Carnegie Mellon University
Consolidated Financial Statements
June 30, 2009 and 2008

Carnegie Mellon University
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June 30, 2009 and 2008

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FINANCIAL HIGHLIGHTS FROM THE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Carnegie Mellon's overall financial position remains solid despite the extraordinary turmoil in the global economy and capital markets during fiscal year 2009. Carnegie Mellon's fiscal year 2009 operating results reflect resounding strength in our education and research activities and the University's commitment to execute strategies to react to events and plan for the future in order to mitigate the impacts upon the University.

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)	2009	2008	2007	2006	2005	2004
Total assets	$ 1,928	$ 2,268	$ 2,424	$ 2,058	$ 1,801	$ 1,670
Total liabilities	721	694	783	637	491	464
Total net assets	1,207	1,574	1,641	1,421	1,310	1,206
Total liabilities and net assets	$ 1,928	$ 2,268	$ 2,424	$ 2,058	$ 1,801	$ 1,670

Total University assets at June 20, 2009 were $1.9 billion, a decrease of $339.9 million or 15.0% lower than a year ago. Carnegie Mellon's largest asset, its investment portfolio, which represents 50.5% of Carnegie Mellon's total assets, was valued at $973.0 million at June 30, 2009 a decline of $406.3 million or 29.5%. Net of the investment balance decrease, the University's assets increased by $66.4 million. 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 $658.7 million include the University's net investment in land, buildings and equipment and represent 34.2% of the University's assets. The increase in capital assets largely represents continued construction-in-progress for the School of Computer Science Complex and the completion of chemical engineering labs in Doherty Hall.

The University's liabilities at June 30, 2009 were $721.2 million and increased by $26.7 million, or 3.8% during fiscal year 2009. The increase was driven largely by the addition of a note payable for a strategic property purchase. Long-term debt, the largest component of the University's liabilities, was $466.4 million as of June 30, 2009. Subsequent to June 30, 2009, on August 5, 2009, the University issued $172.4 million in bonds primarily to refinance the Series 1995 bonds. The composition of the University's long-term debt is discussed in greater detail in Note 10 of the consolidated financial statements.

Carnegie Mellon's total net assets decreased by 23.3% or $366.7 million during fiscal year 2009 to an ending value of $1.2 billion. Financial markets similarly affected the University's net assets. The decline in the market value of investments led to reductions of $157.5 million in unrestricted net assets and $217.8 million in temporarily restricted net assets. Permanently restricted net assets, however, increased by $8.7 million as a result of contributions. The University's net assets as of June 30, 2009 are comprised of $456.4 million of permanently restricted net assets, those for which the corpus of the gift may not be spent, and $750.6 million 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 nonoperating changes in net assets for five years are shown in Figure 2.

FIGURE 2 **OPERATING AND OTHER NONOPERATING RESULTS**

($ in thousands)	2009	2008	2007	2006	2005
Unrestricted operating revenue	$ 865,367	$ 805,927	$ 761,336	$ 728,338	$ 676,241
Unrestricted operating expenses	852,242	807,946	761,835	737,708	674,759
Change in operations	$ 13,125	$ (2,019)	$ (499)	$ (9,370)	$ 1,482
Change in unrestricted net assets from nonoperating activities	(170,636)	(58,677)	61,477	58,122	9,571
Change in temporarily restricted net assets	(217,829)	(31,535)	126,476	37,344	56,729
Change in permanently restricted net assets	8,690	24,324	32,871	25,255	36,046
Change in net assets	$ (366,650)	$ (67,907)	$ 220,325	$ 111,351	$ 103,828

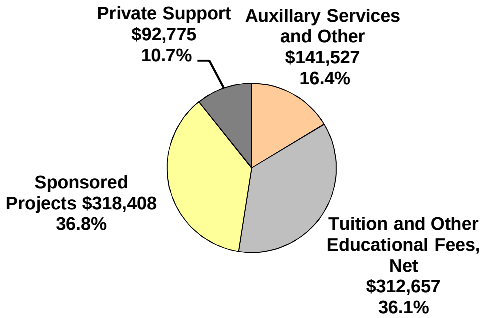
Unrestricted Net Assets – Results of Operations

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 2009 the University's operations yielded an operating gain of $13.1 million. The University's audited results from operations compare favorably with the University's Board of Trustees approved fiscal year 2009 budget which included continued investment in the University's Advancement and Computing Services divisions and a planned deficit from operations of $20.5 million.

Operating Revenues

Unrestricted operating revenues increased $59.4 million over fiscal year 2008. Carnegie Mellon relies 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 2009 operating revenues remain relatively proportionate with the prior year. The components of the University's $865.4 million in operating revenues are shown in Figure 3.

FIGURE 3 **FISCAL YEAR 2009 UNRESTRICTED OPERATING REVENUE ($865.4 MILLION) ($ in thousands)**



Tuition and other educational fees, net of financial aid, increased $26.8 million or 9.4% to $312.7 million in fiscal year 2009, representing 36.1% of University operating revenues compared to 35.4% in the prior year. Revenues from undergraduate tuition increased 9.5% and graduate tuition increased by 13.9%. The undergraduate student body grew by 134 students while the number of graduate students grew by 422. Figure 4 provides detailed information on enrolled students, including undergraduate, graduate and non-degree, in the fall semesters of 2008 and 2007 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 2008 AND 2007 SEMESTER ENROLLMENT**

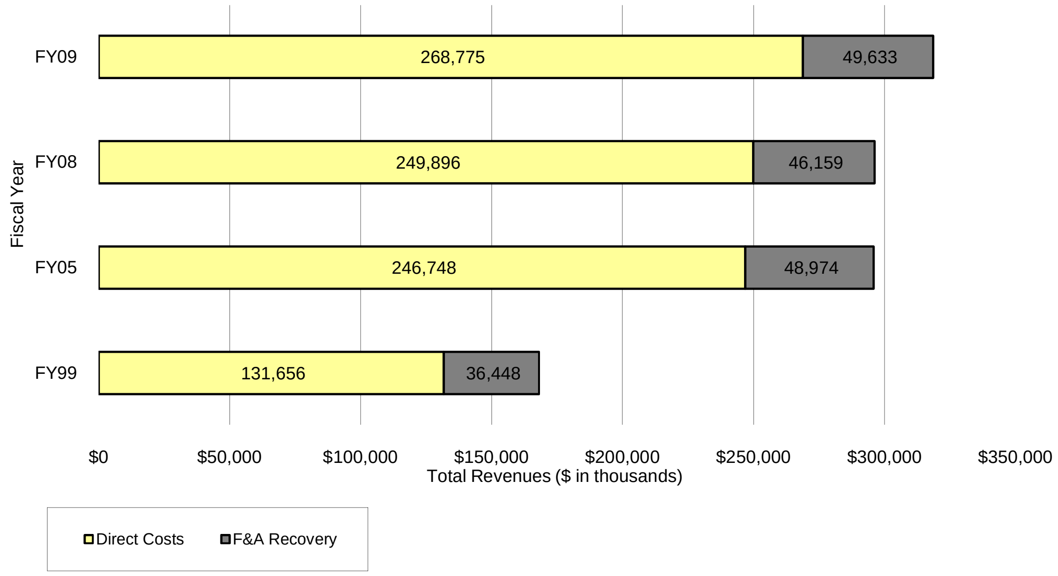
School/College	2008-2009 Undergraduate	2008-2009 Graduate	Total Number of Students	Percentage	2007-2008 Undergraduate	2007-2008 Graduate
Carnegie Institute of Technology	1,608	1,255	2,863	26%	1,561	1,101
College of Fine Arts	985	231	1,216	11%	939	232
College of Humanities and Social Sciences	1,101	276	1,377	13%	1,100	260
David A. Tepper School of Business	435	1,042	1,477	13%	458	979
H. John Heinz III School of Public Policy and Management	-	1,111	1,111	10%	-	973
Mellon College of Science	696	268	964	9%	714	262
School of Computer Science	592	727	1,319	12%	565	689
Interdisciplinary	286	156	442	4%	254	148
CMU-Q	189	-	189	2%	167	-
Total	5,892	5,066	10,958	100%	5,758	4,644

