Carnegie Mellon University

Consolidated Financial Statements
June 30, 2010 and 2009

Carnegie Mellon University
Index
June 30, 2010 and 2009

FINANCIAL HIGHLIGHTS FROM THE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Carnegie Mellon's continued solid financial position and positive financial results are particularly significant for fiscal year 2010 because they were accomplished despite a continued slow economic recovery on the heels of a deep 2009 recession. Carnegie Mellon's positive financial results are indicative of the University community's commitment to control and reduce expenditures while continuing to maintain and strengthen revenue bases.

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)	2010	2009	2008	2007	2006	2005
Total assets	$ 2,015	$ 1,928	$ 2,268	$ 2,424	$ 2,058	$ 1,801
Total liabilities	710	721	694	783	637	491
Total net assets	1,305	1,207	1,574	1,641	1,421	1,310
Total Liabilities and Net Assets	$ 2,015	$ 1,928	$ 2,268	$ 2,424	$ 2,058	$ 1,801

Total University assets at June 20, 2010 were $2.0 billion, an increase of $86.6 million or 4.5% higher than the prior fiscal year. Carnegie Mellon's largest asset, its investment portfolio, which represents 51.7% of Carnegie Mellon's total assets, was valued at $1.0 billion at June 30, 2010 an increase of $67.8 million or 7.0%. Net of the investment balance increase, the University's assets increased by $18.8 million. Carnegie Mellon's investment and endowment strategies and performance are discussed in greater detail in the "Highlights from the Chief Investment Officer." Capital assets of $685.2 million include the University's net investment in land, buildings and equipment and represent 34.0% of the University's assets. The increase in capital assets largely represents the purchase of certain contiguous land as well as the purchase of a building for use as a new residence hall.

The University's liabilities at June 30, 2010 were $710.4 million and decreased by $10.8 million, or 1.5% during fiscal year 2010. $6.8 million of the decrease can be attributed to lower deferred revenue due to the termination of a license agreement and a sponsored contract, and $4.0 million is due to the termination of a charitable gift annuity. Long-term debt, the largest component of the University's liabilities, was $466.5 million as of June 30, 2010. 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 increased by 8.1% or $97.4 million during fiscal year 2010 to an ending value of $1.3 billion. Recovering financial markets similarly affected the University's net assets. The increase in the market value of investments led to increases of $69.1 million in unrestricted net assets, $13.3 million in temporarily restricted net assets and $15.0 million in permanently restricted net assets. The University's net assets as of June 30, 2010 are comprised of $471.4 million of permanently restricted net assets, those for which the corpus of the gift may not be spent, and $833.0 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)	2010	2009	2008	2007	2006
Unrestricted Operating Revenue	$ 903,155	$ 865,367	$ 805,927	$ 761,336	$ 728,338
Unrestricted Operating Expenses	874,227	852,242	807,946	761,835	737,708
Change in Operations	$ 28,928	$ 13,125	$ (2,019)	$ (499)	$ (9,370)
Change in Unrestricted Net Assets from Nonoperating Activities	40,213	(170,636)	(58,677)	61,477	58,122
Change in Temporarily Restricted Net Assets	13,306	(217,829)	(31,535)	126,476	37,344
Change in Permanently Restricted Net Assets	14,975	8,690	24,324	32,871	25,255
Change in Net Assets	$ 97,422	$ (366,650)	$ (67,907)	$ 220,325	$ 111,351

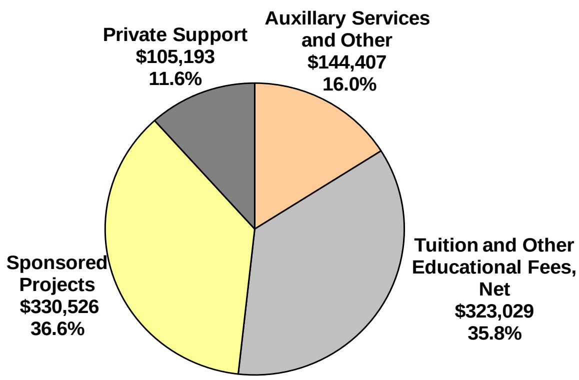
Unrestricted Net Assets – Results of Operations

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 2010 the University's operations yielded an operating gain of $28.9 million. The University's audited results from operations compare very favorably with the University's Board of Trustees approved fiscal year 2010 budget which included a planned deficit from operations of $13.4 million. The termination of a charitable gift annuity yielded an unplanned $9.9 million surplus. In addition, the University's academic and administrative departments lower than anticipated spending and delayed spending in Computing Services contributed positively to the results.

Operating Revenues

Unrestricted operating revenues increased $37.8 million over fiscal year 2009. 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 2010 operating revenues remain relatively proportionate with the prior year. The components of the University's $903.2 million in operating revenues are shown in Figure 3.

FIGURE 3 **FISCAL YEAR 2010 UNRESTRICTED OPERATING REVENUE ($903.2 MILLION) ($ in thousands)**



Tuition and other educational fees, net of financial aid, increased $10.4 million or 3.3% to $323.0 million in fiscal year 2010, representing 35.8% of University operating revenues compared to 36.1% in the prior year. Revenues from undergraduate tuition increased 5.8% and graduate tuition increased by 5.0%. The undergraduate student body grew by 59 students while the number of graduate students grew by 354. Figure 4 provides detailed information on enrolled students, including undergraduate, graduate and non-degree, in the fall semesters of 2009 and 2008 by school/college. Figure 5 provides undergraduate admissions information for the past five years for the fall semester. Financial aid, which offsets tuition room and board revenues, continues to be approximately 25.0% of gross tuition income.

