Carnegie Mellon University

Consolidated Financial Statements

June 30, 2013 and 2012

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Financial Highlights from the Vice President for Finance and Chief Financial Officer

It is my pleasure to present the audited financial statements of Carnegie Mellon University for the fiscal year ended June 30, 2013 and to share with you several noteworthy university and financial performance highlights.

I joined Carnegie Mellon as the Vice President for Finance and Chief Financial Officer on July 1, 2013 and was immediately impressed and encouraged by the accomplishments and solid financial results of fiscal year 2013. The university experienced continued growth in the number of applications for undergraduate programs and our dedicated faculty won impressive support for major research projects amid the most competitive environment for research funding in recent memory. The university experienced a smooth transition in leadership as Dr. Jared L. Cohon completed sixteen years of progress, achievement, and evolution at Carnegie Mellon and Dr. Subra Suresh became the university's ninth president on July 1, 2013.

Financial Performance Highlights

Inspire Innovation Capital Campaign, publically launched in 2008, came to a successful conclusion on June 30, 2013. The campaign's financial goal was $1.0 billion, with a major focus on building the university's endowment. The campaign also aimed to increase alumni involvement and connection to the university, as well as to enhance the university's global visibility. The campaign reached its $1.0 billion goal 16 months ahead of schedule and closed on June 30, 2013 at $1.2 billion, almost three times larger than the University's previous campaign.

Due in part to the success of our capital campaign, Carnegie Mellon continues to make strategic investments in its campus infrastructure to maintain or enhance existing buildings and construct new facilities to support the growth of educational and research programs. In the fall of 2012, the university broke ground on Sherman and Joyce Bowie Scott Hall, which will house the Wilton E. Scott Institute for Energy Innovation. This institute will focus on improving energy efficiency and developing clean, affordable, and sustainable energy sources. The university's Biomedical Engineering Department and a nanotechnology fabrication lab will also reside in Scott Hall, which is expected to be completed in 2015.

As exemplified by the plans for the Wilton E. Scott Institute for Energy Innovation to occupy Scott Hall, Carnegie Mellon maintains its commitment to innovation. In the fall of 2012, supported by an anonymous donation, the university established a campus-wide Center for Innovation and Entrepreneurship (CIE) to strengthen the already bustling culture of innovation that exists at Carnegie Mellon and to help faculty, students, staff and alumni accelerate the commercialization of university research and innovative ideas. Alumnus and entrepreneur Jonathan Kaplan created the Open Field Entrepreneurs Fund, which has invested in 21 Carnegie Mellon young alumni start-up companies since June 2012. In fiscal year 2013 the university launched Carnegie Innovations, LLC, a majority owned subsidiary, to oversee technology commercialization by new ventures in research, education and services that do not fit into the university's existing business units and organizations. Carnegie Innovations portfolio companies include: iCarnegie Global Learning LLC (education consulting), Acatar LLC (online delivery platform for courses and degrees), Acrobatiq LLC (customizable courseware, learning analytical tools, and consulting services), and Clearmodel LLC (parent of the CMMI Institute and licensing and certification agent for the Software Engineering Institute).

Finally, Carnegie Mellon has continued to expand our global footprint to meet the growing international demand for advanced education, particularly in technology. The percentage of international students on the Pittsburgh campus continues to rank among the highest at any U.S. research university at 13.0% of undergraduate and graduate students. Carnegie Mellon's extensive international research and education partnerships expanded once again in fiscal year 2013, with the launch of a new master's program in information technology offered in Kigali, Rwanda and with agreements for additional programs in China and India that are slated to begin in the Fall of 2013.

Carnegie Mellon University
Financial Highlights from the Vice President and Chief Financial Officer
Year Ended June 30, 2013 and 2012

For fiscal year 2013, Carnegie Mellon concluded the year with an operating surplus of $42.1 million (a 2.4% increase from 2012) and a $182.7 million increase in net assets (totaling $1.8 billion at June 30, 2013). These results demonstrate the continued growth of the university. I am pleased to share with you the details of our operations and financial results provided below.

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)	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Total assets	$ 2,603	$ 2,374	$ 2,281	$ 2,015	$ 1,928	$ 2,268
Total liabilities	$ 793	$ 747	$ 698	$ 710	$ 721	$ 694
Total net assets	1,810	1,627	1,583	1,305	1,207	1,574
Total liabilities and net assets	$ 2,603	$ 2,374	$ 2,281	$ 2,015	$ 1,928	$ 2,268

Total University assets at June 30, 2013 were $2.6 billion, an increase of $228.5 million or 9.6% higher than a year ago. Carnegie Mellon's largest asset, its investment portfolio, which represents 55.7% of Carnegie Mellon's total assets, was valued at $1.4 billion at June 30, 2013, an increase of $174.7 million or 13.7%. Carnegie Mellon's investment and endowment strategies and performance are discussed in greater detail in the "Highlights from the Chief Investment Officer." The university's net investment in land, buildings, and equipment of $699.6 million at June 30, 2013 represents an additional 26.9% of the university's assets.

