Carnegie Mellon

ANNUAL REPORT 2008

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On the Cover

Top to Bottom:

Gigapan panoramas
The Gigapan camera system, demonstrated by Carnegie Mellon Sr. Research Programmer David Holstius, was developed by Carnegie Mellon researchers and the NASA Ames Research Center. It is a robotic device that attaches to any digital camera, enabling the user to shoot interactive, multibillion-pixel panoramas that can be explored in great depth on the Internet.

A Visit with Bill Gates
Microsoft Corp. founder Bill Gates visits Carnegie Mellon on the final stop of his tour of several U.S. universities.

Gilliam Fellowship for Advanced Study Recipient
Betty Mbom, a biological sciences major and this year's student speaker at Carnegie Mellon's 111th commencement ceremony, was one of five remarkable students that won this prestigious award from the Howard Hughes Medical Institute to support her doctoral studies.

eco smart Green Inks

Printed with vegetable inks on Accent® Opague. The fiber content of this product meets the sourcing requirements set by independent third-party certification thus ensuring sustainable forest management practices were used in both production and procurement.

The '07-'08 year was marked by progress and by planning for the future. We embarked on several new initiatives in key areas of education and research this year, while we completed a review and revision of the university's strategic plan, first approved in 1998. We also prepared to launch the public phase of the largest fundraising campaign in our history to ensure our long-term capacity to respond to the challenges of our world with new innovations.

FINANCIAL STRENGTH: FUEL FOR INNOVATION

THE YEAR IN REVIEW

Jared L. Cohon, President

This year, Carnegie Mellon received re-accreditation from the Middle States Commission on Higher Education with the best possible outcome. During this assessment by our peers in higher education, Middle States evaluators mentioned that while many institutions these days *claim* to be interdisciplinary, Carnegie Mellon actually *is* interdisciplinary. This outside assessment provided important validation that Carnegie Mellon truly has a distinctive approach to education and research.

The university's rapid rise to prominence has been fueled by focusing on our strengths, by approaching challenges with interdisciplinary collaboration, and by leveraging our strengths in areas we believe are the paths of the future. We view our financial strength as the key to our continued success.

A Year in Innovation

This year, we continued to break new ground with new initiatives in education and research. Here are some highlights:

- We accelerated pioneering work in the development of self-driving vehicles, which will dramatically change the safety and convenience of all vehicles, through a five-year, $5 million agreement for a new Collaborative Research Lab (CRL) with General Motors (GM). Carnegie Mellon first teamed with GM to win first place in a 2007 driverless vehicle competition in which our self-driving SUV "Boss" finished first among 20 teams. Carnegie Mellon also established a three-year partnership with another sponsor of "Boss," manufacturing company Caterpillar Inc., in

First Graduation Ceremony in Doha, Qatar
Dr. Charles E. Thorpe, dean of Carnegie Mellon University in Qatar, congratulates one of the 35 business administration and computer science bachelor's degree recipients.

"The Boss"
The Tartan Racing Team's self-driving Chevy Tahoe, "Boss," won the 2007 Urban Challenge as it navigated itself through city streets.

order to develop autonomous construction and mining vehicles.

- We established The Ray and Stephanie Lane Center for Computational Biology, which was funded by a generous gift from trustee Ray Lane and his wife, Stephanie. The Lane Center will develop and apply new computing tools for the diagnosis and treatment of diseases such as cancer. This work in computational biology will lead to personalized treatments, earlier diagnosis of disease and better predictions of the potential side effects of drugs. The Lanes' gift also provided an endowed professorship for center director Robert Murphy, a pioneer in this important area of research, as well as support for training doctoral and post-doctoral fellows in computational biology.
- The Bruce and Astrid McWilliams Center for Cosmology was established with a lead gift from trustee and alumnus Bruce McWilliams and his wife, Astrid. The aim of the interdisciplinary center is to understand the composition and evolution of the universe, helping to solve some of its greatest mysteries. Scientists at the McWilliams Center, for example, are trying to better understand what they refer to as the "dark matter" and the "dark energy" comprising much of the universe but of which relatively little is known.
- Carnegie Mellon, the University of Pittsburgh and West Virginia University announced a major consortium to design cleaner and more efficient technologies for the use of fossil fuels. The consortium will receive substantial funding over the next two years through the National Energy Technology Laboratory. Andy Gellman, head of chemical engineering at Carnegie Mellon, was appointed research director of the consortium.
- CyLab, a university-wide interdisciplinary initiative aimed at cybersecurity, launched a new Mobility Research Center that will improve the security and new applications for mobile devices, putting Carnegie Mellon at the forefront of a networked world where communication occurs anywhere, anytime. This center, which involves faculty and students from both our Pittsburgh and Silicon Valley campuses, reflects a larger plan to broaden the programs offered in Silicon Valley and to create additional educational and research opportunities at both locations. As a complement to this new center, our Information Networking Institute (INI), which is CyLab's educational arm, created a new graduate program to train students in the next generation of mobile devices.
- For the first time in its history, Disney announced a major research and development initiative with higher education. Carnegie Mellon and the Swiss Federal Institute of Technology Zurich were selected as the company's first partners. According to Disney officials, Carnegie Mellon was selected because of our world expertise in computing, robotics, human-computer interaction and entertainment and because we know how to work well with industry. When the partnership was announced, Disney's vice president of research and development Joe Marks said, "CMU is No. 1 in the world and that was obvious to Disney." The Pittsburgh and Zurich labs will help to create Disney characters that are more animated and interactive. Carnegie Mellon computer science and robotics Professor Jessica Hodgins will be the director of the Disney lab in Pittsburgh.

Carnegie Mellon partners with KAIST
As part of a dual degree program, our students spend part of their time at the Korea Advanced Institute of Science and Technology (KAIST) located 90 miles south of Seoul, Korea.

The Bruce and Astrid McWilliams Center for Cosmology
The center focuses on the mysteries of the universe such as this supercomputer simulation of colliding galaxies with massive black holes at their centers.

Educating "Architects of Change"

As we continue to expand educational and research partnerships around the world, this year marked our first graduation in Doha, Qatar, and the fifth in Athens, Greece. This was also a landmark year for our Silicon Valley campus, where we more than doubled the number of students who graduated with a master's degree in software engineering and management.

We also made a number of curricular advancements that reflect our commitment to educating students who are among the best prepared for the global economy:

- Our College of Humanities and Social Sciences now offers two new undergraduate programs: one in global politics and another in innovation, entrepreneurship and economic development.
- Our College of Fine Arts announced several new programs including a bachelor of computer science and arts program, created in conjunction with our School of Computer Science; a double-degree master's degree program in international arts and cultural management (the first initiative of its kind worldwide); and a graduate degree in tangible interaction design.
- Carnegie Mellon and the Korea Advanced Institute of Science and Technology (KAIST) created a new dual degree program for Ph.D. students in civil and environmental engineering. The program is structured so students spend part of their time in Pittsburgh and in Korea.

As we have expanded opportunities for students, we continue to experience growth in the number of students applying to Carnegie Mellon. Even with the competitive environment that exists among elite schools for the top students, we received more than 22,000 applications for the approximately 1,400 students who enrolled this year. This year's freshmen class has the highest percentage of women (43%) in our history. We also set a record this academic year for the highest number of students and alumni selected for highly competitive scholarship programs involving study and research abroad. Of these 15 individuals, six earned Fulbright grants, Carnegie Mellon's highest number of university representatives to the program in a single year.

Innovation and Inspiration: Carnegie Mellon as a Catalyst

Carnegie Mellon in recent years has become a top performer in supporting entrepreneurship and creating economic impact in the Western Pennsylvania region and beyond. The efforts of Carnegie Mellon's Center for Technology Transfer and Enterprise Creation, combined with other university initiatives, have resulted in 56 technology companies formed in Western Pennsylvania in the last five years, bringing the total of active technology companies in the region with a Carnegie Mellon origin to more than 230.

In fact, companies attracted by Carnegie Mellon's research expertise established offices and lab space in our jointly owned Collaborative Innovation Center (CIC). The CIC is the only place in the world where Google, Intel, Apple and Microsoft work under the same roof. Demand is high for companies to be on or near our Pittsburgh campus so they can collaborate with Carnegie Mellon. Our first CIC was so successful that plans are underway for a second CIC.

Andrew J. Gellman
As Carnegie Mellon's Head of Engineering, Gellman was recently appointed as research director of a major consortium to design cleaner and more efficient technologies for the use of fossil fuels.

Disney Research, Pittsburgh

Carnegie Mellon and Disney
Carnegie Mellon and the Swiss Federal Institute of Technology Zurich were selected as partners for Disney's first higher education initiative. Carnegie Mellon Professor Jessica Hodgins will be the director of the Disney Research Pittsburgh Lab.

Endowed Scholar, Byron Chou
Chou, a Carnegie Mellon senior business administration student, was one of 24 students awarded the Sidney M. and Sylvia B. Feldman Memorial Scholarship. This scholarship supports undergraduates who qualify for financial aid.

Inspire Innovation: the Campaign for Carnegie Mellon University

In May, our Board of Trustees approved a $1 billion goal for our current fundraising campaign. One of the key objectives of this comprehensive campaign is to significantly increase our endowment. Long-term investments in our endowment provide Carnegie Mellon with a greater capacity to seed new projects in critical areas of education and research, to attract and to retain the top faculty, and to offer competitive financial aid packages to the best students. Still a young university as compared to some of our peers, our closet competitors have 3 to 4 times the endowment per full-time student than we do, which is discussed in greater detail in the report from vice president and chief financial officer Deborah Moon on page 9.

Another important goal of this campaign is to build a broader network of alumni and friends who drive innovation by serving as volunteers, becoming advocates for the work of the university among their friends and colleagues, and by giving gifts.

Philanthropy has played an integral role at pivotal times in Carnegie Mellon's history. It has propelled pioneering ideas, has helped to establish top-ranked programs, and has contributed to our significant impact on the world. This legacy takes on added significance as we look to garner the necessary resources in order to tackle future challenges that Carnegie Mellon is uniquely positioned to solve. The achievements of this year alone demonstrate how our faculty and students are shaping the future, and how you can Inspire Innovation through your support of Carnegie Mellon.

Sincerely,

Jared L. Cohon
President
October 10, 2008

FACULTY HONORS
’07 - ’08

Anastasia Ailamaki, adjunct associate professor of computer science, received a European Young Investigator Award to establish a research team at Ecole Polytechnique Fédérale de Lausanne in Switzerland.

