Carnegie Mellon University

Consolidated Financial Statements
June 30, 2012 and 2011

Carnegie Mellon University
Index
June 30, 2012 and 2011

Carnegie Mellon University
Financial Highlights from the Vice President and Chief Financial Officer
Year Ended June 30, 2012 and 2011

Fiscal Year 2012 Highlights

Carnegie Mellon continued for a third straight fiscal year to show both positive operating results and increases in total net assets. Over the past four years, CMU has reported an increasing excess of operating revenues over operating expenses. In fiscal 2012, the excess operating gain was $41.1 million, or a 4.1% margin, reflecting increased retention in undergraduate programs, growth in graduate program tuition and international programs, as well as prudent expense management.

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**

(dollars in millions)	2012	2011	2010	2009	2008	2007
Total assets	$ 2,374	$ 2,281	$ 2,015	$ 1,928	$ 2,268	$ 2,424
Total liabilities	$ 747	$ 698	$ 710	$ 721	$ 694	$ 783
Total net assets	1,627	1,583	1,305	1,207	1,574	1,641
Total liabilities and net assets	$ 2,374	$ 2,281	$ 2,015	$ 1,928	$ 2,268	$ 2,424

Total University assets at June 30, 2012 were $2.4 billion, an increase of $93.7 million or 4.1% higher than a year ago. Carnegie Mellon's largest asset, its investment portfolio, which represents 53.7% of Carnegie Mellon's total assets, was valued at $1.3 billion at June 30, 2012, a decrease of $23.6 million or 1.8%. 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 $690.5 million include the University's net investment in land, buildings and equipment and represent 29.1% of the University's assets.

Net of the investment balance decrease the University's assets increased by $117.3 million, driven primarily by growth in cash and cash equivalents, pledges and other receivables. Cash and cash equivalents were $162.3 million, an increase of $31.5 million or 24.1%. The increase offsets some of the increase in short-term liabilities and positions some cash to fund potential capital expenditures. Pledges receivable were $95.4 million, an increase of $44.7 million or 88.3%. The increase in pledges receivable reflects new pledges recorded of $75.7 million offset by pledge payments received and accretion of $31.0 million. The University is in Phase III and the final year of the "Inspire Innovation" campaign. Accounts receivable, net was $92.4 million, an increase of $30.7 million or 49.9%. The increase was primarily due to international programs, an increase in iCarnegie receivables, a consolidated entity, and the sale of technology concurrent with the sale of a technology spin off company.

The University's liabilities at June 30, 2012 were $746.8 million and increased by $49.0 million, or 7.0% during fiscal year 2012. The increase was driven largely by the recording of additional liabilities for changes in fair value related to swap agreements. In addition, post retirement healthcare liability increased due to a decrease in the discount rate, accrued expenses increased as a result of the sale of technology concurrent with the sale of a technology spin off company, and deferred revenue increased due primarily to iCarnegie deferred revenue, a consolidated entity. Long-term debt, the largest component of the University's liabilities, was $452.8 million as of June 30, 2012, a decrease of $6.3 million or 1.4%. The decrease is primarily due to making a scheduled payment on an outstanding note. On March 1, 2012, the University issued $108.1 million in public and private placement bonds to refinance the Series 1998 and 2002 bonds. This refunding as well as 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 $44.6 million or 2.8% during fiscal year 2012 to an ending value of $1.6 billion. The increase in total net assets was primarily driven by results of operations. The University's net assets as of June 30, 2012 were comprised of $549.1 million of permanently restricted net assets and $1.1 billion of unrestricted and temporarily restricted net assets.

In September 2011, William S. Dietrich II, a Pittsburgh industrialist and longtime University Trustee, announced his plans to create the Dietrich Foundation to provide financial support to a predetermined group of 15 institutions of higher learning, including Carnegie Mellon, and other charitable organizations primarily within the greater Pittsburgh area. The Dietrich Foundation will provide annual distributions in perpetuity as endowed gifts to the University. Although there were no distributions during fiscal year 2012, this historic gift will provide lasting financial impact for the University in the long term. See Note 16 for additional detail.

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**

(dollars in thousands)	2012	2011	2010	2009	2008
Unrestricted operating revenue	$ 1,007,374	$ 940,657	$ 903,155	$ 865,367	$ 805,927
Unrestricted operating expenses	966,321	909,701	874,227	852,242	807,946
Change in unrestricted net assets from operations	41,053	30,956	28,928	13,125	(2,019)
Change in unrestricted net assets from nonoperating activities	(40,948)	69,612	40,213	(170,636)	(58,677)
Change in temporarily restricted net assets	11,504	133,401	13,306	(217,829)	(31,535)
Change in permanently restricted net assets	33,019	44,650	14,975	8,690	24,324
Change in net assets	$ 44,628	$ 278,619	$ 97,422	$ (366,650)	$ (67,907)

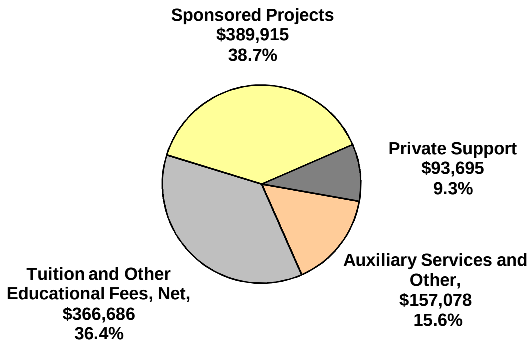
Unrestricted Net Assets – Results of Operations

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 2012 the University's operations yielded an operating gain of $41.1 million.

Operating Revenues

Unrestricted operating revenues increased $66.7 million over fiscal year 2011. Carnegie Mellon continues to have a high degree of revenue diversity with four primary revenue categories for operations: tuition and other educational fees, sponsored project activities (includes research), private support, and auxiliary services and other revenues. Respective fiscal year 2012 operating revenues in these categories remained relatively proportionate with the prior year. The components of the University's $1.0 billion in operating revenues are illustrated in Figure 3.

Figure 3 **Fiscal Year 2012 Unrestricted Operating Revenue ($1.0 billion) ($ in thousands)**



Tuition and other educational fees, net of financial aid, increased $27.4 million or 8.1% to $366.7 million in fiscal year 2012, representing 36.4% of University operating revenues compared to 36.1% in the prior year. Revenues from undergraduate tuition increased $13.8 million or 5.7% to $257.1 million. Graduate tuition revenues increased $15.9 million or 8.4% to $204.9 million. The undergraduate student body grew by 158 students which is primarily the result of successful retention initiatives. The number of graduate students grew by 267, which is primarily the result of targeted enrollment strategies, new programs, and continued international expansion in all schools across the University. Figure 4 provides detailed information regarding enrolled students, including undergraduate, graduate and nondegree, in the fall semesters of 2011 and 2010 by school/college. Figure 5 provides undergraduate admissions information for the past five years for the fall semester. Financial aid, which offsets tuition and other educational fees revenues, continues to remain at approximately 26.0% of gross tuition income (undergraduate approximately 29.0% and graduate approximately 23.0%).

Figure 4 **Fall 2011 and 2010 Semester Enrollment**

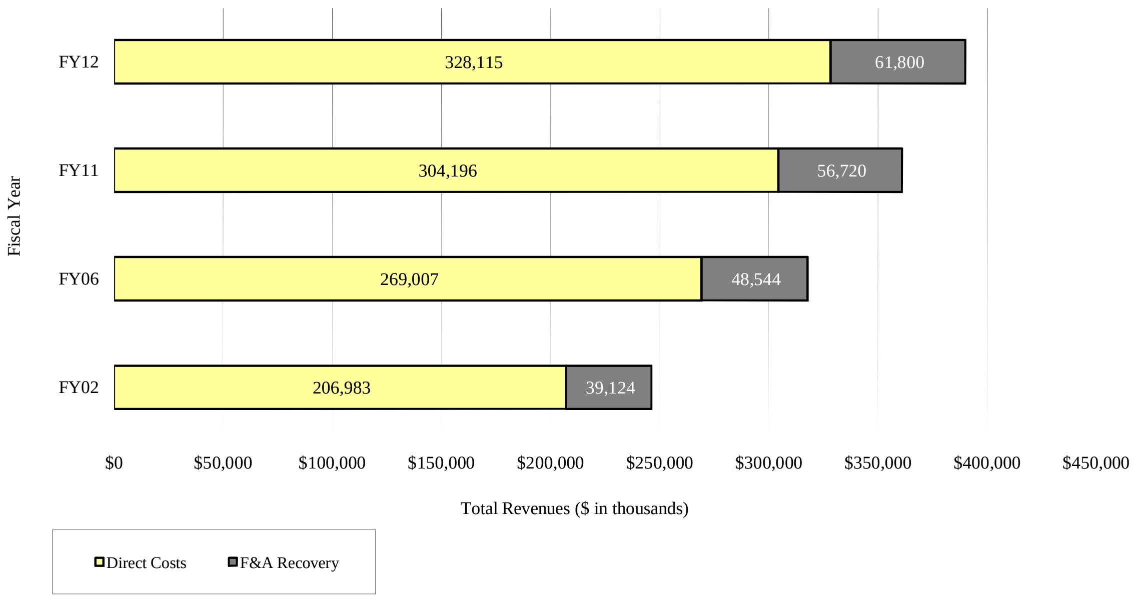
	2011-2012		Total Number	2010-2011		Total Number
	Undergraduate	Graduate	of Students	Undergraduate	Graduate	of Students
School/College						
Carnegie Institute of Technology	1,756	1,670	3,426	1,647	1,556	3,203
College of Fine Arts	979	288	1,267	996	278	1,274
Dietrich College of Humanities and Social Sciences	1,175	310	1,485	1,138	302	1,440
David A. Tepper School of Business	359	914	1,273	349	956	1,305
H. John Heinz III School of Public Policy and Management	-	1,269	1,269	-	1,168	1,168
Mellon College of Science	726	293	1,019	757	301	1,058
School of Computer Science	582	847	1,429	574	778	1,352
Interdisciplinary	266	186	452	281	171	452
CMU-Q	335	-	335	278	-	278
Total	6,178	5,777	11,955	6,020	5,510	11,530