FIGURE 5 **Undergraduate Admissions – Fall Semester**

	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
Applications	22,023	22,356	18,864	15,777	14,113
Acceptances	6,363	6,259	6,357	6,135	5,858
Matriculations	1,465	1,416	1,428	1,409	1,367

Sponsored projects revenue accounts for 36.8% of total operating revenues and increased $22.4 million or 7.6% from the prior year. Sponsored projects revenue remains the largest source of operating revenue for the University. As Figure 6 shows, Carnegie Mellon has experienced significant increases in sponsored projects over the past decade with revenues growing from $168.1 million in 1999 to $318.4 million in 2009, an 89.4% increase. Sponsored projects revenues are comprised of: federal support (83.9%), foundation/non-profit (4.5%), industry (8.2%), state (1.5%), and non-federal (1.9%).

FIGURE 6 **Sponsored Projects Revenue**



Private support accounts for 10.7% of total operating revenues and increased $6.0 million or 6.9% from the prior year to a total of $92.8 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 $22.8 million, including $14.2 million of donated space and services. In total, $58.5 million of contributions (gifts, donated space/services and pledges) were received in fiscal year 2009, which include $22.7 million of contributions which are expendable with donor restrictions, and $12.9 million of contributions for which the corpus is permanently restricted. This compares to total contributions of $80.0 million in the prior year, including $5.3 million of donated space and services. This decrease resulted from the economic downturn.

- **Net assets released from restrictions**, which consist of prior year pledges and gifts released from donor restrictions, totaled $36.8 million, an increase of $4.7 million from 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, 2009 was 5%, which contributed $51.6 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 decline of endowment support as a percentage of operations over the past decade, from an average of 6.6% for the decade, to 6.1% in fiscal year 2009. 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 $4.3 million or 3.1% to $141.5 million in fiscal year 2009, representing 16.4% of University operating revenues compared to 17.0% 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 2009, operating expenses totaled $852.2 million, a 5.5% increase or $44.3 million over fiscal year 2008. Personnel costs remain the University's single largest category of expense at $551.9 million in 2009, or 64.8% of total operating expenses. Personnel costs increased 7.3% consistent with the University's growth in international programs, planned growth in Advancement and Computing Services, as well as fiscal 2009 salary increases that went into effect on July 1, 2008 and promotions. Interest expense decreased $8.0 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**

($ in millions)	**2009**	**2008**	**2007**	**2006**	**2005**
Salaries and benefits	$ 552	$ 514	$ 487	$ 452	$ 421
Supplies and services	146	148	138	150	132
Occupancy and related expenses	63	53	47	49	40
Other operating expenses	39	35	29	31	31
Depreciation and amortization	46	44	45	44	43
Interest expense	6	14	16	12	8
Total Expenses	$ 852	$ 808	$ 762	$ 738	$ 675

Nonoperating Results

The University reports realized and unrealized gains or losses due to investment activities, any gains or losses on other financial instruments such as swap agreements, and other activities that are not directly related to our mission as nonoperating items in its Consolidated Statements of Activities. In the current fiscal year, the decrease in unrestricted net assets from nonoperating activities was $170.6 million, primarily driven by realized and unrealized losses in the University's investments.

Conclusion

The formula of Carnegie Mellon's success lies in our approach that values an interdisciplinary and collaborative model. Under this model, our research and educational activities have flourished despite our modest resources. We continue to be forward-looking as a university. We continue to plan for enhancing Carnegie Mellon's long-term ability to be financially competitive in all areas and in using our limited resources to deliver education and research that has world wide impact.

Deborah J. Moon
Vice President and Chief Financial Officer
December 18, 2009

FINANCIAL HIGHLIGHTS FROM THE CHIEF INVESTMENT OFFICER

The University's endowment remains an important priority and crucial contributor to the institution's mission. In sum, the endowment is expected to provide Carnegie Mellon with 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 very competitive world.

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

In order to maximize long-term returns within acceptable levels of risk and liquidity, Carnegie Mellon constructs its policy asset allocation using a combination of academic theory, quantitative analysis and informed market judgment. Given the dramatic, recent volatility in the global capital markets, we have devoted considerable efforts toward monitoring and ensuring that liquidity levels in the University's investment portfolios are adequate. The current asset allocation targets for the University's long-term pool, which allocations were established in September 2008, and the actual allocations at June 30, 2009 are as follows:

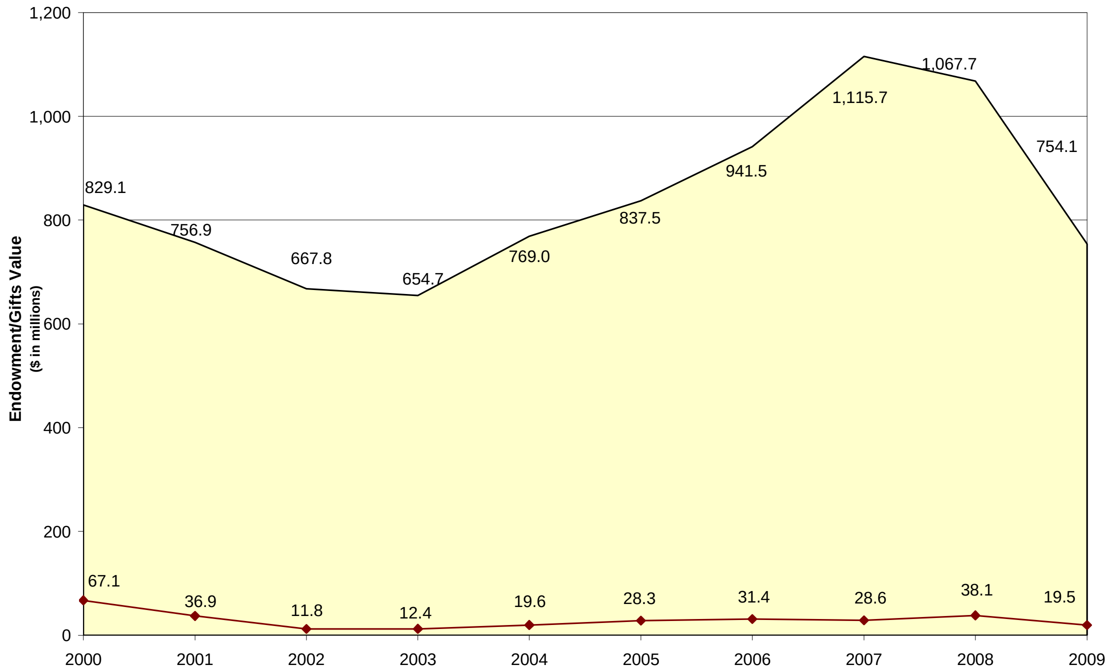
Policy Asset Allocation Targets and June 30, 2009 Allocations:

	Target Allocation	Actual as of 6/30/09
U.S. Public Equities	16%	15%
Non-U.S. Public Equities	16%	18%
Fixed Income	10%	12%
Private Equity	22%	19%
Hedge Funds	15%	14%
Real Assets (i.e., Real Estate, Natural Resources)	15%	11%
Opportunistic	6%	7%
Cash	0%	4%
Total	100%	100%

Investment Performance

As a result of the extraordinary turmoil in the global economy and capital markets, Carnegie Mellon's endowment portfolio experienced an exceedingly difficult 12-month period ending June 30, 2009, like all institutional investors that allocated significantly to equity-oriented assets. The University's net investment return totaled -26.7% for fiscal year 2009, which followed a net investment loss of -2.8% in fiscal year 2008. The endowment's market value fell to $754.1 million as of June 30, 2009, down from $1,067.7 million as of June 30, 2008. This net decrease of $313.6 million reflects the collective impact of $19.5 million from gifts and other sources, less $281.5 million in investment losses and $51.6 million in distributions to support the University's annual operations.