Burcu Akinci, associate professor of civil and environmental engineering, received the Outstanding Early Career Research Award from the FIATEC industry consortium for significant achievements in new and emerging technology research.

Nadine Aubry, head of the Department of Mechanical Engineering, was named a fellow of the American Association for the Advancement of Science for contributions to the field of fluid dynamics and leadership in education.

Linda Babcock, the James M. Walton Professor of Economics at the Heinz College, received the Jeffrey Z. Rubin Theory-to-Practice Award from the International Association for Conflict Management.

Stephen Brockmann, professor of German, was awarded the DAAD Prize by the American Institute for Contemporary German Studies for exceptional scholarship.

Stanley Charap, emeritus professor, electrical and computer engineering, received the Institute of Electrical and Electronics Engineers (IEEE) Reynold B. Johnson Data Storage Device Technology Award.

Edmund M. Clarke, the FORE Systems University Professor of Computer Science, and two colleagues received the 2007 Turing Award, considered the “Nobel Prize of computing,” from the Association for Computing Machinery. He also received the Herbrand Award for Distinguished Contributions to Automated Reasoning from the International Conference on Automated Deduction.

Jared L. Cohon, president, was elected to the Internet2 Board of Directors, which will provide strategic guidance to ensure that it continues to meet the needs of the research and education communities.

Jim Daniels, Thomas Stockham Professor of English and director of the Creative Writing Program, received the Gold Medal Award for Best Regional Fiction, Great Lakes Region, given by the Independent Publisher Book Awards for his short story collection “Mr. Pleasant.”

Cliff Davidson, professor of civil and environmental engineering and faculty director of the Center for Sustainable Engineering, was selected as a fellow of the American Association for Aerosol Research for contributions to aerosol science and technology.

David Dzombak, the Walter J. Blenko Sr. Professor of Environmental Engineering and the faculty director of the Steinbrenner Institute for Environmental Education and Research at Carnegie Mellon, was elected to the National Academy of Engineering.

Volker Hartkopf, director of the Center for Building Performance and Diagnostics, was named chair of the U.N. Environment Programme’s Sustainable Building Construction Initiative, which works with governments and companies to adopt sustainable practices.

Chris Hendrickson, the Duquesne Light Professor of Engineering, was named an honorary member of the American Society of Civil Engineers for distinguished service and leadership during more than four decades.

Alex Hills, Distinguished Service Professor, Engineering and Public Policy, was named Engineer of the Year by the Alaska Engineering Societies for his work in developing Wi-Fi technology in rural parts of Alaska.

John Hooker, the T. Jerome Holleran Professor of Business Ethics and Social Responsibility and professor of operations research at the Tepper School, received the Institute for Operations Research and the Management Sciences Fellows Award.

David Hounshell, the David M. Roderick Profesor of Technology and Social Change in the history department, was awarded the Society for the History of Technology’s Leonardo da Vinci Medal for contributions to the history of technology.

Takeo Kanade, the U.A. and Helen Whitaker University Professor of Computer Science and Robotics, received the first Azriel Rosenfeld Life Time Achievement Award from the Institute of Electrical and Electronics Engineers (IEEE) International Conference on Computer Vision. He also received the Franklin Institute’s Bower Award and Prize for Achievement in Science and the Okawa Foundation for Information and Telecommunications’ Okawa Prize for contributions to these fields.

Continued →

George Loewenstein, the Herbert A. Simon Professor of Economics and Psychology, was named a fellow of the American Academy of Arts and Sciences.

Wojciech Maly, the U.A. and Helen Whitaker Professor of Electrical and Computer Engineering, received the Aristotle Award for innovative teaching from the Semiconductor Research Corporation.

Richard McCullough, vice president of research and professor of chemistry, received the 2007 Pittsburgh Award from the Pittsburgh Section of the American Chemical Society for leadership in chemical affairs in the local and larger professional communities.

Curtis A. Meyer, professor of physics, received Carnegie Mellon's university-wide 2008 William H. and Frances S. Ryan Award for Meritorious Teaching.

Randy Pausch, professor of computer science, was named one of *Time* magazine's 100 most influential people in the world in 2008, prior to his death from pancreatic cancer. His lecture, "Really Achieving Your Childhood Dreams," has been viewed by millions on the Internet and on DVD. His book, *The Last Lecture*, co-written with alumnus Jeff Zaslow, became a *New York Times* bestseller. He was named an Association for Computing Machinery (ACM) fellow and received its Karlstrom Outstanding Educator Award.

Raj Reddy, the Mozah Bint Nasser University Professor of Computer Science and Robotics, received the James L. Flanagan Speech and Audio Processing Award from the Institute of Electrical and Electronics Engineers for leadership and pioneering contributions to speech recognition, natural language understanding, and machine intelligence.

Edward S. Rubin, Alumni Professor of Environmental Engineering and Science, shared the 2007 Nobel Peace Prize with other members of the U.N. Intergovernmental Panel on Climate Change and former U.S. Vice President Al Gore. He was the coordinating lead author of the IPCC's report on carbon capture and storage.

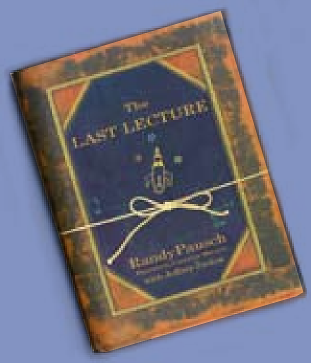
Richard Stern, professor of electrical and computer engineering, was named a fellow of the Acoustical Society of America for contributions to binaural hearing and speech recognition.

Charlotte Tancin, librarian, Hunt Institute for Botanical Documentation, received the Charles Robert Long Award of Extraordinary Merit from the Council on Botanical and Horticultural Libraries.

Donald Thomas, professor of electrical and computer engineering, was named a fellow of the Association for Computing Machinery.

Luis von Ahn, assistant professor of computer science, was named one of the world's top 35 young innovators under the age of 35 by *Technology Review* magazine for his pioneering work in the field of human computation.

Lee White, professor of chemical engineering, received the 2008 Colloid and Surface Chemistry Award of the American Chemical Society for his seminal contributions to the field of electrokinetics.



↑ ***The Last Lecture***
Carnegie Mellon professor and alumnus Randy Pausch's book co-written by fellow alumnus Jeff Zaslow has been translated in 36 languages and on the *New York Times* bestseller's list for 25 weeks and counting. It was also distributed to the entire incoming freshman class to provide inspiration as they begin their college experience.

The Institute of Electrical and Electronics Engineers (IEEE) named as fellows:

Gary Fedder, professor of electrical and computer engineering and robotics, and director of the Institute for Complex Engineered Systems (ICES); **Alex Hills**, Distinguished Service Professor, engineering and public policy department; **Roy Maxion**, principal systems scientist, computer science department; and **Jian-Gang "Jimmy" Zhu**, ABB Professor of Engineering, electrical and computer engineering department.

The National Science Foundation's Early Career Development Awards were presented to assistant professors:

Anind Dey, Human-Computer Interaction Institute; **Kenneth Mai**, electrical and computer engineering; **Jeremy Michalek**, mechanical engineering; **Erik Thiessen**, psychology; and **Stefan Zappe**, biomedical engineering.

Carnegie Mellon named three faculty University Professors, the highest distinction for faculty at the university:
Edmund Clarke, the FORE Systems University Professor of Computer Science; **Pradeep Khosla**, the Philip and Marsha Dowd University Professor of Electrical and Computer Engineering and Robotics; and **Daniel Nagin**, the Teresa and H. John Heinz III University Professor of Public Policy and Statistics.

This listing includes honors awarded July 1, 2007 through June 30, 2008.

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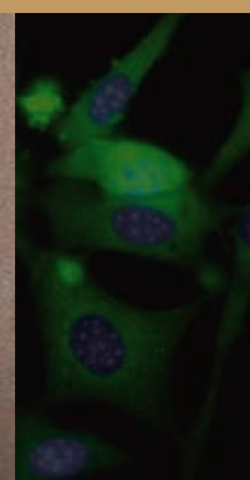
FINANCIAL HIGHLIGHTS



↑ **The Ray and Stephanie Lane Center for Computational Biology**
The Lane Center was generously funded by trustee Ray Lane and his wife, Stephanie. This center will develop and apply new computing tools to make critical advancements in the diagnosis and treatment of diseases such as cancer.

The Hillman Center for Future-Generation Technologies
Made possible by a gift from the Henry L. Hillman Foundation, this center, along with the Gates Center for Computer Science made possible by a gift from the Bill and Melinda Gates Foundation, will make up the new School of Computer Science Complex to open in fall 2009.


Artist's Rendering

HIGH LIGHT

Carnegie Mellon continued to realize significant achievements in fiscal 2008 by launching a number of new and innovative educational and research initiatives with partners around the world. The key to Carnegie Mellon's continued growth and the far-reaching impact of its work has been to capitalize on our strengths in key areas of education and research, areas where the University creates an impact that far exceeds its size and resources. This is the approach that continues to attract new supporters, including foundations, corporations, government and individual partners, who understand the high returns on their investments as measured by Carnegie Mellon's global impact. Carnegie Mellon also continues to achieve widespread recognition for the quality of its educational programs as reflected in national and international rankings.

Still relatively young as an institution of higher education, our progress this year is more impressive when viewed with relationship to our resources. Overall, the financial position of the University remains strong, despite larger market conditions that affected investment growth in fiscal 2008. As we have always been forward-looking as a university, we continue to plan for enhancing Carnegie Mellon's long-term ability to be financially competitive in all areas of its operation.

For this reason, Carnegie Mellon's Board of Trustees approved the public launch of a $1 billion fundraising campaign, and a primary goal of that campaign will be to increase the University's endowment. Growing our endowment, and increasing the percentage of endowment draw on an annual basis, provides an infusion of funds into Carnegie Mellon's operating budget. This provides the University with greater flexibility in launching new projects or initiatives as well as in providing greater support to its faculty and students. We already have gained significant momentum in this fundraising campaign, which has resulted in a number of transformational gifts to Carnegie Mellon in key areas as well as in enhancements to our facilities such as the new School of Computer Science Complex, which will be the future home of the Gates Center for Computer Science and Hillman Center for Future-Generation Technologies.