Figure 5 **Undergraduate Admissions – Fall Semester**

	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008
Applications	16,527	15,496	14,153	13,527	12,821
Acceptances	5,029	5,164	5,132	5,129	5,044
Matriculations	1,436	1,486	1,423	1,465	1,416
% of Applicants Admitted	30.4%	33.3%	27.7%	28.6%	28.1%
% of Admits Enrolled	28.6%	28.8%	27.7%	28.6%	28.1%

Sponsored projects revenue accounts for 38.7% of total operating revenues and increased $29.0 million or 8.0% from the prior year. Sponsored projects revenue remains the largest source of operating revenue for the University. As Figure 6 illustrates, Carnegie Mellon has experienced significant increases in sponsored projects revenue over the past decade with revenues growing from $246.1 million in 2002 to $389.9 million in 2012, a 58.4% increase. Direct sponsored projects revenue represents reimbursement of direct costs while F&A revenue represents reimbursement of indirect or overhead costs. Sponsored projects revenue grew substantially ($71.5 million) from fiscal 2009 to fiscal 2012. This is partially due to funding received associated with the American Recovery and Reinvestment Act of 2009. The Software Engineering Institute (SEI) also saw significant growth largely from the Department of Homeland Security. The largest source of sponsored projects revenue for the University (including SEI) continues to be the federal government (86.0%) with the Department of Defense being the largest provider at 36.4% of the University's total federal funding. The National Science Foundation follows, providing 22.5% of the total federal funding. The remaining sources of sponsored projects revenue are foundation/non-profit (3.5%), industry (5.8%), state (2.8%), and other non-federal (1.9%).

Figure 6 **Sponsored Projects Revenue**



Private support accounts for 9.3% of total operating revenues and decreased $5.7 million or 5.7% from the prior year to a total of $93.7 million. The components of private support consist of unrestricted contributions ($21.7 million), net assets released from restrictions ($46.6 million) and investment income ($25.5 million), which includes distribution from the endowment to support operations.

- **Contributions** that were unrestricted and immediately expendable for operating purposes amounted to $21.6 million, including $10.3 million of donated space and services. In total, $120.2 million of contributions (gifts, donated space/services and pledges) were received in fiscal year 2012, which include $64.7 million of contributions which are expendable with donor restrictions, and $33.7 million of contributions for which the corpus is permanently restricted. This compares to total contributions of $82.8 million in the prior year, including $10.2 million of donated space and services.

- **Net assets released from restrictions**, which consist of prior year pledges and gifts released from donor restrictions, totaled $46.6 million, a decrease of $2.0 million from the prior year.

- The Board of Trustees approved **distribution from endowment** to support operations (endowment spending policy) for the fiscal year ended June 30, 2012 was 5%, which contributed $46.9 million in distributions to support operations. The endowment draw is discussed in greater detail in the "Financial Highlights from the Chief Investment Officer." The endowment spending policy is 5% of a trailing 36-month average. Historically, endowment funds have supported only 4.5%-7% of operating revenues. The University is continuing to increase the endowment from pledges received through the "Inspire Innovation" campaign.

Auxiliary services and other revenue increased $16.0 million or 11.4% to $157.1 million in fiscal year 2012, representing 15.6% of University operating revenues compared to 15.0% in the prior year. This revenue category consists of external revenues generated by auxiliary enterprises (housing, dining, parking, etc.), international programs, corporate affiliate and membership programs, technology licensing and royalty income, and external services, fees and prizes. The increase was due primarily to increased revenues in housing and dining resulting from rate increases and more students, increased revenue from international programs, and increased revenue from iCarnegie, a consolidated entity.

Operating Expenses

In fiscal year 2012, operating expenses totaled $966.3 million, a 6.2% increase or $56.7 million. Personnel costs remain the University's single largest category of expense at $624.9 million in 2012, or 64.7% of total operating expenses. The increase in personnel costs can be attributed to the University's continued growth in international programs, sponsored projects, and planned growth in other strategic areas. Other operating expenses increased $11.1 million or 23.9% due primarily to increased expenses for iCarnegie, a consolidated entity, and increases in dining vendor expenses and software and maintenance licenses. Operating expenses by natural classification for the past five years are detailed in Figure 7.

Figure 7 Operating Expenses

(dollars in millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Salaries and benefits	$ 625	$ 589	$ 567	$ 551	$ 514
Supplies and services	159	151	140	146	148
Occupancy and related expenses	62	62	61	63	53
Other operating expenses	58	47	46	40	35
Depreciation and amortization	51	50	49	46	44
Interest expense	11	11	11	6	14
Total Expenses	$ 966	$ 910	$ 874	$ 852	$ 808

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 operations as nonoperating items in its Consolidated Statements of Activities. In the current fiscal year, the decrease in unrestricted net assets from nonoperating activities was $40.9 million, primarily driven by the change in fair value related to swap agreements.

Conclusion

The fiscal year 2012 financial results show the completion of another strong year of demonstrated financial strength and the announcement of a historic gift (Dietrich Foundation). Carnegie Mellon looks forward to the future remaining sharply focused and aware of our educational and research priorities and their overall impact.

deborah J Moon

Deborah J. Moon
Vice President and Chief Financial Officer
October 15, 2012

Strategy and Allocation

The University's endowment provides a key contribution to the institution's mission. 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 an increasingly 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 expected returns within acceptable levels of risk and liquidity, Carnegie Mellon designed its policy asset allocation using a combination of academic theory, quantitative analysis, and informed market judgment. The asset allocation targets have shifted over the last seven years as the investment strategy has transformed from one based on traditional, publicly held investments to one focused on allocation to nontraditional or alternative investments, such as private equity, hedge funds, and private real asset funds. This shift to alternative assets creates a more global, diversified portfolio that is positioned to pursue perceived market inefficiencies and improved investment management. The current asset allocation targets, which were most recently amended in August 2011, and the actual allocations at June 30, 2012 are as follows:

Figure 1 **Policy Allocation Targets and June 30, 2012 Allocations**

	Asset Allocation	
	Current Policy Target	**Actual as of June 30, 2012**
U.S. Public Equities	14 %	13 %
International - Developed	6 %	5 %
International - Emerging	9 %	7 %
Fixed Income	10 %	6 %
Private Equity	22 %	30 %
Hedge Funds	18 %	14 %
Real Assets	15 %	13 %
Opportunistic	6 %	5 %
Cash	0 %	7 %
Total	100 %	100 %

As part of the transition to an alternative asset oriented portfolio, commitments to private investment funds, coupled with the global financial crisis, have led to an over-allocation to private equity. Accordingly, traditional public equity, certain illiquid assets, and hedge funds have remained underweight to compensate for this over-allocation. As the private equity funds' investments mature and are realized, asset allocation is expected to trend toward policy targets.