FIGURE 4 **FALL 2009 AND 2008 SEMESTER ENROLLMENT**

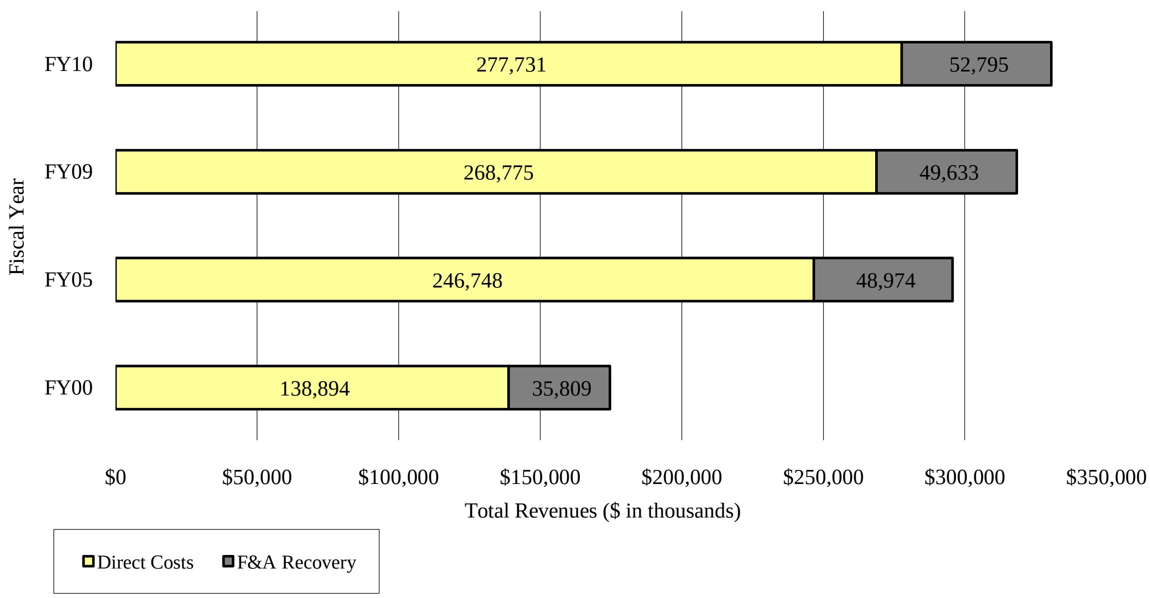
	2009-2010		Total Number		2008-2009	
School/College	Undergraduate	Graduate	of Students	Percentage	Undergraduate	Graduate
Carnegie Institute of Technology	1,653	1,458	3,111	27%	1,608	1,255
College of Fine Arts	967	264	1,231	11%	985	231
College of Humanities and Social Sciences	1,087	277	1,364	12%	1,101	276
David A. Tepper School of Business	397	1,013	1,410	12%	435	1,042
H. John Heinz III School of Public Policy and Management	-	1,191	1,191	10%	-	1,111
Mellon College of Science	723	287	1,010	9%	696	268
School of Computer Science	587	782	1,369	12%	592	727
Interdisciplinary	291	148	439	4%	286	156
CMU-Q	246	-	246	2%	189	-
Total	5,951	5,420	11,371	100%	5,892	5,066

FIGURE 5 **Undergraduate Admissions – Fall Semester**

	2010-2009	2008-2009	2007-2008	2006-2007	2005-2006
Applications	23,131	22,023	22,356	18,864	15,777
Acceptances	6,348	6,363	6,259	6,357	6,135
Matriculations	1,423	1,465	1,416	1,428	1,409

Sponsored projects revenue accounts for 36.6% of total operating revenues and increased $12.1 million or 3.8% 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 $174.7 million in 2000 to $330.5 million in 2010, an 89.2% increase. Sponsored projects revenues are comprised of: federal support (86.5%), foundation/non-profit (3.4%), industry (7.1%), state (1.3%), and non-federal (1.7%).

FIGURE 6 **Sponsored Projects Revenue**



Private support accounts for 11.6% of total operating revenues and increased $12.4 million or 13.4% from the prior year to a total of $105.2 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 $23.3 million, including $11.8 million of donated space and services. In total, $63.6 million of contributions (gifts, donated space/services and pledges) were received in fiscal year 2010, which include $28.0 million of contributions which are expendable with donor restrictions, and $12.4 million of contributions for which the corpus is permanently restricted. This compares to total contributions of $58.5 million in the prior year, including $14.2 million of donated space and services.

- **Net assets released from restrictions**, which consist of prior year pledges and gifts released from donor restrictions, totaled $52.4 million, an increase of $15.6 million from the prior year primarily due to the termination of a charitable gift annuity of $9.9 million and other release of restrictions for capital renovations of $2.9 million.

- The Board of Trustees approved **distribution from endowment** to support operations (endowment spending policy) for the fiscal year ended June 30, 2010 was 4.86%, which contributed $52.9 million in distributions to support operations. 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 $2.9 million or 2.0% to $144.4 million in fiscal year 2010, representing 16.0% of University operating revenues compared to 16.4% 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 2010, operating expenses totaled $874.2 million, a 2.6% increase or $22.0 million over fiscal year 2009. Personnel costs remain the University's single largest category of expense at $567.4 million in 2010, or 64.9% of total operating expenses. The increase in personnel costs can be attributed to the University's growth in international programs, and planned growth in other strategic areas. Interest expense increased $4.5 million primarily due to interest associated with the 2009 refunding series bonds that were issued in August 2009 that converted the 1995 bonds to fixed rate bonds. This action reduced the variable component of the University's debt portfolio from 90% to 47%, and the overlay of fixed pay swaps reduced it further to a 10% variable rate. Operating expenses by natural classification for the past five years are shown in Figure 7.

FIGURE 7 **Operating Expenses**

($ in millions)	2010	2009	2008	2007	2006
Salaries and benefits	$ 567	$ 551	$ 514	$ 487	$ 452
Supplies and services	140	146	148	138	150
Occupancy and related expenses	61	63	53	47	49
Other operating expenses	46	40	35	29	31
Depreciation and amortization	49	46	44	45	44
Interest expense	11	6	14	16	12
Total Expenses	$ 874	$ 852	$ 808	$ 762	$ 738

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 increase in unrestricted net assets from nonoperating activities was $40.2 million, primarily driven by net unrealized gains on investments and net assets released from restrictions for capital.

Conclusion

Relying on Carnegie Mellon's traditions of innovation, problem solving and interdisciplinarity, the University has continued to be successful in advancing research and evolving to deliver education globally. This is truly significant when considered against the University's modest financial resource base. The University's positive operating financial results continue to provide a strong foundation for assuring that Carnegie Mellon will flourish and create lasting impact far into the future.

Deborah J. Moon
Vice President and Chief Financial Officer
October 13, 2010

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").