Fiscal 2008 Results

The University's overall financial position remains solid despite the decline in global equity and credit markets during fiscal 2008. Unrestricted operating revenues increased $44.6 million over fiscal 2007. Total assets decreased 6.5% or $156.4 million in fiscal 2008. A $65.0 million decline in the investment portfolio contributed to the decrease. In addition, there was a $117.4 million decrease in collateral for securities loaned that also carried a corresponding decrease of the same amount in liabilities for securities payable as the University's securities lending activities were temporarily suspended in fiscal 2008. Net of these two decreases, the University's assets increased by $26.0 million. The University's asset base at year end was $2.3 billion. When compared to fiscal 2006, the University's assets grew by $210.0 million as the returns received by the endowment have been diminished but not erased by market conditions.

Financial markets similarly affected the University's net assets. The decline in the market value of investments led to reductions of $60.7 million in unrestricted net assets and $31.5 million in temporarily restricted net assets. Permanently restricted net assets, however, increased by $24.3 million as a result of contributions.

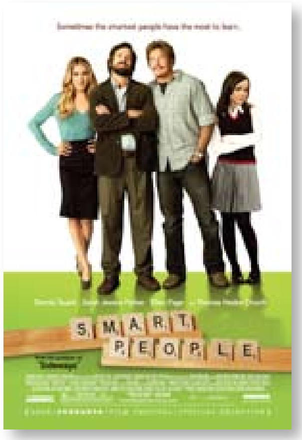
Al Gore
Gore, the former U.S. Vice President and the 2007 Nobel Peace Prize winner, gave the keynote address at Carnegie Mellon's 111th commencement ceremony. Gore underscored the need to act toward a solution to climate change and expressed confidence in our graduates' ability to make a difference in the world.

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

FIGURE 1 **ASSETS, LIABILITIES AND NET ASSETS**

($ in millions)	2008	2007	2006	2005	2004	2003
Total assets	$ 2,268	$ 2,424	$ 2,058	$ 1,801	$ 1,670	$ 1,499
Total liabilities	694	783	637	491	464	452
Total net assets	1,574	1,641	1,421	1,310	1,206	1,047
Total Liabilities and Net Assets	$ 2,268	$ 2,424	$ 2,058	$ 1,801	$ 1,670	$ 1,499



Smart People
Carnegie Mellon's partnership with the Pittsburgh Film Office helped to bring this film to Pittsburgh. Shooting the film on campus provided internships and "extra" opportunities for our campus community, as well as a student Q&A session with Dennis Quaid and Thomas Haden Church, two of the movie's feature actors.

Total University assets at June 30, 2008 were $2.3 billion, 6.5% lower than a year ago. Carnegie Mellon's largest asset, its investment portfolio, which represents 60.8% of Carnegie Mellon's total assets, was valued at $1.4 billion at June 30, 2008, a decline of $65.0 million or 4.5%. Carnegie Mellon's investment and endowment strategies and performance are discussed in greater detail in the "Highlights from the Treasurer and Chief Investment Officer." Capital assets of $580.9 million include the University's net investment in land, buildings and equipment, and represent 25.6% of the University's assets. The increase in capital assets largely represents continued construction-in-progress for both the School of Computer Science Complex and the renovation of chemical engineering labs in Doherty Hall.

The University's liabilities at June 30, 2008 were $694.5 million and decreased by $88.5 million, or 11.3% during fiscal year 2008. The decrease was driven largely by suspending security lending activity related to the University's investments. Long-term debt, the largest component of the University's liabilities, was $449.3 million as of June 30, 2008. In 2008, the University issued $120.8 million in bonds to refinance both its Series 2006 bonds in the amount of $115.0 million and Series 2007 bonds in the amount of $5.1 million. 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 total net assets decreased by 4.1%, or $67.9 million, during fiscal year 2008 to an ending value of $1.6 billion. The University's net assets as of June 30, 2008 are comprised of $447.7 of permanently restricted net assets, those for which the corpus of the gift may not be spent, and $1.1 billion of expendable net assets, comprised of unrestricted and temporarily restricted net assets where the funds are permitted to be expended.

OVERVIEW OF CONSOLIDATED STATEMENTS OF ACTIVITIES

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

FIGURE 2 **OPERATING AND OTHER NON-OPERATING RESULTS**

($ in thousands)	2008	2007	2006	2005	2004
Unrestricted operating revenue	$ 805,927	$ 761,336	$ 728,338	$ 676,241	$ 631,710
Unrestricted operating expenses	807,946	761,835	737,708	674,759	620,076
Change in operations	($ 2,019)	($ 499)	($ 9,370)	$ 1,482	$ 11,634
Change in unrestricted net assets from nonoperating activities	(58,677)	65,907	58,122	9,571	49,763
Change in temporarily restricted net assets	(31,535)	126,476	37,344	56,729	68,009
Change in permanently restricted net assets	24,324	32,871	25,255	36,046	29,222
Change in net assets	($ 67,907)	$ 220,325	$ 111,351	$ 103,828	$ 158,628

Unrestricted Net Assets – Results of Operations

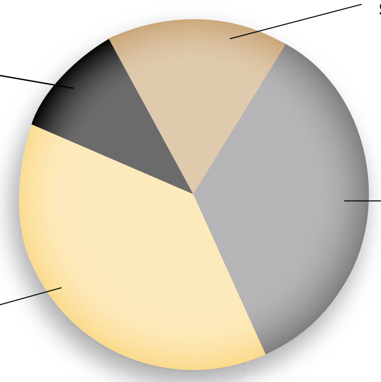
The University's Consolidated Statements of Activities include a measure for operating activities, which include all revenue and expenses that support current year instruction and research efforts and other priorities to carry out the mission of the University. The difference between operating revenues and operating expenses yields the change in unrestricted net assets from operations, or operating gain or loss. For fiscal year 2008 the University's operations yielded an operating loss of $2.0 million. The University's audited results from operations compare favorably with the University's Board of Trustees approved budget which included continued investment in the University's Advancement and Computing Services divisions and a planned deficit from operations of $16.1 million.

Operating Revenues

Carnegie Mellon is dependent upon four primary revenue categories for operations: tuition and other educational fees, sponsored project activities (which includes research), private support, and auxiliary services and other revenues. Fiscal year 2008 operating revenues remain relatively proportionate with the prior year. The components of the University's $805.9 million in operating revenues are shown in Figure 3.

FIGURE 3 **FISCAL YEAR 2008 UNRESTRICTED OPERATING REVENUE ($805.9 MILLION)**

($ in thousands)



Tuition and other educational fees, net of financial aid, increased $23.7 million or 9.1% to $285.8 million in fiscal 2008, representing 35.5% of University operating revenues compared to 34.4% in the prior year. Revenues from undergraduate tuition increased 9.3% and graduate tuition increased by 10.5%. The undergraduate student body grew by 178 students while the number of graduate students grew by 193. Figure 4 provides detailed information on enrolled students, including undergraduate, graduate and non-degree, in the fall semesters of 2007 and 2006 by school/college. Figure 5 provides undergraduate admissions information for the past five years for the fall semester. Offsetting tuition and room and board revenues is financial aid. Financial aid continues to be approximately 25.0% of gross tuition income.

FIGURE 4 **Fall 2007 and 2006 Semester Enrollment**

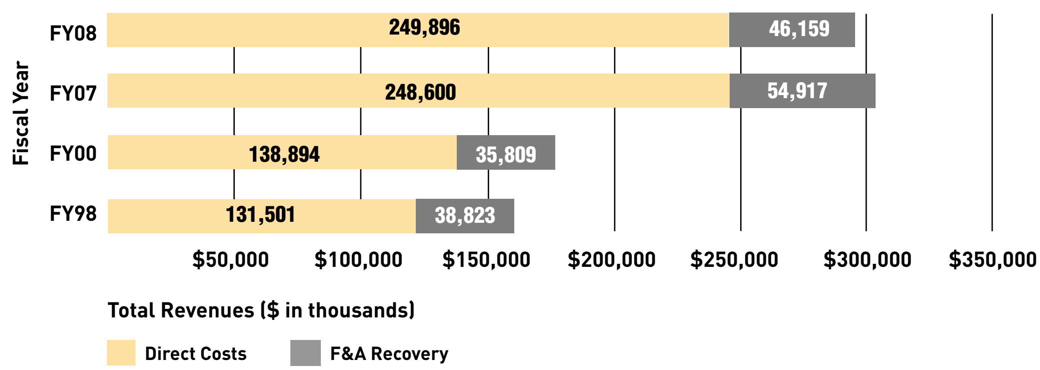
	2007-2008		Total Number		2006-2007	
School/College	Undergraduate	Graduate	of Students	Percentage	Undergraduate	Graduate
Carnegie Institute of Technology	1,561	1,009	2,570	25%	1,591	929
College of Fine Arts	939	232	1,171	11%	923	238
College of Humanities and Social Sciences	1,100	260	1,360	13%	1,047	252
David A. Tepper School of Business	458	979	1,437	14%	428	920
H. John Heinz III School of Public Policy and Management	—	623	623	6%	—	557
Mellon College of Science	714	262	976	9%	706	243
School of Computer Science	565	689	1,254	12%	522	705
Interdisciplinary	254	590	844	8%	242	607
CMU-Q	167	—	167	2%	121	—
Total	5,758	4,644	10,402	100%	5,580	4,451

FIGURE 5 **Undergraduate Admissions - Fall Semester**

	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Applications	22,356	18,864	15,777	14,113	14,467
Acceptances	6,259	6,357	6,135	5,858	5,561
Matriculations	1,416	1,428	1,409	1,394	1,341

Sponsored projects revenue accounts for 36.7% of total operating revenues and decreased $7.5 million or 2.5% from the prior year. Sponsored projects revenue remains the largest source of revenue for the University. As Figure 6 shows, despite a slight decrease in sponsored projects revenues in fiscal 2008, Carnegie Mellon has experienced significant increases in sponsored projects over the past decade with revenues growing from $170.3 million in 1998 to $296.1 million in 2008, a 73.9% increase. Sponsored projects revenues are comprised of: federal support (84.8%), foundation/non-profit (4.1%), industry (7.3%), state (2.4%), and non-federal (1.4%).