Endowment Market Value and Fiscal Year Gifts Ending June 30th



Due to the extreme disruption in the global capital markets during the past fiscal year, the protections typically generated from highly diversified portfolios failed to materialize. During the same 12-month period ended June 30, 2009, the University's endowment fared similarly to broad equity indexes, such as the S&P 500 Index (-26.2%), Russell 2000 Index (-25.0%), MSCI Emerging Markets Index (-28.1%) and MSCI World Index excluding U.S. (-31.2%). While the 4th quarter of fiscal year 2009 witnessed a general recovery in the values of publicly traded securities, the illiquid assets in the University's endowment had not yet begun to recover their value as of June 30, 2009. Note also that the endowment's net investment loss of 26.7% for fiscal year 2009 includes the write down to zero of the University's investment in Westridge since there is insufficient evidence at this time to estimate the timing or amounts the University may ultimately recover relating to this investment which we continue to aggressively pursue.

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 - both in absolute terms and on a per capita basis - relative to our 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:

	Fiscal Year Ending June 30th									
($ Thousands)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Opening Value	719.3	829.1	756.9	667.8	654.7	769.0	837.5	941.5	1,115.7	1,067.7
Gifts/Transfers	67.1	36.9	11.8	12.4	19.6	28.3	31.4	28.6	38.1	19.5
Annuity Reclassification	-	-	-	-	-	-	(11.7)	-		
Draw	(35.2)	(41.9)	(42.8)	(41.7)	(36.5)	(36.3)	(36.8)	(40.5)	(45.7)	(51.6)
Investment Performance	77.9	(67.2)	(58.1)	16.2	131.2	76.5	121.2	186.1	(40.4)	(281.5)
Closing Value	829.1	756.9	667.8	654.7	769.0	837.5	941.5	1,115.7	1,067.7	754.1
Draw Details										
Total Operations	462.0	500.1	551.0	559.8	620.1	674.8	737.7	762.1	809.5	850.7
Draw % of Operations	7.6%	8.4%	7.8%	7.5%	5.9%	5.4%	5.0%	5.3%	5.6%	6.1%

During the last decade, the draw from the endowment has contributed, on average, approximately 6.3% of the University's annual operating budget. During fiscal year 2009, the draw from the endowment provided 6.1% of the University's operating budget, compared to 5.6% for fiscal year 2008. 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 6" of the consolidated financial statements), but also by the growth in the University's annual operating budget, which has increased by 91% since fiscal year 2000.

With recent changes designed to significantly enhance the University's investment program and the continued generosity of the University's alumni and friends, we are confident that the prospects for long-term growth of endowment assets remain strong. Although the recent turmoil has been painful to endure, the University's investment program has not deviated from its long-term focus. Accordingly, we believe 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
Chief Investment Officer
December 18, 2009

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Report of Independent Auditors

To the Board of Trustees
Carnegie Mellon University and Subsidiaries

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and changes in net assets and of cash flows, present fairly, in all material respects, the financial position of Carnegie Mellon University and its Subsidiaries at June 30, 2009 and June 30, 2008, 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 audit provides a reasonable basis for our opinion.

As discussed in Note 7 to the accompanying consolidated financial statements, as of July 1, 2008, the University adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
December 18, 2009

Carnegie Mellon University
Consolidated Statements of Financial Position
June 30, 2009 and 2008
($ in thousands)

	2009	2008
Assets:		
Cash and cash equivalents	$ 128,177	$ 93,342
Accrued interest and dividends	1,633	3,055
Accounts receivable, net (Note 3)	57,128	70,193
Pledges receivable, net (Note 4)	48,999	53,262
Student loans receivable, net (Note 3)	17,874	18,649
Investments (Note 5 and Note 7)	973,030	1,379,322
Assets held in trust by others	10,802	13,027
Assets limited as to use (Note 2)	-	27,661
Other assets	31,808	28,702
Land, buildings and equipment, net (Note 9)	658,726	580,883
Total assets	$ 1,928,177	$ 2,268,096
Liabilities:		
Accounts payable and other liabilities (Note 2)	$ 130,382	$ 110,850
Deferred revenue	91,882	99,546
Federal student loan funds	14,502	14,497
Present value of split interest agreements payable	18,027	20,297
Long-term debt (Note 10)	466,406	449,278
Total liabilities	$ 721,199	$ 694,468
Net assets:		
Unrestricted	504,831	662,342
Temporarily restricted (Note 11)	245,720	463,549
Permanently restricted (Note 11)	456,427	447,737
Total net assets	$ 1,206,978	$ 1,573,628
Total liabilities and net assets	$ 1,928,177	$ 2,268,096

The accompanying notes are an integral part of these financial statements.

Carnegie Mellon University
Consolidated Statements of Activities
Year Ended June 30, 2009
($ in thousands)

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Tuition and other educational fees revenue, net of financial aid	$ 312,657	$ -	$ -	$ 312,657
Sponsored projects revenue (Note 8)	318,408	-	-	318,408
Investment income	33,106	4,245	269	37,620
Contributions revenue (Note 4)	22,823	22,742	12,908	58,473
Auxiliary services revenue	46,358	-	-	46,358
Other sources (Note 2)	95,169	(2,862)	(1,391)	90,916
Net assets released from restrictions	36,846	(36,846)	-	-
Total revenue and other support	$ 865,367	$ (12,721)	$ 11,786	$ 864,432
Expenses:				
Salaries	$ 450,631	$ -	$ -	$ 450,631
Benefits	101,289	-	-	101,289
Supplies and services	145,554	-	-	145,554
Occupancy and related expenses	63,283	-	-	63,283
Other operating expenses	39,164	-	-	39,164
Depreciation and amortization	46,100	-	-	46,100
Interest expense	6,221	-	-	6,221
Total expenses	$ 852,242	$ -	$ -	$ 852,242
Increase (decrease) in net assets before nonoperating activities	$ 13,125	$ (12,721)	$ 11,786	$ 12,190
Nonoperating activities:				
Net realized loss on investments	$ (78,600)	$ (58,996)	$ (836)	$ (138,432)
Net unrealized loss on investments	(78,740)	(145,758)	(2,260)	(226,758)
Other sources (Note 2)	(15,239)	-	-	(15,239)
Post retirement plan changes other than net periodic benefit costs (Note 15)	1,589	-	-	1,589
Net assets released from restrictions	354	(354)	-	-
Total nonoperating activities	$ (170,636)	$ (205,108)	$ (3,096)	$ (378,840)
(Decrease) increase in net assets	$ (157,511)	$ (217,829)	$ 8,690	$ (366,650)
Net assets, June 30, 2008	$ 662,342	$ 463,549	$ 447,737	$ 1,573,628
Net assets, June 30, 2009	$ 504,831	$ 245,720	$ 456,427	$ 1,206,978

The accompanying notes are an integral part of these financial statements.