Carnegie Mellon University
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Year Ended June 30, 2012 and 2011

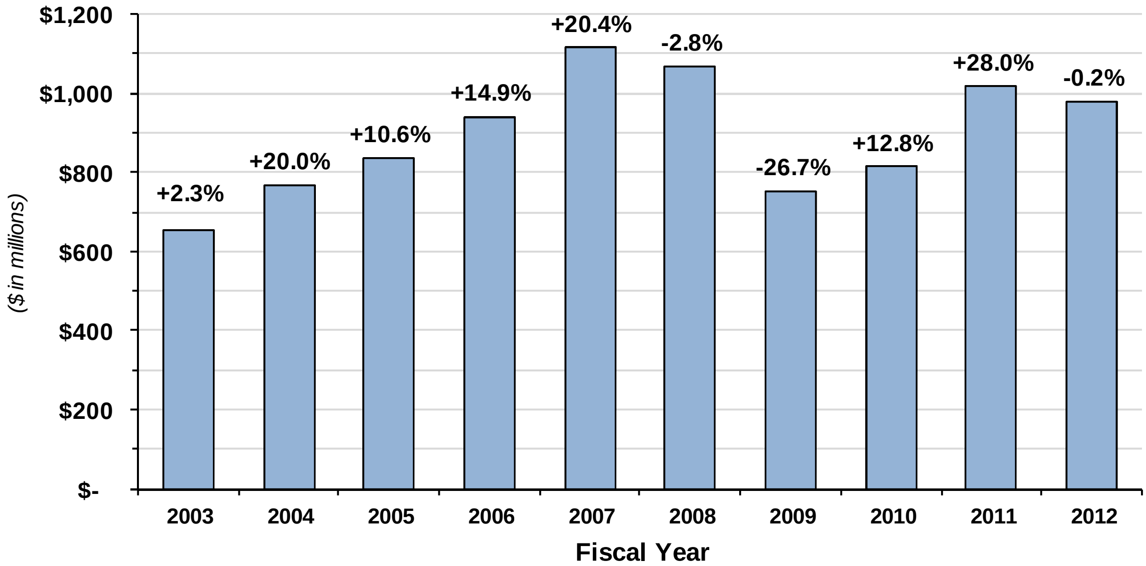
Investment Performance

Returns from equity investments fluctuated considerably during the fiscal year beginning with significant downturns in the September quarter, where the S&P 500 fell 13.9%, the MSCI EAFE Index fell 19.0%, and the MSCI Emerging Markets Index fell 22.5% during three straight down months. After an upswing in October 2011 that was largely sustained through the subsequent two quarters, a weak June quarter ended the 2012 fiscal year with mixed results: U.S. markets gained 5.4%, developed international markets were down 13.8%, and emerging economies fell 15.7% .

In marked contrast, fixed income markets (particularly investment grade and U.S. government obligations) performed well as yields compressed and investors sought safety; the Barclays U.S. Aggregate Bond Index rose 3.8% during the turmoil of the September quarter, ending the 2012 fiscal year up 7.5%. As interest rates fell (and bond prices increased), real yields became negative, meaning investors were locking in inflation-adjusted losses of purchasing power by holding certain U.S. Treasury debt securities. Given the potential return asymmetry of unprecedentedly low rates, the U.S. TIPS portion of the University's long-term portfolio was liquidated in February and March of 2012, with the balance held in cash to provide liquidity and reduce duration risk against an expected eventual rise in interest rates.

Carnegie Mellon's portfolio, with its significant allocation to growth-oriented investments and its global focus, performed within the range of these results, generating performance that was essentially flat. The University's net investment return was -0.2% for fiscal year 2012, which followed a net investment return of 28.0% for fiscal year 2011 and 12.8% for fiscal year 2010. The returns for fiscal year 2009 and prior years reflect a lag of one quarter for the private investment funds. When incorporating this lag into the return for fiscal years 2012, 2011, and 2010, the returns would have been 1.9%, 26.2%, and 12.0%, respectively.

Figure 2 **Endowment Ending Value and Annual Investment Return**



Endowment Attribution

The endowment's market value decreased to $987.1 million as of June 30, 2012, from $1,017.3 million as of June 30, 2011. This net decrease of approximately $30.2 million reflects the collective impact of $21.6 million from gifts and other sources, $5.1 million in investment losses, and $46.9 million in distributions to support the University's annual operations.

Cash distributions from the endowment (i.e., the draw) provide 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 private support. The historical activities of the endowment, including the draw and its support expressed as a percentage of annual operations, are summarized in Figure 3.

Figure 3 **Endowment Attribution**

	Fiscal Year Ending June 30,									
(dollars in millions)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Opening Endowment Value	667.8	654.7	769.0	837.5	941.5	1,115.7	1,067.7	754.1	815.1	1,017.3
Gifts/Other Additions	12.4	19.6	28.3	31.4	28.6	38.1	19.5	20.3	31.6	21.6
Annuity Reclassification				(11.7)						
Draw*	(41.7)	(36.5)	(36.3)	(36.3)	(40.5)	(45.7)	(51.6)	(53.0)	(51.3)	(46.9)
Investment Performance	16.2	131.2	76.4	121.2	186.1	(40.4)	(281.5)	93.6	221.9	(5.1)
Closing Endowment Value	654.7	769	837.5	941.5	1,115.7	1,067.7	754.1	815.1	1,017.3	987.1
Draw Details										
Total Operations	559.8	620.1	674.8	737.7	761.8	807.9	852.2	874.2	909.7	966.3
Draw % of Operations	7.5 %	5.9 %	5.4 %	5.0 %	5.3 %	5.7 %	6.1 %	6.1 %	5.6 %	4.9 %
Draw % of Beginning Value	6.2 %	5.6 %	4.7 %	4.4 %	4.3 %	4.1 %	4.8 %	7.0 %	6.3 %	4.6 %
Draw % of Ending Value	6.4 %	4.7 %	4.3 %	3.9 %	3.6 %	4.3 %	6.8 %	6.5 %	5.0 %	4.8 %
Draw Policy (%)	5.1 %	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %	4.9 %	5.0 %	5.0 %

During the last decade, the draw from the endowment has contributed, on average, approximately 5.7% of the University's annual operating budget. For fiscal year 2012, the draw from the endowment provided 4.9% 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.

In September 2011, William S. Dietrich II, a Pittsburgh industrialist and longtime University Trustee, announced a historic gift to the University. Mr. Dietrich passed away shortly thereafter, setting in motion the creation of a foundation to manage in perpetuity the total of approximately $500 million in assets intended to benefit the University and other higher education and charitable institutions; the University's share of all annual distributions made from this investment pool is 53.5%. The foundation's assets are not reflected in the University's financial statements (see additional information regarding the foundation in Note 16 to the consolidated financial statements). Annual distributions will be received by the University from the foundation as endowed gifts, which are expected to commence in the second half of fiscal year 2013. Over time, annual distributions from the foundation will equal 3% of the foundation's net asset value, which, at its current value, would equate to an estimated annual distribution of $9 million to the University. The impact on University operations over the next several years will be small but is expected to increase significantly over time.

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Carnegie Mellon's endowment is invested in a long-term pool, which also includes a portion of the University's working capital reserves. The gains for the long-term pool for fiscal year 2011 reflect the receipt of $40.7 million of funds from the court-appointed receiver of Westridge Capital Management, Inc. ("WCM") Enhancement Fund. In fiscal year 2009, the University's investment in WCM was written down to $0 because there was insufficient evidence at that time to estimate the timing of or amounts the University may ultimately recover from this investment that was held in receivership. The $40.7 million recovered to date equals 83% of the last recorded value of the investment prior to the write-down. While no recoveries were received by the University in fiscal year 2012, the receiver continues to pursue additional recoveries for the benefit of the investors, including Carnegie Mellon. There remains insufficient evidence to estimate the timing or amounts of any additional recoveries the University will ultimately recover relating to this investment. Furthermore, certain investors have filed an appeal regarding the allocation of the March 21, 2011 distribution. The appeal was heard by the Second Circuit on May 16, 2012, and is now ripe for determination by that appellate court. The University believes this appeal is without merit and will ultimately prove unsuccessful (see "Note 5" of the consolidated financial statements).

With 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. The global economic situation is not without significant investor concerns that may lead to periods of increased price movements—such as were experienced during the beginning of fiscal year 2012. However, we believe the University's investment program – with its long-term focus and global, diversified asset allocation – will enable Carnegie Mellon's endowment to continue to strengthen over time, enabling greater ongoing support for the University's operating needs while also preserving purchasing power to support future generations of students, faculty, and programs.

Charles A. Kennedy
Chief Investment Officer
October 15, 2012

Report of Independent Auditors

To the Board of Trustees
Carnegie Mellon University and Subsidiaries

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and changes in net assets and of cash flows presents fairly, in all material respects, the financial position of Carnegie Mellon University and its Subsidiaries at June 30, 2012 and June 30, 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

October 18, 2012

Carnegie Mellon University
Consolidated Statements of Financial Position
June 30, 2012 and 2011

(dollars in thousands)

	2012	2011
Assets		
Cash and cash equivalents (Note 2)	$ 162,333	$ 130,853
Accrued interest and dividends	162	982
Accounts receivable, net (Note 3)	92,389	61,640
Pledges receivable, net (Note 4)	95,371	50,644
Student loans receivable, net (Note 3)	16,673	15,305
Investments (Note 5 and Note 7)	1,274,966	1,298,608
Assets held in trust by others (Note 7)	11,479	12,817
Other assets	30,547	25,829
Land, buildings and equipment, net (Note 9)	690,498	684,082
Total assets	$ 2,374,418	$ 2,280,760
Liabilities		
Accounts payable and other liabilities (Note 2)	$ 170,351	$ 126,829
Deferred revenue	95,906	83,286
Federal student loan funds	14,625	14,629
Present value of split interest agreements payable	13,084	13,906
Long-term debt (Note 10)	452,805	459,091
Total liabilities	746,771	697,741
Net assets		
Unrestricted	674,645	674,540
Temporarily restricted (Note 11)	403,931	392,427
Permanently restricted (Note 11)	549,071	516,052
Total net assets	1,627,647	1,583,019
Total liabilities and net assets	$ 2,374,418	$ 2,280,760