FIGURE 6 **Sponsored Projects Revenue**



Private support accounts for 10.8% of total operating revenues and increased $6.3 million or 7.8% from the prior year to a total of $86.8 million. The components of private support consist of unrestricted contributions, net assets released from restrictions and investment income (which includes distribution from the endowment to support operations).

- **Contributions** that were unrestricted and immediately expendable for operating purposes amounted to $18.5 million. In total, $80.0 million of contributions (gifts and pledges) were received in fiscal year 2008, which include $34.3 million of contributions which are expendable with donor restrictions, and $27.3 million of contributions for which the corpus is permanently restricted. This compares to total contributions of $74.8 million in the prior year. This increase reflects continued strong fundraising activities.

- **Net assets released from restrictions**, which consist of prior year pledges and gifts released from donor restrictions, totaled $32.2 million, relatively flat from $30.1 million in the prior year.

- Consistent with the past several years, the Board of Trustees approved **distribution from endowment** to support operations (endowment spending policy) for the fiscal year ended June 30, 2008 was 5%, which contributed $45.7 million in distributions to support operations. The rapid growth of our research and academic programs coupled with the relatively young age of the University has led to the steady decline of endowment support as a percentage of operations over the past decade, from an average of 6.7% for the decade, to 5.6% in fiscal year 2008. The endowment draw is discussed in greater detail in the "Financial Highlights from the Treasurer and Chief Investment Officer."

Auxiliary services and other revenue increased $22.0 million or 19.1% to $137.2 million in fiscal year 2008, representing 17.1% of University operating revenues compared to 15.1% in the prior year. This revenue category consists of external revenues generated by auxiliary enterprises, international programs, corporate affiliate and membership programs, technology licensing and royalty income, and external services, fees and prizes. Increases were primarily due to increased revenues from international programs.

Operating Expenses

In fiscal year 2008, operating expenses totaled $807.9 million, a 6.1% increase or $46.1 million over fiscal year 2007. Personnel costs remain the University's single largest category of expense at $514.4 million in 2008, or 63.7% of total operating expenses. Personnel costs increased 5.8% 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 decreased $1.2 million due to lower interest rates associated with the variable portions of the University's debt. Operating expenses by natural classification for the past five years are shown in Figure 7.

FIGURE 7 **Operating Expenses**

($ millions)	2008	2007	2006	2005	2004
Salaries and benefits	$514	$ 487	$ 452	$ 421	$ 392
Supplies and services	148	138	150	132	116
Occupancy and related expenses	53	47	49	40	37
Other operating expenses	35	29	31	31	30
Depreciation and amortization	44	45	44	43	40
Interest expense	14	16	12	8	5
Total Expenses	$ 808	$ 762	$ 738	$ 675	$ 620

Nonoperating Results

The University reports realized and unrealized gains or losses 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 are non-recurring in nature as non-operating items in its Consolidated Statements of Activities. In the current fiscal year, the decrease in unrestricted net assets from nonoperating activities was $58.7 million, primarily driven by unrealized losses in the University's investments.

Conclusion

The achievements and announcements of this year reflect the vital and unique role that Carnegie Mellon plays in the world. Our growing number of educational and research partnerships around the world stand as a powerful endorsement of that role and Carnegie Mellon's ability to use its resources wisely in order to create the greatest impact. Our approach to financial management is one that sufficiently attends to the needs of Carnegie Mellon today, while also employing a long-term investment strategy that will ensure the University extends the power and reach of its innovative work.

deborah j. moon

Deborah J. Moon
Vice President and Chief Financial Officer
October 10, 2008

Carnegie Mellon TARTANS ™

↑ **The Scottish Terrier Mascot** Welcome Scotty, Carnegie Mellon University's official mascot. In 2007 students, faculty, staff and alumni voted to name this terrier. The mascot logo first appeared at a November football game, the costumed mascot debuted at the 2008 Spring Carnival and the live dog will be introduced to campus this fall.

Financial Highlights from the Treasurer and Chief Investment Officer

Carnegie Mellon University's endowment is a significant component of the institution's financial base and is expected to provide certain perpetual benefits, including: greater independence for the University's leadership to shape the institution's future, a source of financial and operational stability in constantly changing environments, and a means to perpetuate the University's academic and research excellence in a competitive world.

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

To maximize returns within acceptable levels of risk and liquidity, Carnegie Mellon constructs its policy asset allocation using a combination of quantitative analysis and informed market judgment. The University continues its multi-year efforts towards achieving global diversification and asset allocation targets, which have evolved considerably over the past decade. Specifically, the University has focused primarily on building out its alternative asset categories through relationships with the highest quality investment managers that are located around the world.

An Interview with GE Chairman and CEO
Carnegie Mellon Student Senate and the Tepper School of Business W. L. Mellon Speaker Series presented a *USA Today* interview with Senior Reporter, David Lieberman (left), featuring Jeffrey Immelt, Chairman and CEO of General Electric.

The University's Investment Committee recently authorized a modification to the portfolio's asset allocation targets following the end of fiscal year 2008, as reflected below. Given expected returns and estimated correlations between the various asset classes, the revised asset allocation targets are designed to further enhance risk-adjusted investment returns. (Note that the endowment portfolio's actual asset allocations presently differ from the policy targets, as achieving the targeted allocations will necessarily require additional time.)

Policy Asset Allocations

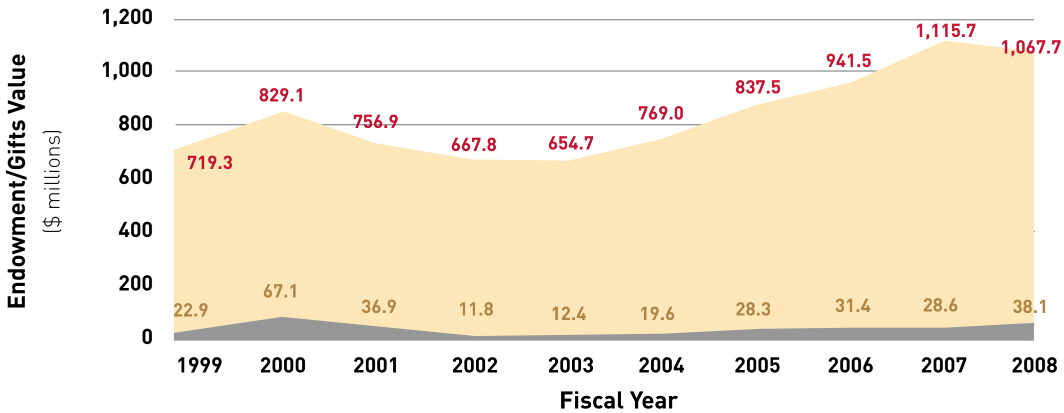
	As of 6/30/07	As of 6/30/08	As of 9/12/08
U.S. Public Equities	20%	19%	16%
Non-U.S. Public Equities	20%	19%	16%
Fixed Income	15%	12%	10%
Private Equity	20%	20%	22%
Hedge Funds	10%	15%	15%
Real Assets (i.e., Real Estate, Natural Resources)	10%	10%	15%
Opportunistic	5%	5%	6%
Total	100%	100%	100%

Investment Performance

As a result of weakened global equity and credit markets, the University's endowment experienced a difficult and volatile 12-month period ending June 30, 2008, like most institutional investors. The net investment return totaled -2.8% for fiscal year 2008, which followed a strong net investment return of +20.4% in fiscal year 2007. The endowment's market value fell to $1,067.7 million as of June 30, 2008, down from $1,115.7 million as of June 30, 2007. This net decrease of $48.0 million reflects the collective impact of $38.1 million from gifts and other sources, less $40.4 million in investment losses and $45.7 million in distributions to support the University's annual operations.

While the endowment's investment return of -2.8% in fiscal year 2008 is disappointing on an absolute basis, the University's diversified asset allocation allowed the endowment to generate a favorable return compared to other equity indexes during the same 12-month period, such as the S&P 500 Index (-13.1%), Russell 2000 (-16.2%) and MSCI World Index excluding U.S. (-8.8%). Despite the fiscal year 2008 performance, the endowment has generated annualized net investment returns of +12.4% for the five-year period ending June 30, 2008.

Endowment Market Value and Fiscal Year Gifts Ending June 30th



Carnegie Mellon's endowment is invested in a long-term pool, 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. At present, the endowment remains significantly smaller in absolute terms and on a per capita basis relative to peer institutions, resulting in heavy reliance by the operating budget on tuition and research funding. The historical performance of the endowment, including the draw's support expressed as a percentage of annual operations, is summarized below:

($ millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Opening Value	653.9	719.3	829.1	756.9	667.8	654.7	769.0	837.5	941.5	1,115.7
Gifts/Transfers	22.9	67.1	36.9	11.8	12.4	19.6	28.3	31.4	28.6	38.1
Annuity Reclassification	--	--	--	--	--	--	--	(11.7)	--	
Draw	(32.7)	(35.2)	(41.9)	(42.8)	(41.7)	(36.5)	(36.3)	(36.8)	(40.5)	(45.7)
Investment Performance	75.2	77.9	(67.2)	(58.1)	16.2	131.2	76.5	121.2	186.1	(40.4)
Closing Value	719.3	829.1	756.9	667.8	654.7	769.0	837.5	941.5	1,115.7	1,067.7
Draw Details										
Total Operations	426.2	462.0	500.1	551.0	559.8	620.1	674.8	737.7	761.8	807.9
Draw % of Operations	7.7%	7.6%	8.4%	7.8%	7.5%	5.9%	5.4%	5.0%	5.3%	5.6%

During fiscal year 2008, the draw from the endowment provided 5.6% of the University's operating budget, compared to 5.3% for fiscal year 2007. 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 90% since fiscal year 1999.

With recent changes designed to significantly enhance the University's investment program and the continued generosity of the University's alumni and friends, we believe that the prospects for long-term growth of endowment assets have never been better, despite the recent market turmoil. We remain confident that Carnegie Mellon's endowment will continue to strengthen over time, enabling greater ongoing support 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
October 10, 2008

CARNEGIE MELLON

Facts and Figures

Type of University

Private, coeducational, research, granting about 3,000 bachelor's, master's and doctoral degrees each year.

Colleges and Schools

Carnegie Institute of Technology (engineering)
College of Fine Arts
College of Humanities and Social Sciences (liberal arts and professional studies)
David A. Tepper School of Business (formerly Graduate School of Industrial Administration)
The H. John Heinz III College (formerly the H. John Heinz III School of Public Policy and Management)
Mellon College of Science
School of Computer Science

Number of Students

5,758 undergraduates, 3,002 master's and 1,642 doctoral students, and 91 special non-degree students.