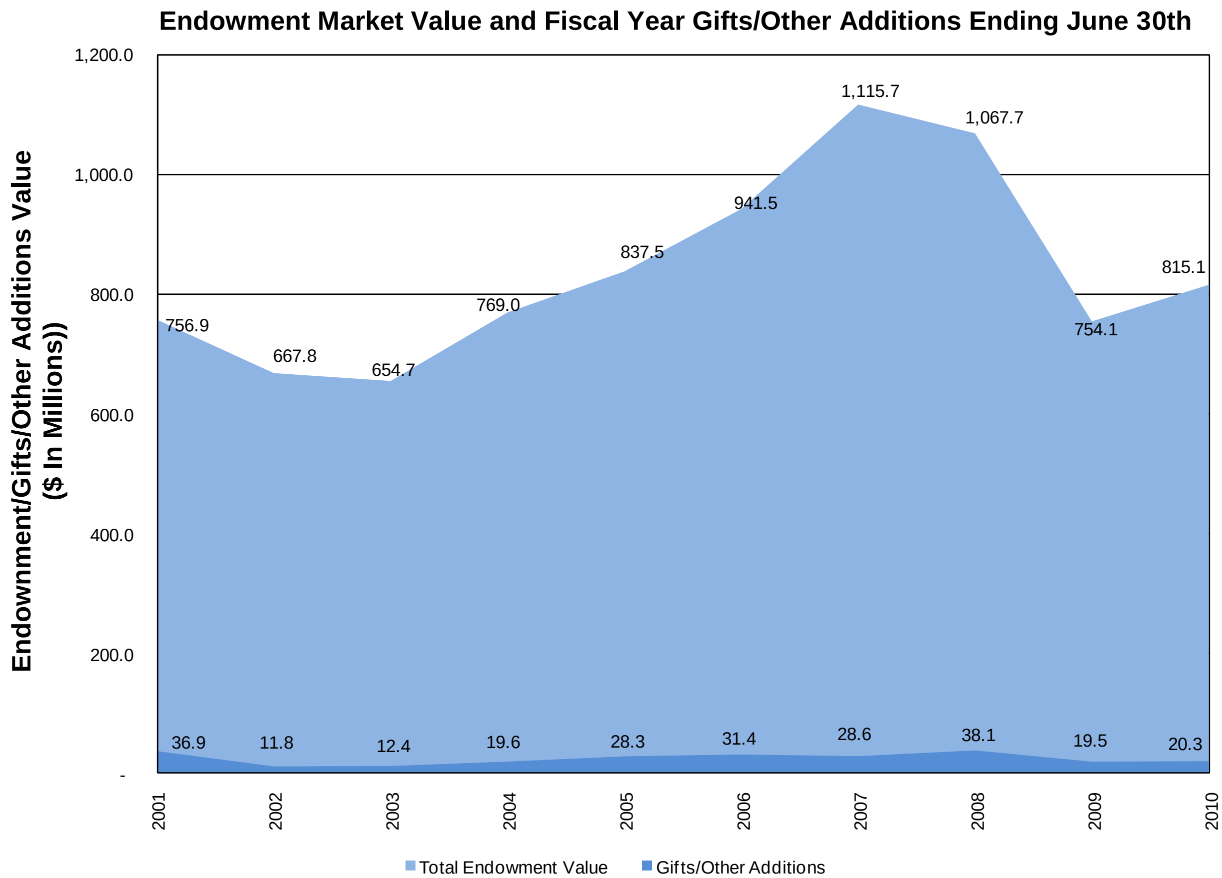
In order to maximize long-term returns within acceptable levels of risk and liquidity, Carnegie Mellon constructs its policy asset allocation using a combination of academic theory, quantitative analysis and informed market judgment. Given the dramatic, recent volatility in the global capital markets, we have devoted considerable effort towards 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 were established in November 2009, and the actual allocations at June 30, 2010 are as follows:

Policy Asset Allocation Targets and June 30, 2010 Allocations:

	Target Allocation	Actual as of 6/30/10
U.S. Public Equities	14%	14%
Non-U.S. Public Equities	18%	18%
Fixed Income	10%	12%
Private Equity	22%	23%
Hedge Funds	15%	14%
Real Assets (i.e., Real Estate, Natural Resources)	15%	11%
Opportunistic	6%	7%
Cash	0%	1%
Total	100%	100%

Investment Performance

As the capital markets began to recover from the tumultuous events witnessed in fiscal year 2009, Carnegie Mellon's endowment portfolio, with its significant allocation to equity-oriented assets, began to recover as well in fiscal year 2010. The University's net investment return totaled 12.0% for fiscal year 2010, which followed a net investment loss of -26.7% in fiscal year 2009. The endowment's market value increased to $815.1 million as of June 30, 2010, from $754.1 million as of June 30, 2009. This net increase of $61.0 million reflects the collective impact of $20.3 million from gifts and other sources, $93.6 million in investment gains, and $53.0 million in distributions to support the University's annual operations.



The U.S. economy (and other leading economies) suffered a deep recession in fiscal year 2009 and then began to recover in fiscal year 2010. Equity-oriented asset prices declined sharply in fiscal year 2009, began to recover in the fourth quarter of fiscal year 2009, and continued to increase through the third quarter of fiscal year 2010 before pulling back in the fourth fiscal quarter and negating some of the advances. Overall, broad equity indexes made significant advances during fiscal year 2010, such as the S&P 500 Index (+14.4%), Russell 2000 Index (+25.1%), MSCI EAFE (+5.9%), and the MSCI Emerging Markets Index (+23.2%). During the prior fiscal year, the extreme disruption in the global capital markets, the protections typically generated from highly diversified portfolios failed to materialize. During the 12-month period ending 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 EAFE (-31.4%), and MSCI Emerging Markets Index (-28.1%). 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 because there was insufficient evidence at the time to estimate the timing or amounts the University may ultimately recover relating to this investment. We continue to pursue this matter aggressively.

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)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Opening Endowment Value	829.1	756.9	667.8	654.7	769.0	837.5	941.5	1,115.7	1,067.7	754.1
Gifts/Other Additions	36.9	11.8	12.4	19.6	28.3	31.4	28.6	38.1	19.5	20.3
Annuity Reclassification						(11.7)				
Draw*	(41.9)	(42.8)	(41.7)	(36.5)	(36.3)	(36.8)	(40.5)	(45.7)	(51.6)	(53.0)
Investment Performance	(67.2)	(58.1)	16.2	131.2	76.4	121.2	186.1	(40.4)	(281.5)	93.6
Closing Endowment Value	756.9	667.8	654.7	769	837.5	941.5	1,115.7	1067.7	754.1	815.1
Draw Details										
Total Operations	500.1	551.0	559.8	620.1	674.8	737.7	761.8	807.9	852.2	874.2
Draw % of Operations	8.4%	7.8%	7.5%	5.9%	5.4%	5.0%	5.3%	5.7%	6.1%	6.1%
Draw % of Beginning Value	5.1%	5.7%	6.2%	5.6%	4.7%	4.4%	4.3%	4.1%	4.8%	7.0%
Draw % of Ending Value	5.5%	6.4%	6.4%	4.7%	4.3%	3.9%	3.6%	4.3%	6.8%	6.5%
Draw Policy (%)	5.3%	5.2%	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%	4.9%	5.0%

**Full value not available to operations due to donor restrictions and reinvestment stipulations*

During the last decade, the draw from the endowment has contributed, on average, approximately 6.3% of the University's annual operating budget. For both fiscal years 2010 and 2009, the draw from the endowment provided 6.1% of the University's operating budget. 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 74.8% since fiscal year 2001.