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

Carnegie Mellon University
Consolidated Statements of Activities
Year Ended June 30, 2012

(dollars in thousands)

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Tuition and other educational fees revenue, net of financial aid	$ 366,686	$ -	$ -	$ 366,686
Sponsored projects revenue (Note 8)	389,915			389,915
Investment income	25,454	3,872	223	29,549
Contributions revenue (Note 4)	21,661	64,743	33,748	120,152
Auxiliary services revenue	52,406			52,406
Other sources (Note 2)	104,672	(1,104)	(349)	103,219
Net assets released from restrictions	46,580	(46,580)		-
Total revenue and other support	1,007,374	20,931	33,622	1,061,927
Expenses				
Salaries	508,823			508,823
Benefits	116,103			116,103
Supplies and services	158,925			158,925
Occupancy and related expenses	62,352			62,352
Other operating expenses	57,829			57,829
Depreciation and amortization	51,440			51,440
Interest expense	10,849			10,849
Total expenses	966,321	-	-	966,321
Increase in net assets before nonoperating activities	41,053	20,931	33,622	95,606
Nonoperating activities				
Net realized and unrealized loss on investments	(11,768)	(9,227)	(603)	(21,598)
Other sources (Note 2)	(25,305)			(25,305)
Post retirement plan changes other than net periodic benefit costs (Note 15)	(4,075)			(4,075)
Net assets released from restrictions (Note 2)	200	(200)		-
Total nonoperating activities	(40,948)	(9,427)	(603)	(50,978)
Increase in net assets	$ 105	$ 11,504	$ 33,019	$ 44,628
Net assets				
Beginning of year	674,540	392,427	516,052	1,583,019
End of year	$ 674,645	$ 403,931	$ 549,071	$ 1,627,647

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

Carnegie Mellon University
Consolidated Statements of Activities
Year Ended June 30, 2011

(dollars in thousands)

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Tuition and other educational fees revenue, net of financial aid	$ 339,290	$ -	$ -	$ 339,290
Sponsored projects revenue (Note 8)	360,916	-	-	360,916
Investment income	28,186	3,213	199	31,598
Contributions revenue (Note 4)	22,575	19,149	41,055	82,779
Auxiliary services revenue	50,113	-	-	50,113
Other sources (Note 2)	90,956	331	645	91,932
Net assets released from restrictions	48,621	(48,621)	-	-
Total revenue and other support	940,657	(25,928)	41,899	956,628
Expenses				
Salaries	481,995	-	-	481,995
Benefits	107,223	-	-	107,223
Supplies and services	151,073	-	-	151,073
Occupancy and related expenses	61,970	-	-	61,970
Other operating expenses	46,692	-	-	46,692
Depreciation and amortization	49,908	-	-	49,908
Interest expense	10,840	-	-	10,840
Total expenses	909,701	-	-	909,701
Increase (decrease) in net assets before nonoperating activities	30,956	(25,928)	41,899	46,927
Nonoperating activities				
Net realized & unrealized gain on investments	69,528	161,329	2,751	233,608
Other sources (Note 2)	(1,147)	-	-	(1,147)
Post retirement plan changes other than net periodic benefit costs (Note 15)	(769)	-	-	(769)
Net assets released from restrictions (Note 2)	2,000	(2,000)	-	-
Total nonoperating activities	69,612	159,329	2,751	231,692
Increase in net assets	$ 100,568	$ 133,401	$ 44,650	$ 278,619
Net assets				
Beginning of year	573,972	259,026	471,402	1,304,400
End of year	$ 674,540	$ 392,427	$ 516,052	$ 1,583,019

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

Carnegie Mellon University
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

(dollars in thousands)

	2012	2011
Cash flows from operating activities		
Increase in net assets	$ 44,628	$ 278,619
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized (gains) losses on investments	1,908	(256,120)
Depreciation and amortization	51,440	49,908
Amortization of bond premium/discount, net	(1,476)	(1,507)
Loss on debt extinguishment	1,146	-
Gifts in kind	(641)	(628)
(Gains) losses on asset dispositions	229	(161)
Receipt of contributed securities	(5,649)	(10,060)
Provision for bad debt and other allowances	1,276	349
Contributions held in trust by others	1,338	(494)
Contributions for land, buildings, equipment and permanent endowment	(18,918)	(29,820)
(Increase) decrease in assets		
Accrued interest and dividends	820	(15)
Accounts receivable, net	(29,574)	(9,063)
Pledges receivable, net	(47,081)	(7,160)
Other assets	(4,688)	5,290
Increase (decrease) in liabilities		
Accounts payable and other liabilities	39,954	(4,908)
Deferred revenue	12,620	(1,808)
Present value of split interest agreements	(822)	(78)
Net cash provided by operating activities	46,510	12,344
Cash flows from investing activities		
Proceeds from sale and maturity of investments	475,078	576,744
Purchases of investments	(452,734)	(578,003)
Proceeds from sales of donated securities	5,492	9,668
Assets limited as to use	-	5,127
Purchases of land, buildings and equipment	(55,074)	(48,449)
Proceeds from the sale of property, plant and equipment	736	240
Federal loan programs	(4)	56
Disbursements of loans to students	(4,003)	(1,629)
Repayments of loans from students	2,539	3,086
Net cash used for investing activities	(27,970)	(33,160)
Cash flows from financing activities		
Proceeds from issuance of indebtedness	118,277	-
Payment of bond issue costs	(573)	-
Repayments of long-term debt	(123,682)	(5,888)
Contributions for land, buildings, equipment and permanent endowment	18,918	29,820
Net cash provided by financing activities	12,940	23,932
Net increase in cash and cash equivalents	31,480	3,116
Cash and cash equivalents		
Beginning of year	130,853	127,737
End of year	$ 162,333	$ 130,853
Noncash transactions		
Additions to property, plant and equipment (accruals, gifts in kind, environmental obligations, financed acquisitions)	$ 4,247	$ 2,380
Noncash stock contributions	5,649	10,060

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 12,000 students and grants approximately 3,800 bachelors, masters and doctoral degrees each year. Approximately 83% of undergraduate students are from the United States of America. International students comprise approximately 17% of undergraduate, 51% of master's, and 53% 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 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 or satisfaction of temporary restrictions on net assets are reported as net assets released from restrictions.

Income and 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.

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

At June 30, 2012 and 2011, $132.2 million and $29.2 million, respectively, of securities transferred from a third party related to an overnight repurchase transaction are included as cash equivalents. Carnegie Mellon's policy requires that these repurchase agreements be collateralized 100% with U.S. Government or U.S. Government Agency securities.

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. Also included is interest and dividend income on permanently restricted endowment assets where the distribution/spending is unrestricted.

Temporarily restricted endowment net assets include cumulative gains and losses on permanent endowment assets and cumulative interest and dividend income on permanent endowment assets where the distribution/spending is restricted by the donor. 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 contributions, contributed stock gains and losses, and donor stipulated income and appreciation 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 or is entitled to distributions over the life of the trust. The present value of the portion of the trusts estimated to be distributable to Carnegie Mellon over the life of the trusts or upon the termination of the trusts is recorded as assets and contribution revenues at the dates the trusts are established. The asset is adjusted periodically for changes in market value.

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 expensed 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 capitalizes interest during periods of construction. 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.

Accounts Payable and Other Liabilities
Accounts payable and other liabilities includes accounts payable, accrued payroll and benefits, swap liabilities, Gate Loan Program, 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 Payable
Carnegie Mellon's split interest agreements with donors consist primarily of gift annuities, unitrusts, lead trusts, charitable remainder annuity trusts and life income agreements. Assets held under these agreements are included in investments. Generally, contribution revenues are recognized at the dates the agreements are established, after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The discount rates utilized for split interest agreements range from 1.4% 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. Student financial aid amounted to $121.8 million and $113.7 million for the years ended June 30, 2012 and 2011, 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 nonoperating activities when the facility is placed in service. $0.2 million and $2.0 million of capital contributions were released from restriction during fiscal year 2012 and 2011, respectively, and were reclassified from temporarily to unrestricted net assets through nonoperating activities.

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. $2.3 million and $5.6 million of capital contributions were released from restriction during fiscal year 2012 and 2011, respectively, and were reclassified from temporarily to unrestricted net assets through operating activities.

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-other sources presented in the Consolidated Statements of Activities include:

- A $23.1 million loss and a $3.6 million gain in the fair value of the interest rate swap agreements as of June 30, 2012 and 2011, respectively (Note 12);

- Swap interest expense of $5.2 million and $4.9 million as of June 30, 2012 and 2011, respectively (Note 12);

- A $6.3 million gain on sale of technology as of June 30, 2012;

- A $1.1 million loss on debt extinguishment as of June 30, 2012.

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 May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The objective of this update is to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The guidance provided in this update is effective for fiscal years beginning after December 15, 2011. Management is evaluating the impact of adoption of this new pronouncement; however, it is not expected to have a material effect on the University's financial statements.

