie Mellon adopted the provisions of SFAS 158 at June 30, 2007.

Carnegie Mellon recorded in the statement of activities a reduction to unrestricted net assets of $4.4 million as of June 30, 2007 to recognize the underfunded status. The current year unrecognized loss is $2.7 million. The amounts recognized in the Consolidated Statement of Financial Position as accrued post retirement benefit cost (included in accounts payable and other liabilities) as of June 30, 2007 and 2006 are $23.2 million and $16.6 million, respectively. The June 30, 2007 accrued post retirement benefit cost includes $4.4 million resulting from the adoption of SFAS 158.

The impact of the adoption of SFAS 158 at June 30, 2007 is as follows:

$ in thousands	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Liability for post retirement benefit obligations	$ 18,720	$ 4,430	$ 23,150

Cumulative amounts not yet recognized as components of net periodic benefit cost consist of:

$ in thousands	2007	2006
Net accumulated loss (gain)	$ 8,162	$ 5,910
Prior service cost (credit)	(3,732)	(4,134)
Total	**$ 4,430**	**$ 1,776**

The components of net periodic benefit costs for the years ended June 30, 2007 and 2006 are as follows:

$ in thousands	2007	2006
Service cost	$ 994	$ 966
Interest cost	1,375	1,049
Amortization of prior service cost (credit)	(402)	(402)
Amortization of net loss (gain)	492	546
Net Periodic benefit cost	**$ 2,459**	**$ 2,159**

During fiscal year 2008, amortization of $0.4 million prior service credit and $0.5 million net loss is expected to be recognized as components of net periodic benefit cost.

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

$ in thousands	2007	2006
Benefit obligation, beginning of year	$ 18,362	$ 18,132
Service cost	994	966
Interest cost	1,375	1,049
Assumption changes and actuarial loss	2,743	(1,391)
Benefit payments	(324)	(394)
Benefit obligation, end of year	**$ 23,150**	**$ 18,362**
Fair value of plans' assets	—	—
Funded status	**$ 23,150**	**$ 18,362**

The funded status of the plan at June 30, 2006 was $18.4 million. For financial statement purposes, the University recorded the accrued post retirement liability of $16.6 million, which is prior to the June 30, 2007 adoption of SFAS 158.

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2007 and 2006 was 6.3% and 6.4%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2007 and 2006 of 8.5% and 9.0% respectively was assumed. The rate was assumed to decrease gradually to 5.0% by 2011 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 1.0% in each year would increase the benefit obligation as of June 30, 2007 and 2006 by $3.8 million and $3.3 million respectively and increase the aggregate service cost and interest cost components for 2007 and 2006 by $0.5 million and $0.4 million respectively. Decreasing the assumed health care cost trend rate by 1.0% in each year would decrease the benefit obligation as of June 30, 2007 and 2006 by $3.1 million and $2.6 million respectively and decrease the aggregate service cost and interest cost components for 2007 and 2006 by $0.4 million and $0.3 million respectively.

($ in thousands) June 30	Retiree Contributions	Employer Payments	Total Expected Benefit Payments
2008	$ 388	$ 514	$ 902
2009	666	711	1,377
2010	881	881	1,762
2011	1,122	1,035	2,157
2012	1,343	1,181	2,524
2013-2017	9,118	7,519	16,637

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 $18.7 million and $16.4 million at June 30, 2007 and 2006, respectively. These assets are reflected as investments in the accompanying Consolidated Statement of Financial Position. Carnegie Mellon will contribute an estimated $1.0 million to the plan in fiscal year 2008.

Note O–Related Party Transactions

Sponsored research revenue for fiscal years 2007 and 2006 includes $14.3 million and $26.2 million, respectively, received from MPC Corporation (MPC), a nonprofit related entity of Carnegie Mellon and the University of Pittsburgh. The revenue primarily represents federal funding under a $35.0 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 years 2007 and 2006 includes $5.7 million and $1.5 million, respectively, received from the Pittsburgh Life Sciences Greenhouse (PLSG), a nonprofit related entity of MPC.

Note P–Conditional Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board issued FASB Interpretation No.47, “Accounting for Conditional Asset Retirement Obligations” (FIN 47), which was 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 Conditional 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 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 that 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, 2006.

The following table illustrates the effect on the change in unrestricted net assets as if this interpretation had been applied retrospectively:

$ in thousands	2006
Increase in net assets as reported	$ 48,752
Add: FIN 47 cumulative effect	1,570
Less: Total depreciation and interest accretion costs	(131)
Proforma increase in net assets	**$ 50,191**

Asset retirement obligations are included within other liabilities in the Consolidated Statements of Financial Position. As of June 30, 2007 and 2006, $1.8 million and $1.9 million, respectively of conditional asset retirement obligations have been recorded.

The following table reconciles the asset retirement obligations as of June 30, 2007 and 2006:

$ in thousands	2007	2006
Asset retirement obligations as of July 1	$ 1,881	$ —
Accretion expense	84	85
Liabilities incurred, including adoption of FIN 47	—	1,796
Liabilities settled or disposed	(150)	—
Asset retirement obligations as of June 30	**$ 1,815**	**$ 1,881**

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 services 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 the 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 in loans receivable and accounts payable and other liabilities as of June 30, 2007 and 2006 is approximately $3.3 million and $4.3 million and $2.7 million 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 $8.5 million. This amount represents the full undiscounted balance, and does not include any recourse provisions for debts that may become uncollectible.

Administration

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Senior Vice President and Provost

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Dean, School of Computer Science

Bonita A. Cersosimo
Associate Vice President, Marketing and Media Relations

Jennifer Church
Dean, Student Affairs

Mary Jo Dively
Vice President and General Counsel

Kenneth B. Dunn
Dean, David A. Tepper School of Business

William F. Elliott
Vice President for Enrollment

Fred Gilman
Acting Dean, Mellon College of Science

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Associate Vice Provost Campus Design and Facility Development

Pradeep K. Khosla
Dean, Carnegie Institute of Technology

Robbee Baker Kosak
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Chief Executive Officer and Director, Software Engineering Institute

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Dean, Carnegie Mellon Qatar Campus

Mark G. Wessel
Dean, H. John Heinz III School of Public Policy and Management

*Alumnus(a)

Officers of the Board

Life Trustees

Term Trustees

Terms Expire in 2007

*Alumnus(a)
**Deceased

Facts and Figures

TYPE OF UNIVERSITY
Private, coeducational, granting about 3,200 bachelor's, master's and doctoral 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; 82 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
5,580 undergraduates; 2,832 master's and 1,619 doctoral students, and 89 special non-degree students.

NUMBER OF FACULTY
609 tenure-track faculty; 638 full-time and 212 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
70,491

COMPUTERS
Carnegie Mellon is one of the most technologically sophisticated campuses in the world. When it introduced its "Andrew" computing network in the mid-1980s, it pioneered educational applications of technology. The "Wireless Andrew" system, developed in the mid-1990s, covers the vast majority of the 144-acre 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 in 1967 to become Carnegie Mellon University.

UNIVERSITY MOTTO
"My heart is in the work," said by Andrew Carnegie in his "offer" to the city of Pittsburgh, written in 1900, to found the Carnegie Technical Schools.

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