Carnegie Mellon University
Consolidated Statements of Activities
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 8)	296,055	-	-	296,055
Investment income	36,169	10,290	211	46,670
Contributions revenue (Note 4)	18,479	34,258	27,257	79,994
Auxiliary services revenue	43,815	-	-	43,815
Other sources (Note 2)	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
Increase (decrease) 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 2)	(14,300)	-	-	(14,300)
Post retirement plan changes other than net periodic benefit costs (Note 15)	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	$ (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

The accompanying notes are an integral part of these financial statements.

Carnegie Mellon University
Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008
($ in thousands)

	2009	2008
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (366,650)	$ (67,907)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized losses (gains) on investments	113,976	(89,732)
Unrealized losses on investments	226,758	167,883
Depreciation and amortization	46,101	43,767
Loss on debt extinguishment	-	1,761
Gifts in kind	(263)	(1,475)
Loss on asset dispositions	128	449
Receipt of contributed securities	(2,959)	(19,933)
Provision for bad debt and other allowances	701	(778)
Contributions held in trust by others	2,225	261
Contributions for land, buildings, equipment and permanent endowment	(19,302)	(24,732)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest and dividends	1,422	670
Accounts receivable, net	12,438	(13,751)
Pledges receivable, net	4,487	3,086
Other assets	(3,273)	5,099
Increase (decrease) in:		
Accounts payable and other liabilities	23,493	5,957
Deferred revenue	(7,663)	17,366
Federal loan programs	5	(32)
Present value of split interest agreements	(2,270)	(29)
Net cash provided by operating activities	$ 29,354	$ 27,930
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	2,582,358	5,211,579
Purchases of investments	(2,516,800)	(5,224,760)
Proceeds from sale of donated securities	2,883	18,672
Assets limited as to use	27,661	49,173
Purchases of land, buildings and equipment	(109,265)	(75,621)
Disbursements of loans to students	(1,509)	(3,289)
Repayments of loans from students	2,152	2,818
Net cash used for investing activities	$ (12,520)	$ (21,428)
Cash flows from financing activities:		
Proceeds from issuance of indebtedness	-	120,820
Payment of bond issue costs	-	(494)
Repayments of long-term debt	(1,301)	(121,086)
Contributions for land, buildings, equipment and permanent endowment	19,302	24,732
Net cash provided by financing activities	$ 18,001	$ 23,972
Net increase in cash and cash equivalents	34,835	30,474
Cash and cash equivalents at beginning of year	93,342	62,868
Cash and cash equivalents at end of year	$ 128,177	$ 93,342
Noncash transactions:		
Additions to property, plant and equipment (accruals, gifts in kind, capital leases)	$ 4,781	$ 10,539
Property addition financed by seller	18,400	-
Non-cash stock contributions	2,959	19,933

The accompanying notes are an integral part of these financial statements.

1. Carnegie Mellon

Carnegie Mellon University ("Carnegie Mellon") is a private, not-for-profit educational and research institution. Carnegie Mellon currently enrolls about 11,100 students and grants approximately 3,100 bachelors, masters and doctoral degrees each year. Approximately 85% of undergraduate students are from the United States of America. International students comprise approximately 15% of undergraduate, 46% 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.

2. 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, Benjamin Garver Lamme Scholarship Fund, 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.

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. Note 7- Fair Value provides additional information about inputs used to determine fair value for investments. 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 6). 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 represent proceeds from the issuance of the 2006 bonds, which were held by a trustee under the bond indenture for capital expenditures. Remaining proceeds of $27.7 million were drawn during fiscal year 2009.

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 $1.3 million and $0.6 million was capitalized in fiscal year 2009 and 2008, 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 Statements of Activities includes revenue from tuition and other educational fees, sponsored projects, investment return distributed according to Carnegie Mellon's spending policy, unrestricted contributions, revenues from auxiliary services and other sources, and net assets released from restriction. Operating expenses are reported by natural classification.

Student Financial Aid
Tuition and other educational fees are reported net of student financial aid of $95.3 million and $85.8 million for the years ended June 30, 2009 and 2008, 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 rate commensurate with the pledge payment schedule. Prior to the adoption of Statement of Financial Accounting Standard No. 157, *Fair Value Measurements*, ("SFAS 157") a risk-free rate was used. For pledges recorded subsequent to the adoption of SFAS 157, a discount rate commensurate with fair market value is used. 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, retail and other external services. 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 $13.1 million loss and a $12.0 million loss in the fair value of the interest rate swap agreements as of June 30, 2009 and 2008, respectively (Note 12);

- Swap interest expense of $3.5 million and $0.7 million as of June 30, 2009 and 2008, respectively (Note 12);

- 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. 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.

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 March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 161, *Disclosures about Derivative Instruments and Hedging Activities,* ("SFAS 161"). The standard amends and expands the disclosure requirements in FASB Statement of Financial Accounting Standards No. 133. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The objective of the guidance is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows, if applicable. SFAS 161 is effective for fiscal periods beginning after November 15, 2008. Management is evaluating the impact of adoption of this new pronouncement; however, it is not expected to have a material effect on the University's financial statements.

In April 2009, the FASB issued Statement of Financial Accounting Standard No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* ("SFAS 164"). The standard improves the relevance, representational faithfulness, and comparability about a combination with one or more not-for-profit entities, businesses, or nonprofit activities and information about goodwill and other intangible assets after an acquisition. SFAS 164 is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 31, 2009, and for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Management is evaluating the impact of adoption of this new pronouncement, however, it is not expected to have a material effect on the University's financial statements.

In June 2009, the FASB issued Statement of Accounting Standard No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168"). The standard replaces FASB Statement No. 162. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative generally accepted accounting principles in the United States of America. The Codification changes the referencing of financial standards but is not intended to change or alter existing U.S. GAAP. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and will be effective for the University for the year ending June 30, 2010.

3. Accounts and Loans Receivable

Accounts receivable at June 30, 2009 and 2008, consist of the following (in thousands of dollars):

	2009	2008
Sponsored project grants and contracts		
Federal	$ 36,139	$ 44,986
Other	8,180	8,449
Total sponsored projects	$ 44,319	$ 53,435
Student accounts	6,741	7,025
Other	8,831	12,326
	$ 15,572	$ 19,351
Allowance for doubtful accounts	(2,763)	(2,593)
Net accounts receivable	$ 57,128	$ 70,193

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 $17.9 million and $18.6 million, as of June 30, 2009 and 2008, respectively, primarily represent student loans made under a federal loan program including loans under the Gate Loan Program (Note 18). These loans are reported net of an allowance for doubtful accounts of approximately $0.9 million and $0.6 million as of June 30, 2009 and 2008, respectively.