3. Accounts and Loans Receivable

Accounts receivable at June 30, 2012 and 2011, consist of the following (in thousands of dollars):

	2012	2011
Sponsored project grants and contracts		
Federal	$ 40,554	$ 41,095
Other	10,180	6,957
Total sponsored projects	50,734	48,052
Student accounts	7,148	6,586
Other	38,857	10,281
	46,005	16,867
Allowance for doubtful accounts	(4,350)	(3,279)
Net accounts receivable	$ 92,389	$ 61,640

Other accounts receivable consists primarily of Carnegie Mellon's international programs, consolidated majority-owned entity receivables, affiliate and membership agreements, license agreements and other miscellaneous revenue sources.

Loans Receivable

Net loans receivable of approximately $16.7 million and $15.3 million, as of June 30, 2012 and 2011, 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 $0.7 million as of June 30, 2012 and 2011.

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, incorporating such factors as the economic climate, the level of delinquent loans, the existence of any guarantees or indemnifications, and historical payment trends.

Management evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the University's exposure to credit losses and assessing the adequacy of the University's allowance for such losses as of each reporting date.

Factors also considered by management when performing its assessment, in addition to general economic conditions and other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

In establishing the allowance for credit losses, management follows the methodology described herein, including taking a historical review of student's abilities to repay student loans. The establishment of the allowance is subjective and requires management to make many judgments about student borrowers and regional and national economic health and performance.

In ascertaining the adequacy of the allowance for credit losses, the University estimates losses attributable to specific loss components as well as applies allowance percentages to various aging categories based upon historical collection percentages. The amount of specific loss components in the University's loan portfolios, if any, is determined through a specific identification process on a loan by loan basis.

Considering the other factors already discussed herein, management considers the allowance for credit losses to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2012 and 2011 is adequate to absorb credit losses inherent in the portfolio as of that date.

4. Pledges Receivable and Contributions

Pledges as of June 30, 2012 and 2011 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):

	2012		
	Temporarily Restricted	**Permanently Restricted**	**Total**
In one year or less	$ 3,408	$ 2,317	$ 5,725
Between one year and five years	31,099	24,384	55,483
More than five years	19,305	31,055	50,360
Pledges receivable, gross	53,812	57,756	111,568
Less			
Unamortized discount	4,091	7,087	11,178
Allowance for unfulfilled pledges	2,486	2,533	5,019
Pledges receivable, net of allowances	$ 47,235	$ 48,136	$ 95,371

	2011		
	Temporarily Restricted	**Permanently Restricted**	**Total**
In one year or less	$ 1,484	$ 1,167	$ 2,651
Between one year and five years	12,695	12,791	25,486
More than five years	4,275	32,168	36,443
Pledges receivable, gross	18,454	46,126	64,580
Less:			
Unamortized discount	2,327	8,944	11,271
Allowance for unfulfilled pledges	806	1,859	2,665
Pledges receivable, net of allowances	$ 15,321	$ 35,323	$ 50,644

Pledges receivable, as of June 30, 2012 and 2011, net of allowances, are intended for the endowment in the amounts of $48.1 million and $35.3 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $47.2 million and $15.3 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, 2012 and 2011 are as follows (in thousands of dollars):

	2012	**2011**
Unrestricted	$ 21,661	$ 22,575
Temporarily restricted	64,743	19,149
Permanently restricted	33,748	41,055
Total	$ 120,152	$ 82,779

Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized as contribution revenue when the conditions are substantially met. Total combined conditional pledges for Carnegie Mellon were approximately $8.2 million and $10.3 million as of June 30, 2012 and 2011, 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, 2012 and 2011 are as follows (in thousands of dollars):

	2012	2011
Cash and cash equivalents	$ 133,974	$ 63,600
Fixed income	133,856	185,628
Common stock	304,784	388,806
Alternative investments	702,352	660,574
Total investments	$ 1,274,966	$ 1,298,608

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

	2012	2011
Endowment	$ 979,229	$ 1,009,219
Reserves for working capital and plant - short term	83,186	75,682
Reserves for working capital and plant - long term	163,912	163,637
Split interest agreements	20,430	23,305
Other investments	28,209	26,765
Total investments	$ 1,274,966	$ 1,298,608

Nearly all fixed income securities are United States Treasury and Agency obligations, investment grade corporates, and asset backed securities. Common stock investments at June 30, 2012 are composed of approximately 52.1% domestic equities and 47.9% international and emerging market equities. Common stock investments at June 30, 2011 were composed of approximately 47.4% domestic equities and 52.6% international and emerging market equities. Alternative investments are largely investments in buyout funds, venture capital, real estate, natural resources and hedge funds.

The allocation to each major category in the table above represents the actual allocation of the short term and long term investment pools, split interest agreements, and other miscellaneous investments on a combined basis. Each investment pool maintains a unique investment strategy. Actual allocations on a combined basis should not be interpreted as an investment allocation policy for a particular investment pool. In addition, the above asset category allocations do not reflect the effective allocation exposures resulting from investment strategies that include derivatives.

The following schedule summarizes the investment return for the fiscal years ended June 30, 2012 and 2011 (in thousands of dollars):

	2012	2011
Dividends and interest (net of $2.8 million and $3.0 million of investment fees)	$ 9,859	$ 9,085
Net realized gains on sale of investments	47,607	86,398
Net unrealized gains (losses) on investments	(49,515)	169,722
Total return on investments	$ 7,951	$ 265,205

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 $19.7 million and $22.5 million in the years ended June 30, 2012 and 2011, respectively. The accumulated gains are reclassified from net realized gains to dividends and interest income. This reclassification is not reflected in the table above.

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, 2012 and 2011, Carnegie Mellon had unfunded commitments of approximately $211.3 million and $239.5 million, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. Carnegie Mellon maintains sufficient liquidity in its investment portfolio to cover such calls.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following tables summarize these investments by strategy type at June 30, 2012 and 2011 (in thousands of dollars):

Alternative Investment Strategy	**Number of Funds**		**2012 Fair Value**
Opportunistic (including distressed securities)	16	$	52,426
Hedge funds	20		162,116
Natural resources	18		73,523
Private equity (buyout) funds	44		141,627
Real estate	14		69,094
Venture capital	76		203,566
Total	188		702,352
Total investments		$	1,274,966
% Alternative			55.1%

Alternative Investment Strategy	**Number of Funds**		**2011 Fair Value**
Opportunistic (including distressed securities)	15	$	53,749
Hedge funds	19		159,592
Natural resources	18		75,538
Private equity (buyout) funds	44		132,977
Real estate	12		58,860
Venture capital	67		179,858
Total	175		660,574
Total investments		$	1,298,608
% Alternative			50.9%

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 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.). The lawsuit was later stayed when the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC") each filed lawsuits against certain corporate entities and individuals affiliated with Westridge in the United States District Court for the Southern District of New York. In connection with the SEC and CFTC lawsuits, the Court issued temporary restraining orders on February 25, 2009 that froze the various defendants' assets and accounts and appointed a receiver. At that time, there was insufficient evidence to estimate the timing or amounts the University would ultimately recover relating to this investment. Therefore, an impairment loss of $49.1 million was recorded as of June 30, 2009 writing the investment value down to $0. This realized loss was included in nonoperating activities on the Consolidated Statements of Activities.

On December 14, 2010, United States District Court for the Southern District of New York ordered the receiver in the matter to distribute proceeds to certain investors. Carnegie Mellon received $8.0 million. On March 21, 2011, the court ordered additional distributions representing the majority of the assets under the receiver's control. These distributions were made in April 2011. Carnegie Mellon received $32.7 million from this distribution. For the fiscal year ended June 30, 2011, these distributions totaling $40.7 million have been recorded as realized gains and included in nonoperating activities on the Consolidated Statements of Activities. The receiver continues to pursue additional recoveries for the benefit of the investors, including Carnegie Mellon. There remains insufficient evidence to estimate the timing or amounts of any additional recoveries the university will ultimately recover relating to this investment. Furthermore, certain investors have filed an appeal regarding the allocation of the March 21, 2011 distribution. The appeal was heard by the Second Circuit on May 16, 2012, and is now ripe for determination by that appellate court. The university believes that this appeal is without merit and will prove ultimately unsuccessful.

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):

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Beginning of year endowment value	$ 245,909	$ 305,803	$ 465,626	$ 1,017,338
Gifts and other additions				
Contributions (excluding pledges)	72	(30)	20,863	20,905
Terminated life income trusts and income and gains reinvested	-	-	769	769
Total gifts and other additions	72	(30)	21,632	21,674
Investment income				
Interest and dividends	2,893	3,497	27	6,417
Net realized gains on sale of securities	7,211	22,449	171	29,831
Net unrealized (losses)	(9,996)	(31,356)	-	(41,352)
Total investment gain (loss)	108	(5,410)	198	(5,104)
Income distributed				
Cash and accrued interest and dividends	(2,893)	(3,497)	(27)	(6,417)
Accumulated realized investment gains	(18,231)	(22,035)	(171)	(40,437)
Total income distributed	(21,124)	(25,532)	(198)	(46,854)
End of year endowment value	$ 224,965	$ 274,831	$ 487,258	$ 987,054 (1)

(1) Includes $7,825 of endowment gifts and other transfers pending investment and other accruals.