Number of Faculty

610 tenure-stream faculty, 615 full-time and 201 part-time non-tenure-stream faculty.

Number of Alumni

72,496

Carnegie Mellon faculty and alumni award highlights:

16 Nobel Prize Laureates
10 Members, American Academy of Arts & Sciences
32 Members, National Academy of Engineering
12 Members, National Academy of Sciences
109 Emmy Award Winners
23 Tony Award Winners
5 Academy Award Winners

University Motto

"My heart is in the work"

Andrew Carnegie's closing pledge in his letter to the mayor of Pittsburgh offering to found the Carnegie Technical Schools.

Athletics

Team name is "The Tartans;" NCAA Division III classification; founding member of the University Athletic Association; 17 varsity sports; 40 intramural activities and 20 club sports.

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 145-acre Pittsburgh campus.

History

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

Physical Size

145-acre Pittsburgh campus; 83 campus-owned buildings. 2 additional campus locations.

Location

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

Additional campus locations: Doha, Qatar, and Silicon Valley, California

Carnegie Mellon is expanding its international presence with many graduate programs and research partnerships across the globe.

For more information about Carnegie Mellon, please contact:

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Carnegie Mellon University
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Pittsburgh, PA 15213-3890
Phone: 412-268-2900
www.cmu.edu
www.carnegiemellontoday.com

STATEMENTS & REPORT

CONSOLIDATED FINANCIAL STATEMENTS
& INDEPENDENT AUDITOR'S REPORT

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, 2008 and June 30, 2007, 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 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.

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
October 10, 2008

Consolidated Statements of Financial Position

June 30, 2008 and 2007 ($ in thousands)	2008	2007
Assets:		
Cash and cash equivalents	$ 93,342	$ 62,868
Accrued interest and dividends	3,055	3,725
Accounts receivable, net (Note C)	70,193	55,802
Pledges receivable, net (Note D)	53,262	56,157
Student loans receivable, net (Note C)	18,649	20,241
Collateral for securities loaned (Note E)	—	117,397
Investments (Note E)	1,378,788	1,443,758
Assets held in trust by others	13,027	13,288
Assets limited as to use (Note B)	27,661	76,834
Other assets	29,236	33,903
Land, buildings and equipment, net (Note H)	580,883	540,502
Total assets	$ 2,268,096	$ 2,424,475
Liabilities:		
Accounts payable and other liabilities (Note B)	$ 110,850	$ 98,993
Deferred revenue	99,546	82,180
Federal student loan funds	14,497	14,529
Present value of split interest agreements payable	20,297	20,326
Securities loan agreement payable (Note E)	—	117,397
Long-term debt (Note I)	449,278	449,515
Total liabilities	$ 694,468	$ 782,940
Net assets:		
Unrestricted	$ 662,342	$ 723,038
Temporarily restricted (Note J)	463,549	495,084
Permanently restricted (Note J)	447,737	423,413
Total net assets	**$ 1,573,628**	**$ 1,641,535**
Total liabilities and net assets	**$ 2,268,096**	**$ 2,424,475**

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

For the Year Ended June 30, 2008 ($ in thousands)	2008 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Tuition and other educational fees revenue, net of financial aid	$ 285,837	$ —	$ —	$ 285,837
Sponsored projects revenue (Note G)	296,055	—	—	296,055
Investment income	36,169	10,290	211	46,670
Contributions revenue (Note D)	18,479	34,258	27,257	79,994
Auxiliary services revenue	43,815	—	—	43,815
Other sources	93,418	(1,423)	(1,522)	90,473
Net assets released from restrictions	32,154	(32,154)	—	—
Total revenue and other support	$ 805,927	$ 10,971	$ 25,946	$ 842,844
Expenses:				
Salaries	$ 423,076	$ —	$ —	$ 423,076
Benefits	91,277	—	—	91,277
Supplies and services	147,536	—	—	147,536
Occupancy and related expenses	52,733	—	—	52,733
Other operating expenses	35,358	—	—	35,358
Depreciation and amortization	43,767	—	—	43,767
Interest expense	14,199	—	—	14,199
Total expenses	$ 807,946	$ —	$ —	$807,946
(Decrease) increase in net assets before nonoperating activities	($ 2,019)	$ 10,971	$ 25,946	$ 34,898
Nonoperating activities:				
Net realized gain on investments	$ 18,794	$ 54,300	$ 559	$ 73,653
Net unrealized loss on investments	(68,896)	(96,806)	(2,181)	(167,883)
Other sources (Note B)	(14,300)	—	—	(14,300)
Post retirement plan changes other than net periodic benefit costs (Note N)	5,725	—	—	5,725
Net assets released from restrictions	—	—	—	—
Total nonoperating activities	($ 58,677)	($ 42,506)	($ 1,622)	($ 102,805)
(Decrease) increase in net assets before cumulative effect of a change in accounting principle	($ 60,696)	($ 31,535)	$ 24,324	($ 67,907)
Cumulative effect of a change in accounting principle	—	—	—	—
(Decrease) increase in net assets	($ 60,696)	($ 31,535)	$ 24,324	($ 67,907)
Net assets, June 30, 2007	$ 723,038	$ 495,084	$ 423,413	$ 1,641,535
Net assets, June 30, 2008	$ 662,342	$ 463,549	$ 447,737	$ 1,573,628

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	74,250	7,254	(6,992)	74,512
Net assets released from restrictions	30,149	(30,149)	—	—
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)
Post retirement plan changes other than net periodic benefit costs (Note N)	—	—	—	—
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 Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

($ in thousands)	2008	2007
Cash flows from operating activities:		
(Decrease) Increase in net assets	($ 67,907)	$ 220,325
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized gains on investments	(89,732)	(114,293)
Unrealized losses (gains) on investments	167,883	(81,482)
Depreciation and amortization	43,767	44,916
Loss on debt extinguishment	1,761	—
Gifts in kind	(1,475)	(266)
Loss on asset dispositions	449	832
Receipt of contributed securities	(19,933)	(14,439)
Cumulative effect of change in accounting principle	—	4,430
Provision for bad debt and other allowances	(778)	(1,086)
Contributions held in trust by others	261	(1,581)
Contributions for land, buildings, equipment and permanent endowment	(24,732)	(19,597)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest and dividends	670	(376)
Accounts receivable, net	(13,751)	4,069
Pledges receivable, net	3,086	(11,938)
Other assets	5,099	(9,090)
Increase (decrease) in:		
Accounts payable and other liabilities	5,957	(5,333)
Deferred revenue	17,366	22,416
Federal loan programs	(32)	(158)
Present value of split interest agreements	(29)	599
Net cash provided by operating activities	$ 27,930	$ 37,948
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	5,211,579	2,917,581
Purchases of investments	(5,224,760)	(2,933,615)
Proceeds from sales of donated securities	18,672	18,036
Assets limited as to use	49,173	(76,834)
Purchases of land, buildings and equipment	(75,621)	(56,570)
Disbursements of loans to students	(3,289)	(4,998)
Repayments of loans from students	2,818	3,783
Net cash used for investing activities	($ 21,428)	($ 132,617)
Cash flows from financing activities:		
Proceeds from issuance of indebtedness	120,820	120,125
Payment of bond issue costs	(494)	(1,835)
Repayments of long-term debt	(121,086)	(6,137)
Contributions for land, buildings, equipment and permanent endowment	24,732	19,597
Net cash provided by financing activities	23,972	131,750
Net increase in cash and cash equivalents	30,474	37,081
Cash and cash equivalents at beginning of year	62,868	25,787
Cash and cash equivalents at end of year	**$93,342**	**$62,868**
Non-cash transactions:		
Additions to property, plant and equipment (accruals, gifts in kind, capital leases)	$ 10,539	$ 3,405
Non-cash stock contributions	$ 19,933	$ 14,439

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

Note A—Carnegie Mellon

Carnegie Mellon University ("Carnegie Mellon") is a private, not-for-profit educational and research institution. Carnegie Mellon currently enrolls about 10,500 students and grants approximately 3,000 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, 41% 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 Technology Holdings, Schenley Golf Operating Corporation, Benjamin Garver Lamme Scholarship Fund, Lord Foundation of Pennsylvania, SEI-Europe GmbH, and iCarnegie, Inc. All significant inter-entity transactions and balances have been eliminated in consolidation. Carnegie Mellon also is a joint sponsor with the University of Pittsburgh in MPC Corporation (MPC), a nonprofit related entity, and an owner as a tenant in common of the Bellefield Boiler Plant. The activities of MPC Corporation and the Bellefield Boiler Plant are not consolidated or recorded in Carnegie Mellon's consolidated financial statements.

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

> **Unrestricted net assets-**Net assets that are not subject to donor imposed stipulations.
>
> **Temporarily restricted net assets-**Net assets subject to specific donor imposed or legal stipulations that can be fulfilled by actions of Carnegie Mellon pursuant to those stipulations or that expire by the passage of time.
>
> **Permanently restricted net assets-**Net assets subject to donor imposed stipulations that the assets be maintained permanently. Generally, the donors of these assets permit Carnegie Mellon to use all or part of the income earned on the related investments for general or specific purposes.

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

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

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

Reclassifications

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

During fiscal year 2008, the University reviewed certain activity related to contributed securities and determined that $14.4 million should have been treated as non-cash activity within the Consolidated Statement of Cash Flows at June 30, 2007. The impact of the reclassification was a reduction of $5.3 million in cash flows from operating activities, a reduction of $18.0 million in cash flows used for investing activities, and a reduction of $12.7 million in cash flows from financing activities. The Consolidated Statements of Financial Position and the Consolidated Statements of Activities for fiscal 2007 were not impacted as a result of the adjustment. The University has reflected this transaction in their financial statements as of June 30, 2007 within the financial statements issued for June 30, 2008 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).

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 with gains and losses reported on the statement of activities. The alternative investments are carried at estimated fair value. Carnegie Mellon reviews and evaluates the values provided by the investment managers and agrees with valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Investments received as a gift are reflected as contributions at their market value at the date of the gift.