4. Pledges Receivable and Contributions

Pledges as of June 30, 2009 and 2008 are discounted to the present value of future cash flows as of the date of the gift and are due as follows (in thousands of dollars):

	2009		
	Temporarily Restricted	Permanently Restricted	Total
In one year or less	$ 3,531	$ 7,460	$ 10,991
Between one year and five years	20,888	22,218	43,106
More than five years	5,011	1,868	6,879
Pledges receivable, gross	$ 29,430	$ 31,546	$ 60,976
Less:			
Unamortized discount	4,148	5,250	9,398
Allowances for unfulfilled pledges	1,264	1,315	2,579
Pledges receivable, net of allowances	$ 24,018	$ 24,981	$ 48,999

	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
Pledges receivable, gross	$ 30,391	$ 39,053	$ 69,444
Less:			
Unamortized discount	5,082	8,297	13,379
Allowances for unfulfilled pledges	1,265	1,538	2,803
Pledges receivable, net of allowances	$ 24,044	$ 29,218	$ 53,262

Pledges receivable, as of June 30, 2009 and 2008, net of allowances, are intended for the endowment in the amounts of $25.0 million and $29.2 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $24.0 million for both periods.

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, 2009 and 2008 are as follows (in thousands of dollars):

	2009	2008
Unrestricted	$ 22,823	$ 18,479
Temporarily restricted	22,742	34,258
Permanently restricted	12,908	27,257
Total	$ 58,473	$ 79,994

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 conditional pledges for Carnegie Mellon were approximately $44.3 million and $44.1 million as of June 30, 2009 and 2008, respectively. These amounts were not recognized as contribution revenue during the respective fiscal year as the conditions had not been met.

5. Investments

Investments by major category at June 30, 2009 and 2008 are as follows (in thousands of dollars):

	2009	2008
Restricted cash and cash equivalents	$ 106,150	$ 113,280
Fixed income	160,353	281,524
Common stock	291,669	548,907
Other investments	414,858	435,611
Total investments	$ 973,030	$ 1,379,322

Investments are held for the following purposes (in thousands of dollars):

	2009	2008
Endowment	$ 749,640	$ 1,061,716
Reserves for working capital and plant - short-term	59,111	103,004
Reserves for working capital and plant - long-term	110,402	154,206
Split interest agreements	28,897	38,697
Other investments	24,980	21,699
Total investments	$ 973,030	$ 1,379,322

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, 2009 were composed of approximately 47.0% domestic equities and 53.0% international and emerging market equities. Common stock investments at June 30, 2008 are composed of approximately 47.8% domestic equities and 52.2% international and emerging market equities. Alternative investments are largely investments in buyout funds, venture capital, real estate, natural resources and hedge funds.

The allocation to each major category in the table above represents the actual allocation of the short term and long term investment pools, split interest agreements, and other miscellaneous investments 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, 2009 and 2008 (in thousands of dollars):

	2009	2008
Dividends and interest (net of $3.5 million and $4.9 million of investment fees)	$ 13,164	$ 30,590
Net realized (losses) gains on sale of investments	(113,976)	89,732
Net unrealized (losses) on investments	(226,758)	(167,883)
Total return on investments	$ (327,570)	$ (47,561)

Operating investment income as reported on the Consolidated Statements of Activities includes dividends and interest earned on unrestricted funds as well as unrestricted accumulated gains utilized for current operations in the amounts of $24.5 million and $16.1 million in the years ended June 30, 2009 and 2008, respectively. The accumulated gains are reclassified from net realized gains to dividends and interest income. This reclassification is not reflected in the table above. Due to current year realized losses, prior year gains were utilized during fiscal year 2009.

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. Previously, certain domestic equity investment managers utilized 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, the notional value of S&P 500 futures contracts held by these outside investment managers were approximately $113.5 million. For the year ended June 30, 2009, Carnegie Mellon had no managers that utilized this S&P 500 futures index.

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, 2009 and 2008, Carnegie Mellon had unfunded commitments of approximately $310.7 million and $340.8 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.

At June 30, 2008, Carnegie Mellon's endowment included a $74.4 million investment in Westridge Capital Management, Inc. (WCM) Enhancement Fund. The reported net asset value at January 31, 2009 was $49.1 million. On February 13, 2009, Carnegie Mellon was notified that the National Futures Association (NFA) had suspended the memberships of two individuals associated with WCM because of their failure to cooperate with an NFA audit. On the same day, Carnegie Mellon requested a full redemption of all funds that the University had invested.

On February 20, 2009, Carnegie Mellon filed a lawsuit in the United States District Court for the Western District of Pennsylvania against WCM and several other Westridge-related entities and individuals to preserve assets and secure recovery of the investment that it had made in the Westridge-related entities. (Carnegie Mellon University et al. v. Westridge Capital Management, Inc., et al., 2:09-cv-00215-TFM (U.S.D.C. W.D.Pa.). Although still pending, that lawsuit was later stayed when the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC" each filed lawsuits against certain corporate entities and individuals affiliated with Westridge in the United States District Court for the Southern District of New York. In connection with the SEC and CFTC lawsuits, the Court issued temporary restraining orders on February 25, 2009 that froze the various defendants' assets and accounts and appointed a receiver.

There is insufficient evidence at this time to estimate the timing or amounts the University may ultimately recover relating to this investment. Therefore, an impairment loss of $49.1 million was recorded as of June 30, 2009 writing the reported investment value down to $0. This realized loss is included in non-operating activities on the Consolidated Statements of Activities.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following tables summarize these investments by strategy type at June 30, 2009 and 2008 (in thousands of dollars):

Alternative Investment Strategy	**Number of Funds**		**2009 Fair Value**
Aggressive, distressed and arbitrage fixed income	13	$	37,922
Hedge funds	17		126,336
Natural resources	16		47,870
Private equity (buyout) funds	50		68,821
Real estate	13		39,725
Venture capital	62		94,184
Total	171	$	414,858
Total investments		$	973,030
% Alternative			42.6%

Alternative Investment Strategy	Number of Funds	2008 Fair Value
Aggressive, distressed and arbitrage fixed income	13	$ 24,317
Hedge funds	13	153,010
Natural resources	16	37,264
Private equity (buyout) funds	48	81,304
Real estate	13	51,111
Venture capital	56	88,605
Total	159	$ 435,611
Total investments		$ 1,379,322
% Alternative		31.6%

6. Endowments

The following tables provide a summary of the changes in value of the endowment assets excluding pledges for the years ended June 30 (in thousands of dollars):

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year endowment value	$ 312,620	$ 353,399	$ 401,709	$ 1,067,728
Gifts and other additions:				
Contributions (excluding pledges)	323	-	16,469	16,792
Terminated life income trusts and income and gains reinvested	30	-	2,717	2,747
Total gifts and other additions	$ 353	$ -	$ 19,186	$ 19,539
Investment income:				
Interest and dividends	$ 2,624	$ 2,849	$ -	$ 5,473
Net realized (losses) on sale of securities	(23,900)	(57,729)	-	(81,629)
Net unrealized (losses)	(60,177)	(145,189)	-	(205,366)
Total investment (loss)	$ (81,453)	$ (200,069)	$ -	$ (281,522)
Income distributed:				
Cash and accrued interest and dividends	$ (5,312)	$ (5,766)	$ -	$ (11,078)
Accumulated realized investment gains	(19,305)	(20,956)	(275)	(40,536)
Total income distributed	$ (24,617)	$ (26,722)	$ (275)	$ (51,614)
End of year endowment value	$ 206,903	$ 126,608	$ 420,620	$ 754,131 (1)

(1) Includes $4,491 of endowment gifts pending investment and other accruals.