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Beginning of year endowment value	$ 210,344	$ 170,639	$ 434,116	$ 815,099
Gifts and other additions				
Contributions (excluding pledges)	78	1	30,203	30,282
Terminated life income trusts and income and gains reinvested	-	-	1,307	1,307
Total gifts and other additions	78	1	31,510	31,589
Investment income				
Interest and dividends	2,410	2,871	17	5,298
Net realized gains on sale of securities	18,799	53,901	149	72,849
Net unrealized gains	37,616	106,198	-	143,814
Total investment gain	58,825	162,970	166	221,961
Income distributed				
Cash and accrued interest and dividends	(2,410)	(2,872)	(17)	(5,299)
Accumulated realized investment gains	(20,928)	(24,935)	(149)	(46,012)
Total income distributed	(23,338)	(27,807)	(166)	(51,311)
End of year endowment value	$ 245,909	$ 305,803	$ 465,626	$ 1,017,338 (2)

(2) Includes $8,119 of endowment gifts and other transfers pending investment and other accruals.

The following tables outline donor-restricted funds and Board-designated funds for fiscal years 2012 and 2011 (in thousands of dollars):

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 274,831	$ 487,258	$ 762,089
Board-designated funds	224,965	-	-	224,965
Total funds	$ 224,965	$ 274,831	$ 487,258	$ 987,054

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 305,803	$ 465,626	$ 771,429
Board-designated funds	245,909	-	-	245,909
Total funds	$ 245,909	$ 305,803	$ 465,626	$ 1,017,338

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 2012 and 2011, the approved spending rate was set at 5.0%. As a result of the spending rate formula, the effective spending rate (defined as the endowment draw totals for the fiscal years ended 2012 and 2011 divided by the June 30 endowment market values for the those fiscal years) was 4.7% and 5.0%, respectively.

7. Fair Value

In fiscal year 2009, the University adopted the *Fair Value Measurement* 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. Investments which can be redeemed on the measurement date or in the near term are included in this category.

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 2012 and 2011 by caption on the Consolidated Statements of Financial Position by the valuation hierarchy defined above (in thousands of dollars):

	2012			
	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 [(a)]	$ 133,881	$ 93	$ -	$ 133,974
Common stock				
U.S. - Equity	157,842	-	1,016	158,858
International - Developed	49,680	9,575	-	59,255
International - Emerging	67,172	19,499	-	86,671
Fixed income (with commingled funds) [(a)]	133,569	287	-	133,856
Hedge funds				
Absolute Return Strategies	-	73,906	32,858	106,764
Directional Return Strategies	-	27,407	27,945	55,352
Natural resources [(a)]	-	-	73,523	73,523
Private equity [(a)]	-	-	345,193	345,193
Real estate [(a)]	-	-	69,094	69,094
Opportunistic (with distressed securities) [(a)]	-	-	52,426	52,426
Total investments	542,144	130,767	602,055	1,274,966
Interest rate swaps receivable	-	873	-	873
Beneficial interests held by third party	-	-	4,293	4,293
Perpetual trusts held by third party	-	-	7,186	7,186
Total assets held in trust by others	-	-	11,479	11,479
Total assets at fair value	$ 542,144	$ 131,640	$ 613,534	$ 1,287,318
Liabilities				
Interest rate swaps payable	$ -	$ 52,468	$ -	$ 52,468
Total liabilities at fair value	$ -	$ 52,468	$ -	$ 52,468

(a) Presentation as a single class is appropriate based on the nature and risks of these investments.

	2011			
	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 [(a)]	$ 63,562	$ 38	$ -	$ 63,600
Common stock				
U.S. - Equity	181,418	-	406	181,824
International - Developed	74,407	11,022	-	85,429
International - Emerging	97,341	24,212	-	121,553
Fixed income (with commingled accounts) [(a)]	185,286	342	-	185,628
Hedge funds				
Absolute Return Strategies	-	51,368	39,726	91,094
Directional Return Strategies	-	40,407	28,091	68,498
Natural resources [(a)]	-	-	75,538	75,538
Private equity [(a)]	-	-	312,835	312,835
Real estate [(a)]	-	-	58,860	58,860
Opportunistic (with distressed securities) [(a)]	-	-	53,749	53,749
Total investments	602,014	127,389	569,205	1,298,608
Beneficial interests held by third party	-	-	5,377	5,377
Perpetual trusts held by third party	-	-	7,440	7,440
Total assets held in trust by others	-	-	12,817	12,817
Total assets at fair value	$ 602,014	$ 127,389	$ 582,022	$ 1,311,425
Liabilities				
Interest rate swaps payable	$ -	$ 28,474	$ -	$ 28,474
Total liabilities at fair value	$ -	$ 28,474	$ -	$ 28,474

(a) Presentation as a single class is appropriate based on the nature and risks of these investments.

There were no significant transfers between Level 1 and Level 2 for fiscal years 2012 and 2011.

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 Measurement 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 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 guidance 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 the fair value hierarchy (in thousands of dollars):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Stock				
U.S. Equity	$ 1,016	$ -		
Hedge funds			Semi-annual and Annually	30-90 days
Absolute Return Strategies	106,764	-		
Directional Return Strategie	55,352	-		
Natural resources	73,523	22,144		
Private equity	345,193	144,399		
Real estate	69,094	24,450		
Opportunistic	52,426	20,322		
Total investments	$ 703,368	$ 211,315		

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 monthly, quarterly, 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 opportunistic with distressed securities, 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.

	Common Stock	Hedge Funds	Private Equity	Real Estate	Natural Resources	Opportunistic (With Distressed Securities)	Total Investments
Fair value, July 1, 2010	$ -	$ 61,367	$ 215,256	$ 41,422	$ 63,715	$ 50,111	$ 431,871
Realized gains (losses)	-	-	7,755	(165)	5,019	6,313	18,922
Unrealized gains (losses)	-	5,086	61,547	11,564	12,879	2,164	93,240
Purchases	-	-	58,932	7,253	9,591	4,118	79,894
Sales	-	(547)	(32,120)	(1,214)	(15,666)	(8,957)	(58,504)
Transfers in (out)	406	1,911	1,465	-	-	-	3,782
Fair value, June 30, 2011	$ 406	$ 67,817	$ 312,835	$ 58,860	$ 75,538	$ 53,749	$ 569,205

		Common Stock		Hedge Funds		Private Equity		Real Estate		Natural Resources		Opportunistic (With Distressed Securities)		Total Investments
Fair value, July 1, 2011	$	406	$	67,817	$	312,835	$	58,860	$	75,538	$	53,749	$	569,205
Realized gains (losses)		-		-		9,701		(1,866)		9,540		3,355		20,730
Unrealized gains (losses)		-		(1,054)		(2,899)		5,389		(2,149)		(417)		(1,130)
Purchases		-		6,000		60,823		12,019		9,556		7,332		95,730
Sales		-		(302)		(35,267)		(5,308)		(18,962)		(11,593)		(71,432)
Issuances		610		-		-		-		-		-		610
Transfers in (out)		-		(11,658)		-		-		-		-		(11,658)
Fair value, June 30, 2012	$	1,016	$	60,803	$	345,193	$	69,094	$	73,523	$	52,426	$	602,055

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

		Beneficial Interests Held by Third Party		Perpetual Trusts Held by Third Party		Total Trusts Held by Third Party
Fair value, July 1, 2010	$	5,738	$	6,585	$	12,323
Realized gains (losses)		-		-		-
Unrealized gains (losses)		61		855		916
Transfers in (out)		(422)		-		(422)
Fair value, June 30, 2011	$	5,377	$	7,440	$	12,817

		Beneficial Interests Held by Third Party		Perpetual Trusts Held by Third Party		Total Trusts Held by Third Party
Fair value, July 1, 2011	$	5,377	$	7,440	$	12,817
Realized gains (losses)		-		-		-
Unrealized gains (losses)		244		(254)		(10)
Transfers in (out)		(1,328)		-		(1,328)
Fair value, June 30, 2012	$	4,293	$	7,186	$	11,479

All net realized and unrealized gain (losses) in the table above are reflected in nonoperating activities in the accompanying Consolidated Statements of Activities. Net unrealized gains/(losses) relates 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, 2012 and 2011 are as follows (in thousands of dollars):

	2012	2011
Federal		
Direct	$ 280,250	$ 266,489
Indirect	55,362	51,057
Total federal	335,612	317,546
State, industrial and other		
Direct	47,865	37,707
Indirect	6,438	5,663
Total state, industrial and other	54,303	43,370
Total sponsored projects revenue	$ 389,915	$ 360,916

Included in other sponsored projects revenue for the fiscal years ended June 30, 2012 and 2011 are amounts from private sources (foundation grants) which amounted to $12.2 million and $11.2 million, respectively.