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

Endowment

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

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

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

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

All endowment funds participate in a Carnegie Mellon investment pool. The investment pool provides income to its respective participants. Such income is used for the specific purpose prescribed by the donor or, if the purpose was not prescribed by the donor, the income is deemed to be unrestricted and used for general purposes. New endowment funds or additions to existing funds are assigned shares in the investment pool based upon the per share market value at the end of the previous month. Income distributions from the investment pool are based upon the number of shares held by each participant and the approved spending rate (see Note 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 $27.7 million and $76.8 million as of June 30, 2008 and 2007, respectively, 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

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

Carnegie Mellon capitalizes interest during periods of construction. Interest of $0.6 million and $0.2 million was capitalized in fiscal year 2008 and 2007, respectively.

Accounts Payable and Other Liabilities:

Accounts payable and other liabilities includes accounts payable, accrued payroll and benefits, swap liabilities, Gate Loan, and other accrued expenses.

Federal Student Loan Funds

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

Present Value of Split Interest Agreements

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 Statement of Activities includes revenue from tuition and other educational fees, sponsored projects, investment return distributed according to Carnegie Mellon's spending policy, unrestricted contributions, 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 $85.8 million and $78.6 million for the years ended June 30, 2008 and 2007, 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 include:

- A $12.0 million loss and a $0.2 million loss in the fair value of the interest rate swap agreements as of June 30, 2008 and 2007, respectively (Note K);
- A $1.8 million loss on debt extinguishment as of June 30, 2008.

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, Gate Loan program, and valuation of investments.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurement", ("SFAS 157"). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 except for certain provisions, which were deferred for an additional year. Management is still evaluating the impact of adoption of this new pronouncement.

In February 2007, the FASB issued Statement of Accounting Standard No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). The standard permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Management is still evaluating the impact of adoption of this new pronouncement.

The FASB issued FASB Staff Position 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. The standard is to be effective for fiscal years ending after December 15, 2008. Management is still evaluating the impact of adoption of this new pronouncement but does not believe the adoption will have a material impact on the financial statements since Carnegie Mellon is not subject to UPMIFA. Pennsylvania not-for-profit organizations are subject to Pennsylvania Act 141.

Note C—Accounts and Loans Receivable

Accounts receivable at June 30, 2008 and 2007, consist of the following:

Accounts Receivable

($ in thousands)	2008	2007
Sponsored project grants and contracts:		
Federal	$ 44,986	$ 32,830
Other	8,449	8,852
Total sponsored projects	**$ 53,435**	**$ 41,682**
Student accounts	7,025	5,883
Other	12,326	12,245
	$ 19,351	$ 18,128
Allowance for doubtful accounts	(2,593)	(4,008)
Net accounts receivable	**$ 70,193**	**$ 55,802**

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 $18.6 million and $20.2 million, as of June 30, 2008 and 2007, 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 $0.6 million and $0.5 million as of June 30, 2008 and 2007, respectively.

Note D—Pledges Receivable and Contributions

Pledges as of June 30, 2008 and 2007 are discounted to the present value of future cash flows as of the date of the gift and are due as follows:

($ in thousands)			2008
	Temporarily Restricted	Permanently Restricted	Total
In one year or less	$ 2,345	$ 2,917	$ 5,262
Between one year and five years	27,835	34,496	62,331
More than five years	211	1,640	1,851
Present value of pledges	$ 30,391	$ 39,053	$ 69,444
Less:			
Unamortized discount	5,082	8,297	13,379
Allowance for unfulfilled pledges	1,265	1,538	2,803
Pledges receivable, net of allowances	**$ 24,044**	**$ 29,218**	**$ 53,262**

($ 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**

Pledges receivable, as of June 30, 2008 and 2007, net of allowances, are intended for the endowment in the amounts of $29.2 million and $39.0 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $24.0 million and $17.2 million, respectively.

Contribution revenue includes gifts, unconditional pledges to give and grants and are recorded in the appropriate net asset category based upon donor stipulations. Contributions for the fiscal years ended June 30, 2008 and 2007 are as follows:

($ in thousands)	2008	2007
Unrestricted	$18,479	$14,798
Temporarily restricted	34,258	22,655
Permanently restricted	27,257	37,298
Total	**$ 79,994**	**$ 74,751**

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 $44.1 million and $40.3 million as of June 30, 2008 and 2007, 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, 2008 and 2007, are as follows:

($ in thousands)	2008	2007
Restricted cash and cash equivalents	$ 113,970	$ 55,235
Fixed income	281,427	356,975
Common stock	548,795	690,311
Alternative investments	434,596	341,237
Total investments	**$ 1,378,788**	**$ 1,443,758**

Investments are held for the following purposes:

($ in thousands)	2008	2007
Endowment	$ 1,061,625	$ 1,110,555
Reserves for working capital and plant — Short Term	103,004	109,292
Reserves for working capital and plant — Long Term	154,296	161,952
Split interest agreements	38,697	42,791
Other investments	21,166	19,168
Total investments	**$ 1,378,788**	**$ 1,443,758**

During the fiscal year ended June 30, 2008, the University suspended its securities lending activities and had no amounts on loan as of June 30, 2008. At June 30, 2007 investment securities having a fair value of $113.9 million were lent to various brokerage firms through a securities lending agent. Carnegie Mellon recorded the fair value of the collateral received of $117.4 million and an offsetting liability for the return of the collateral on the Consolidated Statement of Financial Position at June 30, 2007.

Nearly all fixed income securities are U.S. investment grade, asset backed securities, and United States Treasury and Agency obligations. Common stock investments at June 30, 2008 are composed of approximately 47.8% domestic equities and 52.2% international and emerging market equities. Common stock investments at June 30, 2007 were composed of approximately 49.4% domestic equities and 50.6% 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 first 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, 2008 and 2007:

($ in thousands)	2008	2007
Dividends and interest (net of $4.9 million and $4.5 million of investment fees)	$ 30,590	$ 35,232
Net realized gains on sale of investments	89,732	114,293
Net unrealized gains (losses) on investments	(167,883)	81,482
Total return on investments	**($ 47,561)**	**$ 231,007**

Operating investment income as reported on the Consolidated 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 $16.1 million and $11.9 million in the years ended June 30, 2008 and 2007, respectively. These gains are included in net realized gains in the above table. Fiscal year 2008 investment fees include $0.4 million of salary and benefit costs for certain Carnegie Mellon Treasury personnel who provide investment management services.

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, 2008 and 2007, the notional value of S&P 500 futures contracts held by these outside investment managers were $113.5 million and $99.8 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, 2008 and 2007, Carnegie Mellon had unfunded commitments of approximately $340.8 million and $290.0 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, 2008 and 2007:

Alternative investments strategy	Number of Funds	2008 Fair value ($ in thousands)
Aggressive, Distresssed & Arbitrage Fixed Income	13	$ 24,317
Long/Short Equity	7	49,375
Multi-Strategy	3	77,809
Natural Resources	17	46,494
Other Absolute Return Strategies	2	16,596
Private Equity (Buyout) Funds	46	71,253
Real Estate	13	51,111
Venture Capital	53	97,641
Total	154	434,596
Total Investments		**$ 1,378,788**
% Alternative		**31.5%**

Alternative investments strategy	Number of Funds	2007 Fair value ($ in thousands)
Aggressive, Distresssed & Arbitrage Fixed Income	8	$ 19,204
Long/Short Equity	6	54,407
Multi-Strategy	3	75,851
Natural Resources	12	19,357
Other Absolute Return Strategies	3	21,913
Private Equity (Buyout) Funds	32	45,901
Real Estate	9	36,004
Venture Capital	36	68,600
Total	109	341,237
Total Investments		**$ 1,443,758**
% Alternative		**23.6%**

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)	2008	2007
Beginning of year endowment value	$ 1,115,740	$ 941,525
Gifts and other additions:		
Contributions (excluding pledges)	36,281	27,397
Terminated life income trusts and income and gains reinvested	1,827	1,197
Total gifts and other additions	$ 38,108	$ 28,594
Investment income:		
Interest and dividends	$ 15,365	$ 18,403
Net realized gains on sale of securities	78,774	99,335
Net unrealized (losses) gains	(134,567)	68,363
Total investment (loss) income	($ 40,428)	$ 186,101
Income distributed for operating purposes:		
Cash and accrued interest and dividends	($ 15,365)	($ 18,403)
Accumulated realized investment gains	(30,327)	(22,077)
Total income distributed	($ 45,692)	($ 40,480)
End of year endowment value	**$ 1,067,728**	**$ 1,115,740** (1)

(1) Includes $6,103 and $5,185 of endowment gifts pending investment and other accruals in fiscal years 2008 and 2007, respectively.

Endowment net assets at June 30 are classified as follows:

($ in thousands)	2008	2007
Unrestricted	$ 312,620	$ 343,755
Temporarily restricted	353,399	407,399
Permanently restricted	401,709	364,586
Total	**$ 1,067,728**	**$ 1,115,740**

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 pursuant to a smoothing formula whereby an approved spending rate percentage is applied to the trailing thirty-six month average of endowment market values at December 31. For both fiscal years 2008 and 2007, the approved spending rate was set at 5.0%. As a result of the spending rate formula, the effective spending rate (defined as the endowment draw totals for the fiscal years ended 2008 and 2007 divided by the June 30 endowment market values for the those fiscal years) was 4.3% and 3.6%, respectively.

Note G–Sponsored Projects Revenue

The major components of sponsored projects revenue for the years ended June 30, 2008 and 2007, are as follows:

($ in thousands)	2008	2007
Federal		
Direct	$ 209,938	$ 210,544
Indirect	41,237	49,362
Total Federal	$ 251,175	$ 259,906
State, industrial and other		
Direct	$ 39,958	$ 38,057
Indirect	4,922	5,554
Total state, industrial and other	44,880	43,611
Total sponsored projects revenue	**$ 296,055**	**$ 303,517**

Included in other sponsored projects revenue for the fiscal years ended June 30, 2008 and 2007 are amounts from private sources (foundation grants) which amounted to $10.7 million and $6.6 million, respectively.