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 turmoil of fiscal year 2009 was painful to endure, the University's investment program has not deviated from its long-term focus and the portfolio has begun to recover. 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.

Charles A. Kennedy
Interim Chief Investment Officer
October 13, 2010

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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, 2010 and June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
October 13, 2010

Carnegie Mellon University
Consolidated Statements of Financial Position
June 30, 2010 and 2009
($ in thousands)

	2010	2009
Assets:		
Cash and cash equivalents	$ 127,737	$ 128,177
Accrued interest and dividends	967	1,633
Accounts receivable, net (Note 3)	52,315	57,128
Pledges receivable, net (Note 4)	43,842	48,999
Student loans receivable, net (Note 3)	17,015	17,874
Investments (Note 5 and Note 7)	1,040,822	973,030
Assets held in trust by others (Note 7)	12,323	10,802
Assets limited as to use (Note 2)	5,127	-
Other assets	29,389	31,808
Land, buildings and equipment, net (Note 9)	685,221	658,726
Total assets	$ 2,014,758	$ 1,928,177
Liabilities:		
Accounts payable and other liabilities (Note 2)	$ 130,221	$ 130,382
Deferred revenue	85,094	91,882
Federal student loan funds	14,573	14,502
Present value of split interest agreements payable	13,984	18,027
Long-term debt (Note 10)	466,486	466,406
Total liabilities	$ 710,358	$ 721,199
Net assets:		
Unrestricted	573,972	504,831
Temporarily restricted (Note 11)	259,026	245,720
Permanently restricted (Note 11)	471,402	456,427
Total net assets	$ 1,304,400	$ 1,206,978
Total liabilities and net assets	$ 2,014,758	$ 1,928,177

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

Carnegie Mellon University
Consolidated Statements of Activities
Year Ended June 30, 2010
($ in thousands)

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Tuition and other educational fees revenue, net of financial aid	$ 323,029	$ -	$ -	$ 323,029
Sponsored projects revenue (Note 8)	330,526	-	-	330,526
Investment income	29,474	3,810	226	33,510
Contributions revenue (Note 4)	23,294	27,964	12,355	63,613
Auxiliary services revenue	46,500	-	-	46,500
Other sources (Note 2)	97,907	3,546	1,143	102,596
Net assets released from restrictions	52,425	(52,425)	-	-
Total revenue and other support	$ 903,155	$ (17,105)	$ 13,724	$ 899,774
Expenses:				
Salaries	$ 460,883	$ -	$ -	$ 460,883
Benefits	106,508	-	-	106,508
Supplies and services	139,806	-	-	139,806
Occupancy and related expenses	60,983	-	-	60,983
Other operating expenses	46,464	-	-	46,464
Depreciation and amortization	48,831	-	-	48,831
Interest expense	10,752	-	-	10,752
Total expenses	$ 874,227	$ -	$ -	$ 874,227
Increase (decrease) in net assets before nonoperating activities	28,928	(17,105)	13,724	25,547
Nonoperating activities:				
Net realized (loss) gain on investments	(2,565)	35,148	92	32,675
Net unrealized gain on investments	18,395	28,669	1,159	48,223
Other sources (Note 2)	(15,831)	-	-	(15,831)
Post retirement plan changes other than net periodic benefit costs (Note 15)	6,808	-	-	6,808
Net assets released from restrictions	33,406	(33,406)	-	-
Total nonoperating activities	$ 40,213	$ 30,411	$ 1,251	$ 71,875
Increase (decrease) in net assets	$ 69,141	$ 13,306	$ 14,975	$ 97,422
Net assets, June 30, 2009	$ 504,831	$ 245,720	$ 456,427	$ 1,206,978
Net assets, June 30, 2010	$ 573,972	$ 259,026	$ 471,402	$ 1,304,400

The accompanying notes are an integral part of these consolidated 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	$ 449,217	$ -	$ -	$ 449,217
Benefits	101,478	-	-	101,478
Supplies and services	145,554	-	-	145,554
Occupancy and related expenses	62,541	-	-	62,541
Other operating expenses	41,131	-	-	41,131
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 consolidated financial statements.

Carnegie Mellon University
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009
($ in thousands)

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 97,422	$ (366,650)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized (gains) losses on investments	(56,827)	113,976
Unrealized (gains) losses on investments	(48,223)	226,758
Depreciation and amortization	48,831	46,101
Amortization of bond premium/discount, net	(456)	-
Loss on debt extinguishment	559	-
Gifts in kind	(271)	(263)
Loss on asset dispositions	961	128
Receipt of contributed securities	(5,532)	(2,959)
Provision for bad debt and other allowances	1,491	701
Contributions held in trust by others	(1,521)	2,225
Contributions for land, buildings, equipment and permanent endowment	(17,783)	(19,302)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest and dividends	666	1,422
Accounts receivable, net	2,597	12,438
Pledges receivable, net	5,429	4,487
Other assets	2,947	(3,273)
Increase (decrease) in:		
Accounts payable and other liabilities	426	23,493
Deferred revenue	(6,789)	(7,663)
Federal loan programs	71	5
Present value of split interest agreements	(4,043)	(2,270)
Net cash provided by operating activities	$ 19,955	$ 29,354
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	896,654	2,582,358
Purchases of investments	(859,396)	(2,516,800)
Proceeds from sale of donated securities	6,560	2,883
Assets limited as to use	(5,127)	27,661
Purchases of land, buildings and equipment	(77,470)	(109,265)
Disbursements of loans to students	(1,014)	(1,509)
Repayments of loans from students	2,326	2,152
Net cash used for investing activities	$ (37,467)	$ (12,520)
Cash flows from financing activities:		
Proceeds from issuance of indebtedness	183,259	-
Payment of bond issue costs	(1,247)	-
Repayments of long-term debt	(182,723)	(1,301)
Contributions for land, buildings, equipment and permanent endowment	17,783	19,302
Net cash provided by financing activities	$ 17,072	$ 18,001
Net (decrease) increase in cash and cash equivalents	(440)	34,835
Cash and cash equivalents at beginning of year	128,177	93,342
Cash and cash equivalents at end of year	$ 127,737	$ 128,177
Noncash transactions:		
Additions to property, plant and equipment (accruals, gifts in kind, environmental obligations)	$ 4,612	$ 4,781
Property addition financed by seller	-	18,400
Non-cash stock contributions	5,532	2,959

The accompanying notes are an integral part of these consolidated 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 11,400 students and grants approximately 3,300 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, Jack G. Buncher Charitable 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 related to operating expenses 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 in the amount of $5.1 million as of June 30, 2010 represent proceeds from the issuance of the 2009 bonds, which are held by a trustee under the bond indenture for capital expenditures.