	2008								
			Temporarily		Permanently				
		Unrestricted		**Restricted**		**Restricted**		**Total**	
Beginning of year endowment value	$	343,755	$	407,399	$	364,586	$	1,115,740	
Gifts and other additions:									
Contributions (excluding pledges)		641		-		35,640		36,281	
Terminated life income trusts and income and gains reinvested		64		-		1,763		1,827	
Total gifts and other additions	$	705	$	-	$	37,403	$	38,108	
Investment income:									
Interest and dividends	$	7,543	$	7,822	$	-	$	15,365	
Net realized gains on sale of securities		24,270		54,504		-		78,774	
Net unrealized (losses)		(41,338)		(93,229)		-		(134,567)	
Total investment (loss) income	$	(9,525)	$	(30,903)	$	-	$	(40,428)	
Income distributed:									
Cash and accrued interest and dividends	$	(7,543)	$	(7,822)	$	-	$	(15,365)	
Accumulated realized investment gains		(14,772)		(15,275)		(280)		(30,327)	
Total income distributed	$	(22,315)	$	(23,097)	$	(280)	$	(45,692)	
End of year endowment value	$	312,620	$	353,399	$	401,709	$	1,067,728	(2)

(2) Includes $6,012 of endowment gifts pending investment and other accruals.

The following tables outline donor-restricted funds and Board-designated funds for fiscal years 2009 and 2008 (in thousands of dollars):

	2009							
			Temporarily		Permanently			
		Unrestricted		**Restricted**		**Restricted**		**Total**
Donor-restricted endowment funds	$	-	$	126,608	$	420,620	$	547,228
Board-designated funds		206,903		-		-		206,903
Total funds	$	206,903	$	126,608	$	420,620	$	754,131

	2008							
			Temporarily		Permanently			
		Unrestricted		**Restricted**		**Restricted**		**Total**
Donor-restricted endowment funds	$	-	$	353,399	$	401,709	$	755,108
Board-designated funds		312,620		-		-		312,620
Total funds	$	312,620	$	353,399	$	401,709	$	1,067,728

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 2% and 7% 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. Carnegie Mellon targets a diversified asset allocation to achieve its long term objectives with prudent risk constraints. 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 2009 and 2008, 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 2009 and 2008 divided by the June 30 endowment market values for the those fiscal years) was 6.8% and 4.3%, respectively.

7. Fair Value

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received to sell an asset or paid to transfer a liability at an exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement data.

The provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159") were effective July 1, 2008. SFAS 159 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

SFAS 157 also establishes a hierarchy to prioritize valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 are designed to maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2009, by caption on the Consolidated Statements of Financial Position by the SFAS 157 valuation hierarchy defined above (in thousands of dollars):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Cash and cash equivalents	$ 106,150	$ -	$ -	$ 106,150
Common stock	236,216	55,453	-	291,669
Fixed income	118,384	41,969	-	160,353
Hedge funds	-	-	126,336	126,336
Natural resources	-	-	47,870	47,870
Private equity	-	-	163,005	163,005
Real estate	-	-	39,725	39,725
Other	-	-	37,922	37,922
Total investments	$ 460,750	$ 97,422	$ 414,858	$ 973,030
Beneficial interests held by third party	-	-	5,553	5,553
Perpetual trusts held by third party	-	-	5,249	5,249
Total assets held in trust by others	-	-	10,802	10,802
Total assets at fair value	$ 460,750	$ 97,422	$ 425,660	$ 983,832
Liabilities				
Interest rate swaps payable	$ -	$ 22,360	$ -	$ 22,360
Total liabilities at fair value	$ -	$ 22,360	$ -	$ 22,360

Following is a description of the University's valuation methodologies for assets and liabilities measured at fair value:

Fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities, which include active listed equities, mutual funds, government supported obligations and cash equivalents.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active or assets subject to transfer restrictions. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Investments included in Level 3 primarily consists of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, natural resources and other similar funds). The value of certain alternative investments represents the University’s ownership interest in the net asset value (NAV) or fair value of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, completed or pending third party transactions in comparable issues, recapitalizations and other transactions across the capital structure and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

Interest rate swaps are valued using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within level 2.

Beneficial remainder and lead trusts held by third parties are valued at the present value of the future distributions expected to be received upon termination of the trust or over the term of the trust agreement and approximate fair value. Perpetual trusts are valued based upon the University's percentage interest in the fair value of the underlying trust assets.

The valuation methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the Consolidated Statement of Financial Position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above (in thousands of dollars):

	Hedge Funds	Private Equity	Real Estate	Natural Resources	Other	Total Investments
Fair value, July 1, 2008	$ 153,010	$ 169,909	$ 51,111	$ 37,264	$ 24,317	$ 435,611
Realized gains (losses)	-	(11,350)	1,124	(2,969)	(468)	(13,663)
Unrealized gains (losses)	(26,182)	(31,837)	(26,393)	(4,990)	(6,459)	(95,861)
Net purchases, sales and settlements	(492)	36,283	13,883	18,565	20,532	88,771
Fair value, June 30, 2009	$ 126,336	$ 163,005	$ 39,725	$ 47,870	$ 37,922	$ 414,858

All net realized and unrealized gain (losses) in the table above are reflected in nonoperating activities in the accompanying Consolidated Statements of Activities. Net unrealized gains (losses) relate to those financial instruments held by the University at June 30.

	Beneficial Interests Held by Third Party	Perpetual Trusts Held by Third Party	Total Trusts Held by Third Party
Fair value, July 1, 2008	$ 6,452	$ 6,575	$ 13,027
Realized gains (losses)	-	-	-
Unrealized gains (losses)	(1,212)	(1,326)	(2,538)
Transfers in (out)	313	-	313
Fair value, June 30, 2009	$ 5,553	$ 5,249	$ 10,802

8. Sponsored Projects Revenue

The major components of sponsored projects revenue for the years ended June 30, 2009 and 2008, are as follows (in thousands of dollars):

	2009	2008
Federal		
Direct	$ 223,677	$ 209,938
Indirect	43,462	41,237
Total Federal	$ 267,139	$ 251,175
State, industrial and other		
Direct	$ 45,098	$ 39,958
Indirect	6,171	4,922
Total state, industrial and other	$ 51,269	$ 44,880
Total sponsored projects revenue	$ 318,408	$ 296,055

Included in other sponsored projects revenue for the fiscal years ended June 30, 2009 and 2008 are amounts from private sources (foundation grants) which amounted to $12.4 million and $10.7 million, respectively.

9. Land, Buildings and Equipment

Land, buildings and equipment at June 30 consist of the following (in thousands of dollars):

	2009	2008
Buildings	$ 776,971	$ 727,249
Movable equipment	226,743	230,395
Utilities and building-related assets	51,661	45,458
Land improvements	10,288	7,860
Leasehold improvements	11,824	10,599
Assets held for sale	708	708
Subtotal	$ 1,078,195	$ 1,022,269
Accumulated depreciation	(552,742)	(530,551)
Subtotal	$ 525,453	$ 491,718
Land	28,536	10,708
Construction in progress	104,737	78,457
Land, buildings and equipment, net	$ 658,726	$ 580,883

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, 2009 and 2008. 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.