9. Land, Buildings and Equipment

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

	2012	2011
Buildings	$ 944,057	$ 923,958
Moveable equipment	248,340	242,896
Utilities and building-related assets	56,585	55,908
Land improvements	12,664	11,888
Leasehold improvements	13,847	12,343
Subtotal	1,275,493	1,246,993
Accumulated depreciation	(654,917)	(623,556)
Subtotal	620,576	623,437
Land	45,411	40,315
Construction in progress	24,511	20,330
Land, buildings and equipment, net	$ 690,498	$ 684,082

Included in the cost of buildings is $40.9 million for the Collaborative Innovation Center (CIC) and its tenant improvements for the years ended June 30, 2012 and 2011. 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 $8.1 million and $4.9 million for the years ended June 30, 2012 and 2011, respectively. Amortization expense of $2.6 million and $2.1 million was charged to expense for the years ended June 30, 2012 and 2011, respectively.

10. Long-Term Debt

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

	Interest %	2012	2011
Allegheny County Higher Education Building Authority, Variable Rate University Revenue Bonds, Series 1998	Variable	$ -	$ 78,000
Allegheny County Higher Education Building Authority, University Revenue Bonds, Series 2002	5.1-5.5%	-	39,051
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%	180,155	181,239
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series A of 2012	2.0-5.0%	67,865	-
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series B of 2012	Variable	50,000	-
Notes Payable	Variable	4,600	9,200
Dormitory bonds/mortgage notes	3.0 %	1,355	1,519
Collaborative Innovation Center financing	5.2 %	28,010	28,759
Bonds and other debt		452,805	458,588
Capital lease obligations	3.8-4.5%	-	503
Total long-term debt		$ 452,805	$ 459,091

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 retired $10.0 million of the bonds outstanding principal resulting in an outstanding principal amount of $78.0 million which was originally due upon maturity of the issue in fiscal year 2034. On March 1, 2012, the $78.0 million par value of the 1998 Bonds was refunded with a portion of the 2012 Bonds. The 1998 Bonds structured as multiple mode obligations bore variable market-based interest rates determined daily by the bonds' remarketing agent. Average interest rates on the 1998 Bonds were 0.09% for the eight months of fiscal year 2012 and 0.19% during fiscal year 2011.

The 1998 Standby Bond Purchase Agreement ("SBPA") that provided credit support for the bonds was terminated on March 1, 2012 when the 1998 bonds were refunded.

Series 2002 Bonds
On March 27, 2002, Carnegie Mellon issued, through the 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 were scheduled to mature at $7.7 million in fiscal year 2028 and $32.0 million in fiscal year 2032. The 2002 Bonds scheduled to mature in fiscal year 2032 were subject to mandatory sinking fund redemption. The sinking fund required payments of $8.0 million per year in fiscal years 2029 through 2032. On March 1, 2012 the 2002 Bonds were refunded with a portion of the proceeds from the 2012 Bonds. The 2002 Bonds bore fixed rates of interest, and the effective interest rate on the 2002 Bonds, including the effect of the original issue discount, was 5.3% during fiscal years 2012 and 2011, respectively.

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 bonds' remarketing agent. Average interest rates on the 2008 Bonds were 0.10% and 0.19% during fiscal years 2012 and 2011, respectively.

Carnegie Mellon has entered into a Standby Repurchase Agreement (SBPA) with a commercial bank that will purchase the 2008 bonds if they cannot be remarketed. This SBPA was renewed on April 5, 2012 for a three year term ending in April of 2015. If the Bank does not wish to renew the agreement, it must provide notification at least 60 days prior to the expiration date.

Series 2009 Bonds
On August 5, 2009, Carnegie Mellon issued through the PHEFA, Fixed Rate Revenue Bonds, Series 2009, with a face value of $172.4 million (the "2009 Bonds"). The proceeds of the 2009 Bonds, including an original issue premium 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 bear fixed rates of interest, and the effective interest rate on the 2009 Bonds, including the effect of the original issue premium, was 4.1% and 4.5% during fiscal years 2012 and 2011, respectively.

Series 2012 Bonds
On March 1, 2012, Carnegie Mellon issued through the ACHEBA, Revenue Refunding Bonds, Series A of 2012, with a face value of $58.1 million and Series B of 2012, with a face value of $50.0 million (the "2012 Bonds"). The proceeds of the 2012 Bonds, including an original issue premium of $10.2 million, were used to finance the cost of refunding the 1998 Bonds and the 2002 Bonds, and to pay certain costs of issuance of the Bonds. The Series A of 2012 Bonds mature at $25.3 million in fiscal year 2015 and $32.8 million in fiscal year 2024. The Series B of 2012 Bonds mature at $50.0 million in fiscal year 2019. The Series A of 2012 Bonds bear fixed rates of interest, and the effective interest rate, including the effect of the original issue premium is 2.64%. The

Series B of 2012 Bonds bear variable rates of interest based on one month LIBOR. Average interest rates on the Bonds were approximately 0.84% during fiscal year 2012.

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 for four consecutive years. The third installment of $4.6 million plus interest was paid in June 2012. The interest rate on the Note was 1.7% for the first year and is adjusted to an annual rate equal to the rolling monthly average yield of five-year US Treasury notes less 100 basis points. The interest rate calculated and paid for fiscal year 2012 was approximately 0.68%. 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, 2012 and 2011 in the amount of $28.0 million and $28.8 million, respectively. The interest rate associated with this financing obligation is 5.2%. Under terms of a space lease commitment, Carnegie Mellon makes monthly payments to RIDC which approximated $2.2 million in fiscal years 2012 and 2011. 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, 2012 and 2011 are approximately $475.3 million and $473.6 million, respectively.

Cash paid for interest for the fiscal years ended June 30, 2012 and 2011, totaled $17.1 million and $17.2 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):

2013	$ 7,880
2014	3,329
2015	53,997
2016	1,989
2017	1,923
Thereafter	383,687
Total	$ 452,805

The University entered into a $50.0 million unsecured line of credit agreement that expires on October 19, 2013. 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):

	2012	2011
Endowment earning	$ 274,830	$ 305,803
Capital and other donor designations	76,040	63,566
Pledges and assets held in trust by others	49,197	18,371
Split interest agreements	3,123	3,989
Loan funds	741	698
Total	$ 403,931	$ 392,427

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

	2012	2011
Endowment	$ 487,258	$ 465,626
Pledges and assets held in trust by others	57,653	45,091
Split interest agreements and other donor designations	4,160	5,335
Total	$ 549,071	$ 516,052

12. Derivative Instruments and Hedging Activities

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

SWAP Agreement	Effective Date	National 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	NA
May 2007 forward	Mar 2012	40,325	3.8	67 %	20	Mar 2032	NA

In March of 2012, Carnegie Mellon entered into the following "fixed receiver" swap in conjunction with the issuance of the 2012 Series A bonds. This swap preserved some debt portfolio exposure to floating rates.

SWAP Agreement	Effective Date	National Amount ($ in Thousands)	Interest Rate paid	Interest Received	Term (in years)	Termination Date	Counterparty Cancellation Option
Mar 2012 spot	Mar 2012	$ 38,000	SIFMA	1.92 %	12	Mar 2024	NA

As a result of the interest rate swap agreements, the following fair values were recorded as other assets or as accounts payable and other liabilities in the Consolidated Statements of Financial Position for the years ended June 30, 2012 and 2011 (in thousands of dollars):

Date of SWAP Agreement	Derivatives Reported as Assets (Liabilities) 2012	2011
Oct 2004 spot	$ (7,820)	$ (5,441)
Apr 2006 forward	(29,069)	(16,309)
May 2007 spot	(1,595)	(841)
May 2007 forward	(13,984)	(5,883)
Mar 2012 spot	873	-
Total	$ (51,595)	$ (28,474)

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 counterparties. As of June 30, 2012, $2.4 million was posted as collateral for the April 2006 forward swap agreement.

The following interest (expense) and mark to market gains/(losses) were recorded as other sources under nonoperating activities in the Consolidated Statements of Activities for the years ended June 30, 2012 and 2011 (in thousands of dollars):

Date of SWAP Agreement	Interest (Expense) Revenue 2012	Interest (Expense) Revenue 2011	Fair Value (Loss) Gain 2012	Fair Value (Loss) Gain 2011	Total (Loss) Gain 2012	Total (Loss) Gain 2011
Interest rate swaps:						
Oct 2004 spot	$ (1,436)	$ (1,425)	$ (2,379)	$ 443	$ (3,815)	$ (982)
Apr 2006 forward	(3,276)	(3,253)	(12,760)	2,596	(16,036)	(657)
May 2007 spot	(185)	(184)	(754)	183	(939)	(1)
May 2007 forward	(489)	-	(8,101)	420	(8,590)	420
Mar 2012 spot	220	-	873	-	1,093	-
Total	$ (5,166)	$ (4,862)	$ (23,121)	$ 3,642	$ (28,287)	$ (1,220)

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, 2012 and 2011 are as follows (in thousands of dollars):

	2012	2011
Instruction and departmental research	$ 342,717	$ 316,236
Sponsored projects	334,101	319,031
Administration and institutional support	97,852	97,276
Academic support	101,534	90,905
Student services	45,647	43,755
Auxiliary services and activities	44,470	42,498
Total	$ 966,321	$ 909,701

Total fundraising expense of $15.7 million ($15.0 million and $15.3 million in administration and institutional support) is included above for the years ended June 30, 2012 and 2011, 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 $14.0 million and $12.8 million (excluding International donated space of $8.8 million and $8.5 million) for the years ending June 30, 2012 and 2011, respectively. Future minimum operating lease payments at June 30, 2012 are as follows (in thousands of dollars):

2013	$	17,196
2014		12,358
2015		8,998
2016		5,348
2017		3,920
Thereafter		4,808
Total	$	52,628

At June 30, 2012 and 2011 Carnegie Mellon had contractual obligations of approximately $9.0 million and $1.3 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $15.1 million.