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

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

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

Carnegie Mellon capitalizes interest during periods of construction. Interest of $0.3 million and $1.3 million was capitalized in fiscal year 2010 and 2009, 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 2.6% 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 $103.8 million and $95.3 million for the years ended June 30, 2010 and 2009, 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 Fair Value Measurement provisions of Accounting Standards Codification (ASC) topic 820, a risk-free rate was used. For pledges recorded subsequent to the adoption, 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 $9.8 million loss and a $13.1 million loss in the fair value of the interest rate swap agreements as of June 30, 2010 and 2009, respectively (Note 12);

- Swap interest expense of $4.9 million and $3.5 million as of June 30, 2010 and 2009, respectively (Note 12);

- $33.4 million of capital contributions were released from restriction during fiscal year 2010 and were reclassified from temporarily to unrestricted net assets.

Income Taxes
Carnegie Mellon is a non-profit organization as described in section 501(c) (3) of the Internal Revenue Code (the “Code”) and is generally exempt from income taxes on related income pursuant to Section 501(a) of the Code.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated financial statements and related accompanying footnote disclosures. Actual results could differ from those estimates and these differences could be material. Carnegie Mellon’s significant estimates include: allowance for uncollectible accounts, asset retirement obligations, legal contingencies, accrued post retirement liability, Gate Loan program, and valuation of investments.

Recent Accounting Pronouncements
In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which amends Accounting Standards Topic 820, *Fair Value Measurements and Disclosures*. The objective of this update is to provide users of financial statements with more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) transfers between Levels 1, 2 and 3. The new disclosures and clarification of existing disclosures are effective for fiscal periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Management is evaluating the impact of adopting of this new pronouncement; however, it is not expected to have a material effect on the University's financial statements.

3. Accounts and Loans Receivable

Accounts receivable at June 30, 2010 and 2009, consist of the following (in thousands of dollars):

	2010	2009
Sponsored project grants and contracts:		
Federal	$ 34,222	$ 36,139
Other	7,309	8,180
Total sponsored projects	$ 41,531	$ 44,319
Student accounts	7,010	6,741
Other	8,266	8,831
	$ 15,276	$ 15,572
Allowance for doubtful accounts	(4,492)	(2,763)
Net accounts receivable	$ 52,315	$ 57,128

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 $17.0 million and $17.9 million, as of June 30, 2010 and 2009, 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 $0.4 million and $0.9 million as of June 30, 2010 and 2009, respectively.

4. Pledges Receivable and Contributions

Pledges as of June 30, 2010 and 2009 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):

	2010		
	Temporarily Restricted	Permanently Restricted	Total
In one year or less	$ 2,786	$ 4,051	$ 6,837
Between one year and five years	19,676	20,268	39,944
More than five years	45	5,738	5,783
Pledges receivable, gross	$ 22,507	$ 30,057	$ 52,564
Less:			
Unamortized discount	2,287	4,128	6,415
Allowances for unfulfilled pledges	1,011	1,296	2,307
Pledges receivable, net of allowances	$ 19,209	$ 24,633	$ 43,842

	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

Pledges receivable, as of June 30, 2010 and 2009, net of allowances, are intended for the endowment in the amounts of $24.6 million and $25.0 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $19.2 million and $24.0 million, respectively.

Contribution revenue includes gifts, unconditional pledges to give and grants and are recorded in the appropriate net asset category based upon donor stipulations. Contributions for the fiscal years ended June 30, 2010 and 2009 are as follows (in thousands of dollars):

	2010	2009
Unrestricted	$ 23,294	$ 22,823
Temporarily restricted	27,964	22,742
Permanently restricted	12,355	12,908
Total	$ 63,613	$ 58,473

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 $42.4 million and $44.3 million as of June 30, 2010 and 2009, 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, 2010 and 2009 are as follows (in thousands of dollars):

	2010	2009
Restricted cash and cash equivalents	$ 33,893	$ 106,150
Common stock	320,029	160,353
Fixed income	180,581	291,669
Other investments	506,319	414,858
Total investments	$ 1,040,822	$ 973,030

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

	2010	2009
Endowment	$ 811,733	$ 749,640
Reserves for working capital and plant - short-term	51,740	59,111
Reserves for working capital and plant - long-term	130,521	110,402
Split interest agreements	20,347	28,897
Other investments	26,481	24,980
Total investments	$ 1,040,822	$ 973,030

Nearly all fixed income securities are U.S. investment grade, and United States Treasury and Agency obligations. Common stock investments at June 30, 2010 were composed of approximately 44.8% domestic equities and 55.2% international and emerging market equities. Common stock investments at June 30, 2009 were composed of approximately 47.0% domestic equities and 53.0% international and emerging market equities. Alternative investments are largely investments in venture capital, buyout, 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, 2010 and 2009 (in thousands of dollars):

	2010	2009
Dividends and interest (net of $3.4 million and $3.5 million of investment fees)	$ 9,358	$ 13,164
Net realized gains (losses) on sale of investments	56,827	(113,976)
Net unrealized gains (losses) on investments	48,222	(226,758)
Total return on investments	$ 114,407	$ (327,570)

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 $24.2 million and $24.5 million in the years ended June 30, 2010 and 2009, respectively. The accumulated gains are reclassified from net realized gains to investment income. This reclassification is not reflected in the table above. Due to realized losses in fiscal year 2009, prior year gains were utilized.

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.

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 venture capital, buyout, real estate, and natural resources fund investments. At June 30, 2010 and 2009, Carnegie Mellon had unfunded commitments of approximately $252.4 million and $310.7 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 temporary receiver.

The court-appointed Receiver has issued two reports regarding Westridge, concluding among other things that the enterprise involved substantial improper commingling of accounts. The Receiver has marshaled assets in the receivership for distribution to various Westridge investors, including Carnegie Mellon. Currently, the Receiver intends to distribute a proposed plan of distribution of those assets in December 2010 or January 2011. The Receiver has provided little guidance to date as to its forthcoming proposal for a distribution plan. Numerous investors have asked the court and the receiver to distribute the Receivership's assets under various methods. These investor proposals have not been formalized before the court yet. The court has set a hearing for January 26, 2011, in which it may consider the Receiver's forthcoming distribution proposal.