10. Long-Term Debt

Long term debt consists of the following as of June 30 (in thousands of dollars):

	Interest %	2009	2008
Pennsylvania Higher Education Facility 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%	38,994	38,965
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series 2008	Variable	120,820	120,820
Notes payable	1.7%	18,400	-
Dormitory bonds mortgage notes	3.0%	1,836	2,018
Collaborative Innovation Center financing	5.2%	30,147	30,789
Bonds and other debt		$ 464,997	$ 447,392
Capital lease obligations	3.8 - 4.5%	1,409	1,886
Total long-term debt		$ 466,406	$ 449,278

Series 1995 Bonds
On November 1, 1995, Carnegie Mellon issued through the Pennsylvania Higher Educational Facilities Authority ("PHEFA") $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 1995 Bonds consists of four tranches, A through D, in which the first three series has mandatory sinking fund redemptions. The maturities are set as follows: $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. The interest rates on the 1995 bonds ranged from 0.2% to 3.7% during fiscal year 2009 and from 0.6% to 4.0% during fiscal year 2008. In the event of default, Carnegie Mellon is required to buy back the 1995 Bonds.

Refer to Note 19 - Subsequent Events for further information on the refunding of the 1995 Bonds.

Carnegie Mellon's investments include $11.4 million required under its 1995 Bond agreements to be held until the related debt is retired. Subsequent to year end these funds were used to refund the 1995 Bonds.

With respect to the 1995 bonds, Carnegie Mellon entered into a separate Standby Bond Purchase Agreement ("SBPA") with an investment banking firm that agreed to purchase the bonds under certain circumstances. The SBPA for the 1995 Bonds would have expired on October 21, 2009 if the 1995 Bonds were not refunded.

Series 1998 Bonds
On December 30, 1998, Carnegie Mellon issued, through the Allegheny County Higher Education Building Authority ("ACHEBA"), $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 variable market-based interest rates determined daily by the bonds' remarketing agent. Interest rates on the 1998 Bonds ranged from 0.2% to 4.1% during fiscal year 2009 and from 0.7% to 4.1% during fiscal year 2008.

With respect to the 1998 Bonds, Carnegie Mellon has entered into a separate Standby Bond Purchase Agreement ("SBPA") with an investment banking firm that has agreed to purchase the bonds under certain circumstances. The SBPA for the 1998 Bonds is scheduled to continue until December 31, 2015, unless the investment bank exercises certain rights to exit the SBPA at specified times in fiscal years 2011 and 2014.

Series 2002 Bonds
On March 27, 2002, Carnegie Mellon issued, through ACHEBA, 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 issuance of bonds in 2007. 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 through 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%.

Series 2008 Bonds
On April 10, 2008, Carnegie Mellon issued, through the ACHEBA, 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 all of the outstanding 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 by the bonds' remarketing agent. Interest rates ranged from 0.2% to 4.1% during fiscal year 2009 and from 0.7% to 2.4% during fiscal year 2008.

For the 2008 Bonds, Carnegie Mellon has entered into a separate SBPA with an investment banking firm that has agreed to purchase the bonds under certain circumstances. The SBPA for the 2008 Bonds is renewed every 364 days, with the next renewal date being April 8, 2010. In the event the investment banking firm does not wish to renew the agreement, it must provide notification 60 days prior to the expiration date.

Notes Payable
On June 30, 2009, Carnegie Mellon issued a $18.4 million Promissory Note ("the Note") to Carnegie Institute, d/b/a Carnegie Museums of Pittsburgh ("the Museum"), pursuant to the terms and conditions of the Purchase and Sale Agreement with the Museum dated August 7, 2008 and as amended February 27, 2009, for the acquisition of certain real estate and other property owned by the Museum in the amount of $23.0 million. Carnegie Mellon made a 20% down payment of $4.6 million on the closing date. Four equal installments of $4.6 million plus accrued interest are due upon each anniversary of the closing date over the next four consecutive years. The Note bears interest of 1.7% for the first year and shall be adjusted to an annual rate equal to the monthly average yield of five-year US Treasury notes less 100 basis points. In consideration of the loan and to provide security to the Museum for payment of principal and interest on the note, Carnegie Mellon and the Museum entered into a Purchase Money Mortgage for the real estate and other property included in the Purchase and Sale Agreement.

Dormitory Bonds and Mortgage Notes
The dormitory bonds and mortgage notes mature in varying amounts through fiscal year 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.

Collaborative Innovation Center Financing
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, 2009 and 2008 in the amount of $30.1 million and $30.8 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 2009 and 2008. These monthly payments are applied to reduce the CIC financing obligation and record related interest expense. The space lease term concludes on January 31, 2015. The residual value of the financing obligation at the conclusion of the space lease term is approximately $26.0 million which represents the amount which Carnegie Mellon would have to pay in order to exercise a purchase option for the CIC building. The purchase option price is projected to be approximately $18.0 million plus an additional $8.0 million associated with a grant from the Commonwealth of Pennsylvania which may be required to be repaid.

The fair value of Carnegie Mellon’s long-term debt obligations as of June 30, 2009 and 2008 are approximately $467.2 million and $450.6 million, respectively.

Cash paid for interest for the fiscal years ended June 30, 2009 and 2008, totaled $11.1 million and $15.5 million, respectively.

Aggregate maturities of bonds, notes and mortgages for each of the next five years ending June 30 are as follows (in thousands of dollars):

2010	$ 5,403
2011	5,443
2012	5,486
2013	5,533
2014	982
Thereafter	442,150
Total	$ 464,997

The University has letter of credit agreements (or standby bond purchase agreements) with various financial institutions to purchase certain of the University's variable rate demand bonds in the event they cannot be remarketed. In the event that the Bonds covered by these agreements were not remarketable and the agreements were not otherwise renewed, the principal amounts due in the principal debt service payments table, excluding the 1995 Bonds, would be $24.2 million in 2010, $24.2 million in 2011, $24.2 million in 2012, $39.8 million in 2013, $39.8 million in 2014 and $86.5 million thereafter.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30 (in thousands of dollars):

	2009	2008
Endowment earnings	$ 126,608	$ 353,399
Capital and other donor designations	83,493	70,409
Pledges and assets held in trust by others	27,257	28,478
Split interest agreements	7,741	10,667
Loan funds	621	596
Total	$ 245,720	$ 463,549

Permanently restricted net assets as of June 30 are comprised of (in thousands of dollars):

	2009	2008
Endowment	$ 420,620	$ 401,709
Pledges and assets held in trust by others	32,545	37,812
Split interest agreements and other donor designations	3,262	8,216
Total	$ 456,427	$ 447,737

12. 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 1M 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	N/A
May 2007 forward*	Mar 2012	40,325	3.8	67%	20	Mar 2032	N/A

*The notional amount of the May 2007 forward starting swap decreases to $32.4 million in Mar 2028. $24.1 million in Mar 2029, $16.0 million in Mar 2030 and $8.0 million in Mar 2031.

As a result of the interest rate swap agreements, the following fair values were recorded as accounts payable and other liabilities in the Consolidated Statements of Financial Position for the years ended June 30, 2009 and 2008 (in thousands of dollars):

Fair Values of Derivative Instruments

	Derivatives Reported as Liabilities	
Date of Swap Agreement	**2009**	**2008**
October 2004	$ (4,038)	$ (1,106)
April 2006 forward	(14,020)	(6,388)
May 2007 spot	(749)	(371)
May 2007 forward	(3,553)	(1,384)
Total	$ (22,360)	$ (9,249)

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. If the liability value for Carnegie Mellon exceeds $25.0 million, the University is required to post collateral equal to the amount by which the liability value exceeds $25.0 million.