Note H–Land, Buildings and Equipment

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

($ in thousands)	2008	2007
Buildings	$ 727,249	$ 708,469
Moveable equipment	230,395	220,346
Utilities and building-related assets	53,318	52,716
Leasehold improvements	10,599	9,638
Assets held for sale	708	—
Subtotal	$ 1,022,269	$ 991,169
Accumulated depreciation	(530,551)	(498,892)
Subtotal	$ 491,718	$ 492,277
Land	10,708	9,200
Construction in progress	78,457	39,025
Land, buildings and equipment, net	**$ 580,883**	**$ 540,502**

Included in the cost of buildings is $40.6 million for the Collaborative Innovation Center (CIC) and its tenant improvements for the years ended June 30, 2008 and 2007. 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 %	2008	2007
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%	38,965	38,937
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
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series 2008	Variable	120,820	—
Dormitory bonds/mortgage notes	3.0%	2,018	2,195
Collaborative Innovation Center financing	5.2%	30,789	31,398
Subtotal - bonds and mortgages		$ 447,392	$ 447,455
Capital lease obligations	5.0 - 7.5%	1,886	2,060
Total long-term debt		**$ 449,278**	**$ 449,515**

On November 1, 1995 Carnegie Mellon issued through the Pennsylvania Higher Education Facilities Authority $176.8 million of Carnegie Mellon University Variable Rate Revenue Refunding Bonds, Series 1995 (the "1995 Bonds"). The proceeds of the 1995 Bonds were used to repay the Washington County Higher Education Pooled Equipment Leasing program debt and the Pennsylvania Higher Education Facilities Authority Variable Rate Option Revenue Bonds, First Series of 1985. The $176.8 million debt issue consists of $50.0 million Series 1995A, with $25.0 million due fiscal year 2025 and the other $25.0 million due fiscal year 2026, $50.0 million Series 1995B with $25.0 million due fiscal year 2027, and the other $25.0 million due fiscal year 2028, $50.0 million Series 1995C with $25.0 million due fiscal year 2029, and the other $25.0 million due fiscal year 2030, and $26.8 million Series 1995D due fiscal year 2031. 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 0.6% to 4.0% during fiscal year 2008 and 3.1% to 4.1% during fiscal year 2007.

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 fiscal year 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 0.7% to 4.1% during fiscal year 2008 and 3.2% to 4.0% during fiscal year 2007.

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 21, 2009. In the event the investment banking firm does not wish to renew the agreement, they must provide notification 60 days prior to the expiration date. 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 fiscal years 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. In fiscal year 2007, the university refinanced $5.0 million dollars of the 2002 Bonds with the 2007 issue. The remaining 2002 Bonds mature at $7.7 million in fiscal year 2028 and $32.0 million in fiscal year 2032. The 2002 bonds maturing in fiscal year 2032 are subject to mandatory sinking fund redemption. The sinking fund requires payments of $8.0 million per year in fiscal years 2029-2032. 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 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"). On April 10, 2008 the 2006 Bonds were refinanced with the 2008 issue. The remaining original proceeds of the 2006 Bonds are being used to fund capital projects. Assets limited as to use in the amount of $27.7 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. Interest was paid at a variable market rate determined weekly by the bonds' auction rate. Interest rates ranged from 3.2% to 15.0% during fiscal year 2008 and 3.4% to 3.7% during fiscal year 2007.

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 2002 Bonds and to pay all or a portion of the costs of issuance of the Bonds. On April 10, 2008 the 2007 Bonds were refinanced with the 2008 issue. The 2007 Bonds paid interest at a variable market rate determined weekly by the bonds' auction rate. Interest rates ranged from 2.5% to 5.6% during fiscal year 2008 and 3.1% to 3.7% during fiscal year 2007.

On April 10, 2008, Carnegie Mellon issued, through the Allegheny County Higher Education Building Authority, Variable Rate University Revenue Bonds, Series A of 2008, with a face value of $120.8 million (the "2008 Bonds"). The proceeds of the 2008 Bonds were used to finance the cost of refunding the 2006 Bonds and the 2007 Bonds. The 2006 and 2007 Bonds were called for optional redemption, at a redemption price of 100% of the principal amount plus accrued interest, pursuant to the optional redemption provisions. The 2008 Bonds are subject to a mandatory sinking fund redemption as follows: $5.1 million in fiscal year 2027, $30.0 million in fiscal year 2035, $30.0 million in fiscal year 2036, $30.0 million in fiscal year 2037, and $25.7 million in fiscal year 2038. The 2008 Bonds currently pay interest at a variable market rate determined daily by the bonds' remarketing agent. Interest rates ranged from 0.7% to 2.4% during fiscal year 2008.

For the 2008 Bonds, Carnegie Mellon has entered into a separate Standby Bond Purchase agreement with an investment banking firm that has agreed to purchase the bonds under certain circumstances. The Standby Bond Purchase Agreement for the 2008 Bonds is renewed every 364 days, with the next renewal date being April 9, 2009. In the event the investment banking firm does not wish to renew the agreement, they must provide notification 60 days prior to the expiration date.

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

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, 2008 and 2007 in the amount of $30.8 million and $31.4 million, respectively. The interest rate associated with this financing obligation is 5.2%. Under terms of a space lease commitment, Carnegie Mellon makes monthly payments to RIDC which approximated $2.2 million in fiscal years 2008 and 2007. 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 the potential for 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 $11.4 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, 2008 and 2007 are approximately $450.6 million and $451.0 million, respectively.

Cash paid for interest for the fiscal years ended June 30, 2008 and 2007, totaled $15.5 million and $15.7 million, respectively.

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

($ in thousands)	**2008**
2009	$ 795
2010	803
2011	843
2012	886
2013	933
Thereafter	443,132
Total	**$ 447,392**

Note J–Temporarily and Permanently Restricted Net Assets

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

($ in thousands)	2008	2007
Endowment earnings	$ 353,399	$ 407,399
Capital and other donor designations	70,409	53,569
Pledges and assets held in trust by others	28,478	21,252
Split interest agreements	10,667	12,308
Loan funds	596	556
Total	**$ 463,549**	**$ 495,084**

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

($ in thousands)	2008	2007
Endowment	$ 401,709	$ 364,586
Pledges and assets held in trust by others	37,812	48,193
Split interest agreements and other donor designations	8,216	10,634
Total	**$ 447,737**	**$ 423,413**

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, 2008 and 2007:

($ in thousands) Date of Swap Agreement	Interest Expense/(Revenue) 2008	2007	Fair Value Receivable/(Payable) 2008	2007
Oct 2004	$ 57	($ 292)	($ 1,106)	$ 1,612
Apr 2006 forward	552	(89)	(6,388)	661
May 2007 spot	50	—	(371)	10
May 2007 forward	—	—	(1,384)	456
Total	$ 659	($ 381)	($ 9,249)	$ 2,739

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 accounts payable and other liabilities at June 30, 2008 and other assets at June 30, 2007 in the Consolidated Statements of Financial Position. The change in the fair value of the agreements is recorded as other sources under nonoperating activities in the Consolidated Statements of Activities.

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

Note L–Expenses by Functional Category

Operating expenses by functional category for the years ended June 30, 2008 and 2007, are as follows:

($ in thousands)	2008	2007
Instruction and departmental research	$ 317,581	$ 299,452
Sponsored projects	262,505	261,318
Administration and institutional support	76,536	60,775
Academic support	72,268	64,438
Student services	39,617	37,536
Auxiliary services and activities	39,439	38,316
Total	**$ 807,946**	**$ 761,835**

Included in administration and institutional support is $15.5 million and $13.2 million of fundraising expenses for the years ended June 30, 2008 and 2007, 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.

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 $13.9 million and $11.6 million for the years ending June 30, 2008 and 2007, respectively. Future minimum lease payments at June 30, 2008 are as follows:

($ in thousands)	**Operating Leases**	**Capital Leases**
2009	$ 9,875	$ 546
2010	6,606	560
2011	4,512	466
2012	2,674	477
2013	2,645	—
Thereafter	6,851	—
Total	**$ 33,163**	**$ 2,049**
Less amount representing interest		(163)
Present value of minimum capitalized lease payments		**$ 1,886**

At June 30, 2008 and 2007 Carnegie Mellon had contractual obligations of approximately $50.8 million and $83.0 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $90.6 million, which will be financed with certain unexpended plant funds, gifts and debt proceeds.

Subsequent to June 30, 2008, Carnegie Mellon entered into a $23 million purchase agreement for certain land and buildings. The agreement is contingent upon the successful conclusion of a 120-day due diligence period that expires on December 5, 2008.

Carnegie Mellon has four letters of credit with a commercial bank totaling $1.8 million. There were no draws against these letters of credits as of June 30, 2008 and 2007.

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, 2008 and 2007 totaled $24.6 million and $23.9 million, respectively. 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 2008 and 2007. 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. Carnegie Mellon adopted the provisions of SFAS 158 at June 30, 2007. Carnegie Mellon recorded in the Consolidated Statement of Activities a reduction to unrestricted net assets of $4.4 million as of June 30, 2007 to recognize the underfunded status. The liability for post retirement benefit obligations is recorded in the Consolidated Statements of Financial Position in accounts payable and other liabilities.

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
Total liabilities	778,510	4,430	782,940
Unrestricted net assets	727,468	(4,430)	723,038

Cumulative amounts recognized in unrestricted net assets and not yet recognized as components of net periodic benefit cost consist of:

($ in thousands)	**2008**	**2007**
Net accumulated loss	$ 2,034	$ 8,162
Prior service credit	(3,329)	(3,732)
Total	**($ 1,295)**	**$ 4,430**

The components of net periodic benefit costs for the years ended June 30, 2008 and 2007 are as follows:

($ in thousands)	**2008**	**2007**
Service cost	$ 1,119	$ 994
Interest cost	1,513	1,375
Amortization of prior service credit	(402)	(402)
Amortization of net loss	472	492
Net periodic benefit cost	**$ 2,702**	**$ 2,459**

During fiscal year 2009, amortization of $0.4 million prior service credit 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)	**2008**	**2007**
Benefit obligation, beginning of year	$ 23,150	$ 18,362
Service cost	1,119	994
Interest cost	1,513	1,375
Assumption changes and actuarial (gain) loss	(5,655)	2,743
Benefit payments	(273)	(324)
Benefit obligation, end of year	$ 19,854	$ 23,150
Fair value of plans' assets	—	—
Funded status	$ 19,854	$ 23,150
Unrecognized Actuarial (Loss)		(8,162)
Unrecognized Prior Service Credit		3,732
Accrued postretirement benefit cost prior to adoption of FAS 158		**$ 18,720**

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2008 and 2007 was 6.6% and 6.3%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2008 and 2007 of 8.0% and 8.5% respectively was assumed. The rate was assumed to decrease gradually to 5.5% by 2013 and remain at 5.0% thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed healthcare cost trend rate by 1.0% in each year would increase the benefit obligation as of June 30, 2008 and 2007 by $3.5 million and $3.8 million respectively and increase the aggregate service cost and interest cost components for 2008 and 2007 by $0.5 million. Decreasing the assumed health care cost trend rate by 1.0% in each year would decrease the benefit obligation as of June 30, 2008 and 2007 by $2.8 million and $3.1 million respectively and decrease the aggregate service cost and interest cost components for 2008 and 2007 by $0.4 million.