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. There is insufficient evidence at this time to estimate the timing or amounts the University may ultimately recover relating to this investment.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following tables summarize these investments by strategy type at June 30, 2010 and 2009 (in thousands of dollars):

Alternative Investment Strategy	Number of Funds	2010 Fair Value
Aggressive, distressed and arbitrage fixed income	14	$ 50,111
Hedge funds	18	135,815
Natural resources	16	63,715
Private equity (buyout) funds	43	96,221
Real estate	12	41,422
Venture capital	64	119,035
Total	167	506,319
Total investments		$ 1,040,822
% Alternative		48.6%

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%

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):

	2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Beginning of year endowment value	$ 206,903	$ 126,608	$ 420,620	$ 754,131	
Gifts and other additions:					
Contributions (excluding pledges)	224	-	18,104	18,328	
Terminated life income trusts and income and gains reinvested	-	6,609	(4,608)	2,001	
Total gifts and other additions	$ 224	$ 6,609	$ 13,496	$ 20,329	
Investment income:					
Interest and dividends	$ 2,773	$ 3,166	$ 23	$ 5,962	
Net realized gains on sale of securities	13,168	34,646	182	47,996	
Net unrealized gains	11,904	27,726	-	39,630	
Total investment gain	$ 27,845	$ 65,538	$ 205	$ 93,588	
Income distributed:					
Cash and accrued interest and dividends	$ (2,773)	$ (3,166)	$ (23)	$ (5,962)	
Accumulated realized investment gains	(21,855)	(24,950)	(182)	(46,987)	
Total income distributed	$ (24,628)	$ (28,116)	$ (205)	$ (52,949)	
End of year endowment value	$ 210,344	$ 170,639	$ 434,116	$ 815,099	(1)

(1) Includes $3,366 of endowment gifts pending investment and other accruals.

	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	(2)

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

The following tables outline donor-restricted funds and Board-designated funds for fiscal years 2010 and 2009 (in thousands of dollars):

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 170,639	$ 434,116	$ 604,755
Board-designated funds	210,344	-	-	210,344
Total funds	$ 210,344	$ 170,639	$ 434,116	$ 815,099

	2009			
	Unrestricted	Temporarily Restricted	Permanently 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

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 fiscal years 2010 and 2009, the approved spending rate was set at 4.9% and 5.0%, respectively. As a result of the spending rate formula, the effective spending rate (defined as the endowment draw totals for the fiscal years ended 2010 and 2009 divided by the June 30 endowment market values for the those fiscal years) was 6.5% and 6.8%, respectively.

7. Fair Value

In fiscal year 2009, the University adopted the *Fair Value Measurements* provisions of Statement of Accounting Standards No. 157, now Accounting Standards Codification (“ASC”) Topic 820. The University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

ASC 820 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.

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.

The following tables present the financial instruments carried at fair value for fiscal years 2010 and 2009 by caption on the Consolidated Statement of Financial Position by the valuation hierarchy defined above (in thousands of dollars):

2010	**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	$ 33,893	$ -	$ -	$ 33,893
Common stock	300,935	19,094	-	320,029
Fixed income (includes commingled accounts)	180,207	374	-	180,581
Hedge funds	-	74,448	61,367	135,815
Natural resources	-	-	63,715	63,715
Private equity	-	-	215,256	215,256
Real estate	-	-	41,422	41,422
Other	-	-	50,111	50,111
Total investments	$ 515,035	$ 93,916	$ 431,871	$ 1,040,822
Beneficial interests held by third party	-	-	5,738	5,738
Perpetual trusts held by third party	-	-	6,585	6,585
Total assets held in trust by others	-	-	12,323	12,323
Total assets at fair value	$ 515,035	$ 93,916	$ 444,194	$ 1,053,145
Liabilities				
Interest rate swaps payable	$ -	$ 32,116	$ -	$ 32,116
Total liabilities at fair value	$ -	$ 32,116	$ -	$ 32,116

2009	**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

Investments included in Level 3 primarily consists of the University's ownership in alternative investments (principally limited partnership interests in private equity, real estate, natural resources and certain hedge 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. In 2009, new guidance related to the Fair Value Measurements standard was issued for estimating the fair value of investments in investment companies that have a calculated value of their capital account or NAV in accordance with, or in a manner consistent with GAAP. As a practical expedient, the University is permitted under GAAP to estimate fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with GAAP. The new guidance also permits the University to consider the length of time the investment can be redeemed after the measurement date when determining its categorization as level 2 or level 3.

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 new guidance issued in 2009 also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the University's investments. Investments which can be redeemed at NAV on the measurement date or in the near term are classified as Level 2 and investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. Any hedge fund with a monthly or quarterly redemption period held by the University was deemed to have met the near term transfer restrictions and these assets were classified as Level 2. All other hedge fund assets were classified as Level 3.

The following redemption table clarifies the nature and risk of the University's investments and liquidity for financial instruments classified by the University within Level 3 of the fair value hierarchy (in thousands of dollars):

	Fair value	Unfunded Commitments	Redemption Frequency	Redemption Notice period
Hedge funds	$ 61,367	$ -	Semi-annual & annually	30 - 90 days
Natural resources	63,715	30,394		
Private equity	215,256	179,192		
Real estate	41,422	23,025		
Other	50,111	19,755		
Total investment	$ 431,871	$ 252,366		

Hedge fund investments held by the University may be subject to restrictions related to the initial investment that limit the University's ability to redeem capital from such investments during a specified period of time subsequent to the University's investment of capital in such funds, typically known as a lock-up period. Capital available for redemption after the lock-up period has expired may also be subject to limits which restrict the available redemption period to semi-annually or annually and require 30 – 90 days prior written notice, potentially limiting the University ability to respond quickly to changes in market conditions.

Other Level 3 assets, including classifications of natural resources, private equity, real estate and other, cannot be redeemed upon request. Instead, the nature of these investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of these funds would be liquidated over approximately 4 to 8 years.