The following interest (expense) and mark to market (losses) were recorded as other sources under nonoperating activities in the Consolidated Statements of Activities for the years ended June 30, 2009 and 2008 (in thousands of dollars):

	Interest (Expense) Revenue		Fair Value (Loss) Gain		Total (Loss) Gain	
Date of Swap Agreement	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Interest rate swaps:						
October 2004	$ (984)	$ (57)	$ (2,932)	$ (2,718)	$ (3,916)	$ (2,775)
April 2006 forward	(2,371)	(552)	(7,632)	(7,049)	(10,003)	(7,601)
May 2007 spot	(140)	(50)	(378)	(381)	(518)	(431)
May 2007 forward	-	-	(2,169)	(1,840)	(2,169)	(1,840)
Total	$ (3,495)	$ (659)	$ (13,111)	$ (11,988)	$ (16,606)	$ (12,647)

Carnegie Mellon uses 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.

13. Expenses by Functional Category

Operating expenses by functional category for the years ended June 30, 2009 and 2008 are as follows (in thousands of dollars):

	2009	**2008**
Instruction and departmental research	$ 318,304	$ 317,822
Sponsored projects	284,344	264,034
Administration and institutional support	81,426	75,153
Academic support	85,276	70,966
Student services	42,363	40,533
Auxiliary services and activities	40,529	39,438
Total	$ 852,242	$ 807,946

Included in administration and institutional support is $16.8 million and $15.2 million of fundraising expenses for the years ended June 30, 2009 and 2008, respectively.

14. 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 primarily related to facilities was $12.1 million and $11.9 million (excluding International donated space of $10.8 million and $2.0 million) for the years ended June 30, 2009 and 2008, respectively. Future minimum lease payments at June 30, 2009 are as follows (in thousands of dollars):

	Operating Leases	Capital Leases
2010	$ 13,899	$ 544
2011	8,453	436
2012	4,340	530
2013	2,761	-
2014	2,046	-
Thereafter	4,547	-
Total	$ 36,046	$ 1,510
Less amount representing interest		(101)
Present value of minimum capitalized lease payments		$ 1,409

At June 30, 2009 and 2008 Carnegie Mellon had contractual obligations of approximately $17.6 million and $50.8 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $17.6 million.

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, 2009 and 2008.

15. 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, 2009 and 2008 totaled $27.2 million and $24.6 million, respectively. Carnegie Mellon contributed $0.4 million to the Central Pension Fund of the International Union of Operating Engineers, a multi-employer plan in fiscal years 2009 and 2008. 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. The liability for post retirement benefit obligations is recorded in the Consolidated Statements of Financial Position in accounts payable and other liabilities.

Cumulative amounts recognized in unrestricted net assets and not yet recognized as components of net periodic benefit cost consist of the following at June 30 (in thousands of dollars):

	2009	2008
Net accumulated loss	$ 43	$ 2,034
Prior service credit	(2,927)	(3,329)
Total	$ (2,884)	$ (1,295)

The components of net periodic benefit costs for the years ended June 30, 2009 and 2008 are as follows (in thousands of dollars):

	2009	2008
Service cost	$ 974	$ 1,119
Interest cost	1,360	1,513
Amortization of prior service credit	(402)	(402)
Amortization of net loss	3	472
Net periodic benefit cost	$ 1,935	$ 2,702

During fiscal year 2010, amortization of $.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 of dollars):

	2009	2008
Benefit obligation, beginning of year	$ 19,854	$ 23,150
Service cost	974	1,119
Interest cost	1,360	1,513
Assumption changes and actuarial (gain) loss	(1,988)	(5,655)
Benefit payments	(282)	(273)
Benefit obligation, end of year	$ 19,918	$ 19,854
Fair value of plans' assets	-	-
Funded status	$ 19,918	$ 19,854

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2009 and 2008 was 6.3% and 6.6%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2009 and 2008 of 8.0% was assumed. The rate was assumed to decrease gradually to 5.5% by 2014 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, 2009 and 2008 by $3.5 million and increase the aggregate service cost and interest cost components for 2009 and 2008 by $.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, 2009 and 2008 by $2.8 million and decrease the aggregate service cost and interest cost components for 2009 and 2008 by $.4 million.

Expected benefits to be paid in future fiscal years are as follows (in thousands of dollars):

June 30	Retiree Contributions	Employer Payments	Total Expected Benefit Payments
2010	$ 571	$ 425	$ 996
2011	810	547	1,357
2012	1,052	667	1,719
2013	1,277	794	2,072
2014	1,521	913	2,434
2015-2019	10,478	6,021	16,499

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 $22.5 million and $20.5 million at June 30, 2009 and 2008, respectively. These assets are reflected as investments in the accompanying Consolidated Statements of Financial Position. Carnegie Mellon will contribute an estimated $1.4 million to the plan in fiscal year 2010.

16. Related Party Transactions

Sponsored projects revenue for fiscal years 2009 and 2008 includes $12.4 million and $15.1 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 $55.9 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 2009 and 2008 includes $2.5 million and $3.6 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, 2009 and 2008, Carnegie Mellon’s percentage obligation was 15.2%. Included in other assets at June 30, 2009 and 2008 are $3.1 million and $2.5 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, 2009 and June 30, 2008 are $6.1 million and $5.0 million, respectively, for steam costs paid to the Bellefield.

17. Conditional Asset Retirement Obligations

Asset retirement obligations are included within other liabilities in the Consolidated Statements of Financial Position. As of June 30, 2009 and 2008, $2.6 million and $1.8 million of conditional asset retirement obligations have been recorded, respectively.

The following table reconciles the asset retirement obligations as of June 30, 2009 and 2008 (in thousands of dollars):

	2009	2008
Asset retirement obligations as of July 1	$ 1,805	$ 1,815
Accretion expense	88	85
Liabilities assumed	830	-
Liabilities settled or disposed	(98)	(95)
Asset retirement obligations as of June 30	$ 2,625	$ 1,805

Additional liabilities of $0.8 million were assumed in conjunction with the acquisition of real estate and other property purchased from Carnegie Museums.

18. 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, 2009 and 2008 is approximately $1.4 million and $1.8 million and $1.3 million and $2.4 million, respectively. The maximum potential amount of future payments (undiscounted) that Carnegie Mellon could be required to make in the future under this program is estimated to be approximately $7.9 million. This amount represents the full undiscounted balance, and does not include any recourse provisions for debts that may become uncollectible.

19. Subsequent Events

The University has performed an evaluation of subsequent events through December 18, 2009, the date on which the consolidated financial statements were issued.

Subsequent to June 30, 2009, Carnegie Mellon issued through the PHEFA, Fixed Rate Revenue Bonds, Series 2009, with a face value of $172.4 million (the “2009 Bonds”). The proceeds of the 2009 Bonds, including an original issue premium, will be used to finance the cost of refunding all of the outstanding 1995 Bonds and to fund certain costs of additional capital acquisitions and expenditures. The 2009 Bonds mature at $52.4 million in fiscal year 2018, $60.0 million in fiscal year 2020, and $60.0 million in fiscal year 2022. The 2009 Bonds, including the effect of an original issue premium, bear fixed rates of interest ranging from 3.5% to 5.0%.

The 1995 Standby Bond Purchase Agreement (“SBPA”) terminated on September 1, 2009 when the 1995 bonds were refunded.

Subsequent to June 30, 2009, Carnegie Mellon entered into a $50.0 million unsecured line of credit agreement that expires on October 5, 2010. Interest is based on an optional LIBOR rate plus 1.25%. No draws have been made to date.

Subsequent to June 30, 2009, Carnegie Mellon purchased certain land and buildings in the amount of $10.5 million.