Carnegie Mellon has two letters of credit with a commercial bank totaling $0.8 million. There were no draws against these letters of credits as of June 30, 2012 and 2011.

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, 2012 and 2011 totaled $30.0 million and $29.5 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 2012 and 2011. 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):

	2012	2011
Net actuarial gain	$ (3,128)	$ (6,801)
Prior service credit	(1,720)	(2,122)
Total	$ (4,848)	$ (8,923)

The net actuarial gain at June 30, 2012 and June 30, 2011 of $3.1 million and $6.8 million, respectively, resulted primarily from assumption changes due to Health Care Reform legislation passed in fiscal year 2010. Health Care Reform had 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 offer richer coverage than was previously provided for prescriptions resulting in a decrease in the University's prescription drug costs. The net actuarial gain decreased $3.7 million due primarily to a change in the discount rate from 5.50% as of June 30, 2011 to 4.10% as of June 30, 2012.

The components of net periodic benefit costs for the years ended June 30, 2012 and 2011 are as follows (in thousands of dollars):

	2012	2011
Service cost	$ 881	$ 792
Interest cost	920	829
Amortization of prior service credit	(402)	(402)
Amortization of net gain	(379)	(411)
Net periodic benefit cost	$ 1,020	$ 808

During fiscal year 2013, amortization of $0.4 million prior service credit and $0.08 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):

	2012	2011
Benefit obligation, beginning of year	$ 16,016	$ 14,726
Service cost	881	792
Interest cost	920	829
Assumption changes and actuarial gain	3,294	(44)
Benefit payments	(308)	(287)
Benefit obligation, end of year	20,803	16,016
Fair value of plans' assets	-	-
Funded status	$ 20,803	$ 16,016

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2012 and 2011 was 4.1% and 5.5%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2012 and 2011 of 7.5% was assumed. The rate was assumed to decrease gradually to 5.0% by 2022 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, 2012 and 2011 by $3.8 million and $2.6 million, respectively, and increase the aggregate service cost and interest cost components for 2012 and 2011 by $0.3 million. Decreasing the assumed health care cost trend rate by 1.0% in each year would decrease the benefit obligation as of June 30, 2012 and 2011 by $3.0 million and $2.1 million, respectively, and decrease the aggregate service cost and interest cost components for 2012 and 2011 by $0.3 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
2013	$ 916	$ 367	$ 1,283
2014	1,417	515	1,932
2015	1,761	660	2,421
2016	2,163	755	2,918
2017	2,528	882	3,410
2018-2022	17,929	5,506	23,435

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 $21.7 million and $23.3 million at June 30, 2012 and 2011, respectively. These assets are reflected as investments in the accompanying Consolidated Statement of Financial Position. Carnegie Mellon will not make a contribution to the trust in fiscal year 2013 since these trust assets exceed the benefit obligation.

16. Related Party Transactions

Sponsored projects revenue for fiscal years 2012 and 2011 includes $10.7 million and $11.8 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 from various contracts received by MPC, for which MPC has subcontracted to Carnegie Mellon for support of a super computer and related activities.

Sponsored projects revenue for fiscal years 2012 and 2011 includes $0.6 million and $1.7 million, respectively, received from the Pittsburgh Life Sciences Greenhouse (PLSG), a nonprofit related entity of MPC.

Carnegie Mellon is an owner as a tenant in common of the Bellefield Boiler Plant (“Bellefield”) for the purpose of sharing of the steam produced by the plant. The Bellefield operates as such that all of the operating costs of the plant are passed to the owners in the form of steam prices. Carnegie

Mellon is obligated for a percent of liabilities based upon use of steam produced by the Bellefield. As of June 30, 2012 and 2011, Carnegie Mellon's percentage obligation was 15.2%. Included in other assets at June 30, 2012 and 2011 are $0.5 million and $0.7 million of advances, respectively, resulting primarily from operating surpluses. Included in occupancy and related expenses is $4.2 million and $5.1 million, respectively, for steam costs paid to the Bellefield for the years ended June 30, 2012 and 2011.

Carnegie Mellon is one of fifteen designated institutions of higher learning and other charitable organizations named as beneficiaries of The Dietrich Foundation (the "Foundation") created by William S. Dietrich II pursuant to an Amended and Restated Declaration of Trust dated August 23, 2001. The Foundation came into existence as a Pennsylvania charitable trust on October 6, 2011 and was granted exemption from Federal income tax under section 501 (c) (3) of the Internal Revenue Code, specifically as a Type I charitable supporting organization under section 509 (a) (3). The Foundation's primary mission is to provide ongoing and increasing financial support to a number of educational institutions, largely in the greater Pittsburgh area, including Carnegie Mellon. The Foundation is governed by a Board of nine (9) Trustees. Five (5) of the Trustees are Educational Institutions Trustees, of which two (2) are appointed by Carnegie Mellon.

The Foundation is expected to make annual distributions that will be allocated among the pre-specified Supported Organizations, which are divided into two primary groups: (a) six (6) educational institutions which collectively shall receive 90% of the annual distribution amount, and (b) nine (9) other charitable organizations or component funds of such charitable organizations which collectively shall receive 10% of the annual distribution amount. Carnegie Mellon is included in the 90% group and will receive 53.5%. The Foundation's assets at June 30, 2012 total approximately $532 million. As of June 30, 2012, Carnegie Mellon's distribution share remained at 53.5%.

The distributions to Carnegie Mellon will be recorded as permanently restricted contribution revenue when received and held in a permanently restricted endowment fund(s) designated as the Dietrich Foundation Endowment Fund. The endowed fund will be managed in accordance with Carnegie Mellon's generally applicable investment and disbursement policies in effect from time to time for its other permanently restricted endowment. Distributions made from the endowed fund(s) will be used for the purpose(s) specified by the Foundation's Trustees. No distributions were made in fiscal year 2012.

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, 2012 and 2011, $4.8 million and $4.4 million of conditional asset retirement obligations have been recorded, respectively. These obligations are discounted to the present value of future cash flows as of the date of expected abatement.

The following table reconciles the asset retirement obligations as of June 30, 2012 and 2011 (in thousands of dollars):

	2012	2011
Asset retirement obligations as of July 1	$ 4,432	$ 4,762
Accretion expense	199	171
Liabilities assumed	238	-
Liabilities settled or disposed	(102)	(501)
Asset retirement obligations as of June 30	$ 4,767	$ 4,432

The discount rates used range from 2.5% to 3.0%. The expected aggregate undiscounted amount is $7.7 million. The majority of the obligation will be paid out over the next 7 to 20 years.

18. Guarantees

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

Carnegie Mellon has contractually agreed to indemnify its trustees and officers, and in some cases its employees and agents, against certain liabilities incurred as a result of their service on behalf or at the request of Carnegie Mellon and also advances on behalf of those indemnified the costs incurred by them in defending certain claims. Carnegie Mellon carries insurance that limits its exposure for this indemnification obligation. The amount of the liability associated with any known pending or threatened claims covered by this indemnification obligation, if any, is not expected to be material.

Carnegie Mellon has contractually agreed to indemnify specified parties in connection with bond offerings in which it has been involved. The indemnification obligation covers losses, claims, damages, liabilities and other expenses incurred by the underwriters as a result of any untrue statements or material omissions made by Carnegie Mellon in connection with the bond offerings. The amount of the liability associated with any known pending or threatened claims covered by this indemnification obligation, if any, is not expected to be material.

Carnegie Mellon is a party to a loan program for its students who meet certain criteria called the Gate Loan program, which is administered by First Marblehead Corporation (“FMC”). For this program, Carnegie Mellon guarantees a certain percentage of loans provided by FMC to Carnegie Mellon students. The amount guaranteed is based on the percentage of indebtedness that becomes uncollectible. The amounts recorded in the Consolidated Statements of Financial Position in loans receivable and accounts payable and other liabilities as of June 30, 2012 and 2011 is approximately $1.3 million and $1.4 million and $1.2 million and $1.6 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 approximately $6.9 million. This amount represents the full undiscounted balance, and does not include any recourse provisions for indebtedness that may become uncollectible.

19. Subsequent Events

The University has performed an evaluation of subsequent events through October 15, 2012, the date on which the consolidated financial statements were issued.