($ in thousands) June 30	**Retiree Contributions**	**Employer Payments**	**Total Expected Benefit Payments**
2009	$ 559	$ 459	$ 1,018
2010	748	569	1,317
2011	956	663	1,619
2012	1,168	777	1,945
2013	1,356	890	2,246
2014-2018	9,375	5,956	15,331

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 $20.5 million and $18.7 million at June 30, 2008 and 2007, respectively. These assets are reflected as investments in the Consolidated Statements of Financial Position. Carnegie Mellon will contribute an estimated $1.7 million to the plan in fiscal year 2009.

Note O–Related Party Transactions

Sponsored projects revenue for fiscal years 2008 and 2007 includes $15.1 million and $14.3 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 $33.4 million contract received by MPC, for which MPC has subcontracted to Carnegie Mellon for the construction of a supercomputer and related activities.

Sponsored projects revenue for fiscal years 2008 and 2007 includes $3.6 million and $5.7 million, respectively, received from the Pittsburgh Life Sciences Greenhouse (PLSG), a nonprofit related entity of MPC.

Carnegie Mellon is an owner as a tenant in common of the Bellefield Boiler Plant ("Bellefield") for the purpose of sharing of the steam produced by the plant. The Bellefield operates as such that all of the operating costs of the plant are passed to the owners in the form of steam prices. Carnegie Mellon is obligated for a percent of liabilities based upon use of steam produced by the Bellefield. As of June 30, 2008 and 2007, Carnegie Mellon's percentage obligations were 23.7% and 15.2%, respectively. Included in other assets at June 30, 2008 and 2007 are $2.5 million and $2.4 million, respectively, which are cumulative funds collected for steam usage that Carnegie Mellon has elected to be held by Bellefield. These funds may be applied to any future plant improvements or used to reduce the cost of steam in future periods. Included in occupancy and related expenses for the years ended June 30, 2008 and June 30, 2007 are $5.0 million and $4.4 million, respectively, for steam costs paid to the Bellefield.

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 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.

Asset retirement obligations are included within other liabilities in the Consolidated Statements of Financial Position. As of June 30, 2008 and 2007, $1.8 million of conditional asset retirement obligations have been recorded.

The following table reconciles the asset retirement obligations as of June 30, 2008 and 2007:

($ in thousands)	**2008**	**2007**
Asset retirement obligations as of July 1	$ 1,815	$ 1,881
Accretion expense	85	84
Liabilities settled or disposed	(95)	(150)
Asset retirement obligations as of June 30	**$ 1,805**	**$1,815**

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. The asset and liability recorded in the Consolidated Statements of Financial Position in loans receivable and accounts payable and other liabilities as of June 30, 2008 and 2007 is approximately $1.3 million and $2.4 million and $2.4 million and $4.3 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 $8.1 million. This amount represents the full undiscounted balance, and does not include any recourse provisions for debts that may become uncollectible.

Note R–Uncertainty in Income Taxes

Effective for fiscal year 2008, Carnegie Mellon adopted FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes-an Interpretation of SFAS No. 109, Accounting for Income Taxes." The adoption did not have a material effect on the consolidated financial statements.

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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

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*Alumnus(a)

Carnegie Mellon

Carnegie Mellon University does not discriminate and Carnegie Mellon University is required not to discriminate in admission, employment, or administration of its programs or activities on the basis of race, color, national origin, sex or handicap in violation of Title VI of the Civil Rights Act of 1964, Title IX of the Educational Amendments of 1972 and Section 504 of the Rehabilitation Act of 1973 or other federal, state, or local laws or executive orders.

In addition, Carnegie Mellon University does not discriminate in admission, employment or administration of its programs on the basis of religion, creed, ancestry, belief, age, veteran status, sexual orientation or gender identity. Carnegie Mellon does not discriminate in violation of federal, state, or local laws or executive orders. However, in the judgment of the Carnegie Mellon Human Relations Commission, the Presidential Executive Order directing the Department of Defense to follow a policy of, "Don't ask, don't tell, don't pursue," excludes openly gay, lesbian and bisexual students from receiving ROTC scholarships or serving in the military. Nevertheless, all ROTC classes at Carnegie Mellon University are available to all students.

Inquiries concerning application of these statements should be directed to the Provost, Carnegie Mellon University, 5000 Forbes Avenue, Pittsburgh, PA 15213, telephone 412-268-6684 or the Vice President for Campus Affairs, Carnegie Mellon University, 5000 Forbes Avenue, Pittsburgh, PA 15213, telephone 412-268-2057.

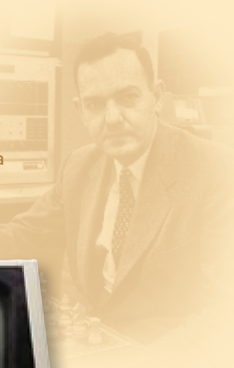
Carnegie Mellon University publishes an annual campus security report describing the university's security, alcohol and drug, and sexual assault policies and containing statistics about the number and type of crimes committed on the campus during the preceding three years. You can obtain a copy by contacting the Carnegie Mellon Police Department at 412-268-2323. The security report is available through the World Wide Web at www.cmu.edu/police/statistics.htm.

Obtain general information about Carnegie Mellon University by calling 412-268-2000.

Produced by The Communications Design Group for the Office of the President, October, 2008, 09-135.

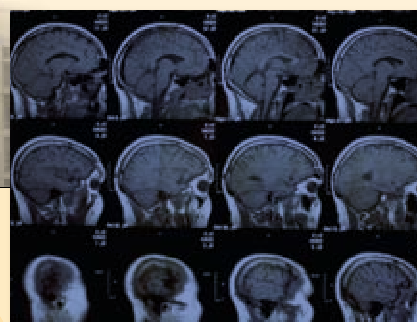
CARNEGIE MELLON INNOVATI

Carnegie Mellon University has been home to many "firsts" during its 108-year history.



The first computer that could think. In 1956, Carnegie Tech professors Herbert Simon and Allen Newell made a major advance in the field of artificial intelligence with their development (along with programmer J.C. "Cliff" Shaw) of a computer program that does intellectual work, discovering proofs of geometry.

Without Carnegie Mellon, there would be no way to search the Internet. In 1994, student Michael Mauldin created Lycos, the first large scale Internet search engine.



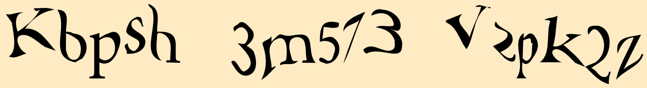
Carnegie Mellon University: the only place in the world where Google, Intel, Apple and Microsoft work under the same roof. Attracted by Carnegie Mellon's research expertise, the companies are housed in the university's Collaborative Innovation Center. Google, Intel and Apple labs are located there, along with a Microsoft-sponsored robotics lab.

One of the first universities to develop life-saving MRI technology. Paul Lauterbur at the university's Mellon Institute conducted research vital to the development of Magnetic Resonance Imaging (MRI) technology. Today, an estimated 60 million MRI scans are performed annually to visualize the body's internal structures and diagnose a number of ailments.

A Carnegie Mellon alumna created the material that has saved the lives of law enforcement officers for decades. Alumna Stephanie Kwolek is the chemist who invented **Kevlar** ballistic fabric, the product used in bulletproof vests.

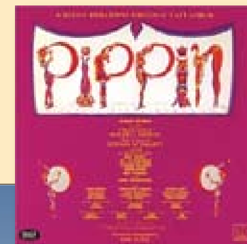
ONS

Here are some highlights.



Carnegie Mellon helps thwart computer criminals with *Captchas.* The technology was coined in 2000 by Luis von Ahn, Manuel Blum, Nicholas J. Hopper (all of Carnegie Mellon University), and John Langford (then of IBM). The CAPTCHA is a test to tell computers and humans apart and has been influenced in stopping criminals from automatically creating thousands of email accounts in order to send out spam.

Carnegie Mellon was home to 'Pippin' before its success on Broadway. The hit musical 'Pippin' was originally conceived by alumnus Stephen Schwartz as a student musical performed by Carnegie Mellon's Scotch'n'Soda theatre troupe.



Home to the first Green Dorm in the U.S. In 2003, the university built "Stever House" in honor of H. Guyford Stever, the university's fifth president. It has a LEED silver designation from the U.S. Green Building Council. At left, students enjoy free time in a "Stever House" social room.

Setting the standard for wind power. In 2001, Carnegie Mellon became the largest retail purchaser of wind power in the U.S., a move that prompted 30 other colleges and universities in Pennsylvania to make similar commitments.

:-)

The first smile sent by email. The first Internet **emoticon**, the Smiley, was created by Scott Fahlman, a Carnegie Mellon research professor in 1982. This was the beginning of emoticons in email.

Carnegie Mellon built the robots that cleaned up Three Mile Island. Alumnus and faculty member Red Whittaker led the clean up for the 1979 Three Mile Island nuclear accident. Whittaker's expertise later led to the world's first Robotics Institute, where the development of autonomous vehicles, such as the *Boss*, are shaping the way drivers and their vehicles will interact in the future. The *Boss* earned first place in the Defense Advanced Research Projects Agency's (DARPA) Urban Challenge in 2007.

Some members of the sixth Carnegie Mellon Silicon Valley graduating class celebrate behind the "Fence" - part of a 2008 senior class gift that is an extension of The Fence on the Pittsburgh campus. Beginning in fall 2008 the Silicon Valley campus expanded their offerings to include full-time master's programs. These programs take place in both Silicon Valley and in Pittsburgh allowing exposure to the "best of both worlds" -- Silicon Valley's hub of social networks in the world of technical business, innovation and entrepreneurship and the diverse academic environment available on the Pittsburgh campus.

insp!re innovation.
THE CAMPAIGN FOR CARNEGIE MELLON UNIVERSITY