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

	Hedge Funds	Private Equity	Real Estate	Natural Resources	Other	Total Investments
Fair value, July 1, 2009	$ 126,336	$ 163,005	$ 39,725	$ 47,870	$ 37,922	$ 414,858
Realized gains (losses)	-	(2,602)	(1,581)	1,409	6,045	3,271
Unrealized gains (losses)	10,862	27,307	(4,953)	5,077	6,765	45,058
Net purchases, sales and settlements	(1,383)	28,026	8,231	9,359	(1,101)	43,132
Transfers in (out)	(74,448)	(480)	-	-	480	(74,448)
Fair value, June 30, 2010	$ 61,367	$ 215,256	$ 41,422	$ 63,715	$ 50,111	$ 431,871

	Beneficial Interests Held by Third Party	Perpetual Trusts Held by Third Party	Total Trusts Held by Third Party
Fair value, July 1, 2009	$ 5,553	$ 5,249	$ 10,802
Realized gains (losses)	-	-	-
Unrealized gains	185	348	533
Transfers in (out)	-	988	988
Fair value, June 30, 2010	$ 5,738	$ 6,585	$ 12,323

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

8. Sponsored Projects Revenue

The major components of sponsored projects revenue for the years ended June 30, 2010 and 2009, are as follows (in thousands of dollars):

	2010	2009
Federal		
Direct	$ 239,235	$ 223,677
Indirect	46,371	43,462
Total Federal	$ 285,606	$ 267,139
State, industrial and other		
Direct	$ 38,496	$ 45,098
Indirect	6,424	6,171
Total state, industrial and other	$ 44,920	$ 51,269
Total sponsored projects revenue	$ 330,526	$ 318,408

Included in other sponsored projects revenue for the fiscal years ended June 30, 2010 and 2009 are amounts from private sources (foundation grants) which amounted to $9.5 million and $12.4 million, respectively.

9. Land, Buildings and Equipment

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

	2010	2009
Buildings	$ 901,844	$ 776,971
Movable equipment	237,651	226,743
Utilities and building-related assets	52,174	51,661
Land improvements	10,288	10,288
Leasehold improvements	11,601	11,824
Assets held for sale	-	708
Subtotal	$ 1,213,558	$ 1,078,195
Accumulated depreciation	(588,441)	(552,742)
Subtotal	$ 625,117	$ 525,453
Land	39,829	28,536
Construction in progress	20,275	104,737
Land, buildings and equipment, net	$ 685,221	$ 658,726

Included in the cost of buildings is $40.9 million and $40.6 million for the Collaborative Innovation Center (CIC) and its tenant improvements for the years ended June 30, 2010 and 2009, respectively. The CIC building was constructed on land owned by Carnegie Mellon. This land is subject to a ground lease agreement between Carnegie Mellon and the Regional Industrial Development Corporation (RIDC). The ground lease term concludes on March 20, 2038, but is subject to an additional four year renewal period exercisable at the RIDC's option.

Included in moveable equipment is unamortized computer software cost of $5.7 and $4.8 million for the years ended June 30, 2010 and 2009, respectively. Amortization expense of $2.0M and $1.9M million was charged to expense for the years ended June 30, 2010 and 2009, respectively.

10. Long-Term Debt

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

	Interest %	2010	2009
Pennsylvania Higher Education Facility Authority, Variable Rate Refunding Bonds, Series 1995	Variable	$ -	$ 176,800
Allegheny County Higher Education Building Authority, Variable Rate University Revenue Bonds, Series 1998	Variable	78,000	78,000
Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2002	5.1 - 5.5%	39,023	38,994
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series 2008	Variable	120,820	120,820
Pennsylvania Higher Education Facility Authority, University Revenue Bonds, Series 2009	3.5 - 5.0%	182,775	-
Notes payable	Variable	13,800	18,400
Dormitory bonds/mortgage notes	3.0%	1,680	1,836
Collaborative Innovation Center financing	5.2%	29,471	30,147
Bonds and other debt		$ 465,569	$ 464,997
Capital lease obligations	3.8 - 4.5%	917	1,409
Total long-term debt		$ 466,486	$ 466,406

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. On August 5, 2009, the 1995 Bonds were refunded with the 2009 issue and an $11.4 million investment required under its 1995 Bond agreements. The 1995 Bonds, structured as multiple mode obligations, bore interest at a variable market rate determined daily by the bonds' remarketing agent. The interest rates on the 1995 bonds were 0.2% for the two months of fiscal year 2010 and ranged from 0.2% to 3.7% during fiscal year 2009.

The 1995 Standby Bond Purchase Agreement ("SBPA") terminated on September 1, 2009 when the 1995 bonds were 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 0.1% to 0.3% during fiscal year 2010 and from 0.2% to 4.1% during fiscal year 2009.

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 0.1% to 0.3% during fiscal year 2010 and from 0.2% to 4.1% during fiscal year 2009.

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 6, 2011. 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.

Series 2009 Bonds
On August 5, 2009, Carnegie Mellon issued through 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 of $10.8 million, were used to finance the cost of refunding all the outstanding 1995 Bonds, to fund certain capital acquisitions and projects, and to pay certain costs of issuance of the Bonds. 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%.

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 first installment of $4.6 million plus interest was paid in June 2010. 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, 2010 and 2009 in the amount of $29.5 million and $30.1 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 2010 and 2009. 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, 2010 and 2009 are approximately $479.8 million and $467.2 million, respectively.

Cash paid for interest for the fiscal years ended June 30, 2010 and 2009, totaled $13.0 million and $11.1 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):

2011	$ 6,527
2012	6,570
2013	6,617
2014	2,067
2015	27,625
Thereafter	416,163
Total	$ 465,569

Carnegie Mellon 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, would be $24.2 million in 2011, $24.2 million in 2012, $39.8 million in 2013, $39.8 million in 2014, $39.8 million in 2015 and $243.3 million thereafter.

The University entered into a $50.0 million unsecured line of credit agreement that expires on October 19, 2011. No advances have been made to date.

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):

	2010	2009
Endowment earnings	$ 170,639	$ 126,608
Capital and other donor designations	62,559	83,493
Pledges and assets held in trust by others	22,442	27,257
Split interest agreements	2,716	7,741
Loan funds	670	621
Total	$ 259,026	$ 245,720

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

	2010	2009
Endowment	$ 434,116	$ 420,620
Pledges and assets held in trust by others	33,723	32,545
Split interest agreements and other donor designations	3,563	3,262
Total	$ 471,402	$ 456,427

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, 2010 and 2009 (in thousands of dollars):

Fair Values of Derivative Instruments

Date of Swap Agreement	Derivatives Reported as Liabilities 2010	Derivatives Reported as Liabilities 2009
October 2004	$ (5,884)	$ (4,038)
April 2006 forward	(18,905)	(14,020)
May 2007 spot	(1,024)	(749)
May 2007 forward	(6,303)	(3,553)
Total	$ (32,116)	$ (22,360)

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. Based upon the University's credit rating, the University is required to post collateral equal to the amount by which the liability value exceeds $25.0 million for each of its swaps.

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, 2010 and 2009 (in thousands of dollars):

Date of Swap Agreement	Interest (Expense) Revenue 2010	Interest (Expense) Revenue 2009	Fair Value (Loss) Gain 2010	Fair Value (Loss) Gain 2009	Total (Loss) Gain 2010	Total (Loss) Gain 2009
Interest rate swaps:						
October 2004	$ (1,424)	$ (984)	$ (1,846)	$ (2,932)	$ (3,270)	$ (3,916)
April 2006 forward	(3,252)	(2,371)	(4,885)	(7,632)	(8,137)	(10,003)
May 2007 spot	(184)	(140)	(275)	(378)	(459)	(518)
May 2007 forward	-	-	(2,750)	(2,169)	(2,750)	(2,169)
Total	$ (4,860)	$ (3,495)	$ (9,756)	$ (13,111)	$ (14,616)	$ (16,606)

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, 2010 and 2009 are as follows (in thousands of dollars):

	2010	2009
Instruction and departmental research	$ 324,962	$ 318,304
Sponsored projects	294,635	284,344
Administration and institutional support	85,248	81,426
Academic support	84,290	85,276
Student services	44,243	42,363
Auxiliary services and activities	40,849	40,529
Total	$ 874,227	$ 852,242

Included in administration and institutional support is $15.9 million and $16.8 million of fundraising expenses for the years ended June 30, 2010 and 2009, 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 $12.2 million and $12.1 million (excluding International donated space of $9.0 million and $10.8 million) for the years ended June 30, 2010 and 2009, respectively. Future minimum lease payments at June 30, 2010 are as follows (in thousands of dollars):

	Operating Leases	Capital Leases
2011	$ 14,845	$ 437
2012	6,944	530
2013	4,692	-
2014	3,495	-
2015	2,761	
Thereafter	4,103	
Total	$ 36,840	$ 967
Less amount representing interest		(49)
Present value of minimum capitalized lease payments		$ 918

At June 30, 2010 and 2009 Carnegie Mellon had contractual obligations of approximately $4.8 million and $17.6 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $22.1 million.

Carnegie Mellon has four letters of credit with a commercial bank totaling $1.7 million. There were no draws against these letters of credits as of June 30, 2010 and 2009.

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, 2010 and 2009 totaled $28.0 million and $27.1 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 2010 and 2009. 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):

	2010	2009
Net actuarial (gain)/loss	$ (7,168)	$ 43
Prior service credit	(2,524)	(2,927)
Total	$ (9,692)	$ (2,884)

The increase in the net actuarial gain of $7.1 million includes approximately $5.1 million of assumption changes resulting from Health Care Reform legislation passed in March 2010. Health Care Reform has implications for the University's Post-65 Retiree Major Medical Plan which pays primarily prescription drug benefits supplemental to Medicare Part D Coverage. Medicare Part D plans will offer richer coverage than is currently provided for prescriptions resulting in a decrease in the University's prescription drug costs. Expected savings are roughly 22% of overall plan costs based on pre-health care reform plan costs. Overall plan costs savings are expected to reach 36%.

The components of net periodic benefit costs for the years ended June 30, 2010 and 2009 are as follows (in thousands of dollars):

	2010	2009
Service cost	$ 997	$ 974
Interest cost	1,304	1,360
Amortization of prior service credit	(402)	(402)
Amortization of net loss	-	3
Net periodic benefit cost	$ 1,899	$ 1,935

During fiscal year 2011, amortization of $0.4 million prior service credit and $0.4 million actuarial gain 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):

	2010	2009
Benefit obligation, beginning of year	$ 19,918	$ 19,854
Service cost	997	974
Interest cost	1,304	1,360
Assumption changes and actuarial (gain)/loss	(7,210)	(1,988)
Benefit payments	(283)	(282)
Benefit obligation, end of year	$ 14,726	$ 19,918
Fair value of plans' assets	-	-
Funded status	$ 14,726	$ 19,918

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2010 and 2009 was 5.4% and 6.3%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2010 and 2009 of 8.0% was assumed. The rate was assumed to decrease gradually to 5.0% by 2016 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, 2010 and 2009 by $2.5 million and $3.5 million, respectively and increase the aggregate service cost and interest cost components for 2010 and 2009 by $0.5 million. Decreasing the assumed health care cost trend rate by 1.0% in each year would decrease the benefit obligation as of June 30, 2010 and 2009 by $2.0 million and $2.8 million, respectively and decrease the aggregate service cost and interest cost components for 2010 and 2009 by $0.4 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
2011	$ 791	$ 325	$ 1,116
2012	1,095	440	1,535
2013	1,373	564	1,937
2014	1,670	667	2,337
2015	1,918	746	2,664
2016-2020	13,120	4,713	17,833

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 $23.9 million and $22.5 million at June 30, 2010 and 2009, respectively. These assets are reflected as investments in the accompanying Consolidated Statements of Financial Position. Carnegie Mellon will contribute an estimated $1.8 million to the plan in fiscal year 2011.

16. Related Party Transactions

Sponsored projects revenue for fiscal years 2010 and 2009 includes $9.8 million and $12.4 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 $58.5 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 2010 and 2009 includes $1.4 million and $2.5 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, 2010 and 2009, Carnegie Mellon's percentage obligation was 15.2%. Included in other assets at June 30, 2010 and 2009 are $4.2 million and $3.1 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 is $6.1 million for steam cost paid to the Bellefield for the years ended June 30, 2010 and 2009.

17. Conditional Asset Retirement Obligations

Asset retirement obligations are included within accounts payable and other liabilities in the Consolidated Statements of Financial Position. As of June 30, 2010 and 2009, $4.8 million and $2.6 million of conditional asset retirement obligations have been recorded, respectively.

The following table reconciles the asset retirement obligations as of June 30, 2010 and 2009 (in thousands of dollars):

	2010	2009
Asset retirement obligations as of July 1	$ 2,625	$ 1,805
Accretion expense	187	88
Liabilities assumed	2,057	830
Liabilities settled or disposed	(107)	(98)
Asset retirement obligations as of June 30	$ 4,762	$ 2,625

Additional liabilities of $2.1 million were assumed in conjunction with the acquisition of real estate and other property purchased from National City Bank and Museum Park Hotel, LLC.

The discount rates used range from 2.5% to 3.0%. The expected aggregate undiscounted amount is $0.7 million. The majority of the obligation will be paid out over the next 10 to 20 years.

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, 2010 and 2009 is approximately $1.5 million and $1.5 million and $1.4 million and $1.8 million, respectively. The maximum potential amount of future payments (undiscounted) that Carnegie Mellon could be required to make in the future under this program is estimated to be approximately $7.5 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 October 13, 2010, the date on which the consolidated financial statements were issued.