Net of the investment balance increase, the university's assets increased by $53.8 million, driven primarily by an increase in assets limited as to use of $53.8 million related to the 2013 bond proceeds to be used for the construction of Scott Hall.

The university's liabilities at June 30, 2013 were $792.6 million, an increase of $45.9 million or 6.1% from June 30, 2012. Long-term debt, the largest component of the university's liabilities, was $504.0 million as of June 30, 2013, an increase of $51.2 million or 11.3% from June 30, 2012. The increase in liabilities is primarily due to $60.0 million of bonds issued in fiscal year 2013 to fund a portion of the construction of Scott Hall, offset by a $16.8 million decrease in the university's interest rate swap liabilities driven by changes in the fair value.

Carnegie Mellon's total net assets increased $182.7 million or 11.2% from fiscal year 2012 to an ending value of $1.8 billion. Investment returns, the impact of the results of operations, and new restricted gifts and pledges ($61.8 million and $27.1 million classified as temporarily and permanently restricted, respectively) in fiscal year 2013 drove the increase. The university's net assets as of June 30, 2013 were comprised of $748.6 million of unrestricted net assets, $484.5 million of temporary restricted net assets, and $577.2 million of permanently restricted net assets.

Carnegie Mellon University
Financial Highlights from the Vice President and Chief Financial Officer
Year Ended June 30, 2013 and 2012

Overview of Consolidated Statements of Activities

The Consolidated Statements of Activities present the University's results of activities. The university's operating, non-operating, temporarily restricted and permanently restricted changes in net assets for five years are shown in Figure 2. For fiscal year 2013 the university's operating revenues exceeded its operating expenses, yielding an operating surplus of $42.1 million, a $1.0 million or 2.4% increase from the period ended June 30, 2012.

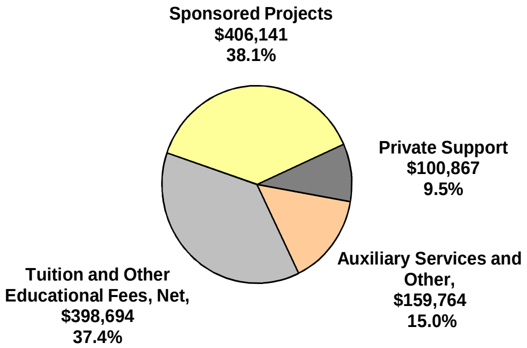
Figure 2 **Operating and Other Nonoperating Results**

(dollars in thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Unrestricted operating revenue	$ 1,065,466	$ 1,007,374	$ 940,657	$ 903,155	$ 865,367
Unrestricted operating expenses	1,023,415	966,321	909,701	874,227	852,242
Change in unrestricted net assets from operations	42,051	41,053	30,956	28,928	13,125
Change in unrestricted net assets from nonoperating activities	31,931	(40,948)	69,612	40,213	(170,636)
Change in temporarily restricted net assets	80,530	11,504	133,401	13,306	(217,829)
Change in permanently restricted net assets	28,167	33,019	44,650	14,975	8,690
Change in net assets	$ 182,679	$ 44,628	$ 278,619	$ 97,422	$ (366,650)

Operating Revenues

Unrestricted operating revenues were $1.1 billion, an increase of $58.1 million or 5.8%, over fiscal year 2012. Carnegie Mellon continues to have a high degree of revenue diversity with four primary operating revenue categories: tuition and other educational fees, sponsored project activities (primarily research), private support, and auxiliary services and other revenues. Fiscal year 2013 operating revenues in these categories remained relatively proportionate with the prior year. The components of the University's $1.1 billion in operating revenues are illustrated in Figure 3.

Figure 3 **Fiscal Year 2013 Unrestricted Operating Revenue ($1.1 billion) ($ in thousands)**



Tuition and other educational fees, net of financial aid, increased $32.0 million or 8.7% to $398.7 million in fiscal year 2013, representing 37.4% of university operating revenues. Gross revenues from undergraduate tuition increased $10.5 million or 4.0% to $267.5 million. Graduate gross tuition revenues increased $22.9 million or 11.2% to $227.8 million. The increase in undergraduate and graduate gross tuition revenues was primarily due to increases in tuition and enrollment (see Figure 4). Financial aid, which offsets tuition and other educational fees revenues, remains at approximately 25.0% of gross tuition income (undergraduate approximately 27.9% and graduate approximately 21.5%).

Figure 4 **Fall 2012 and 2011 Semester Enrollment**

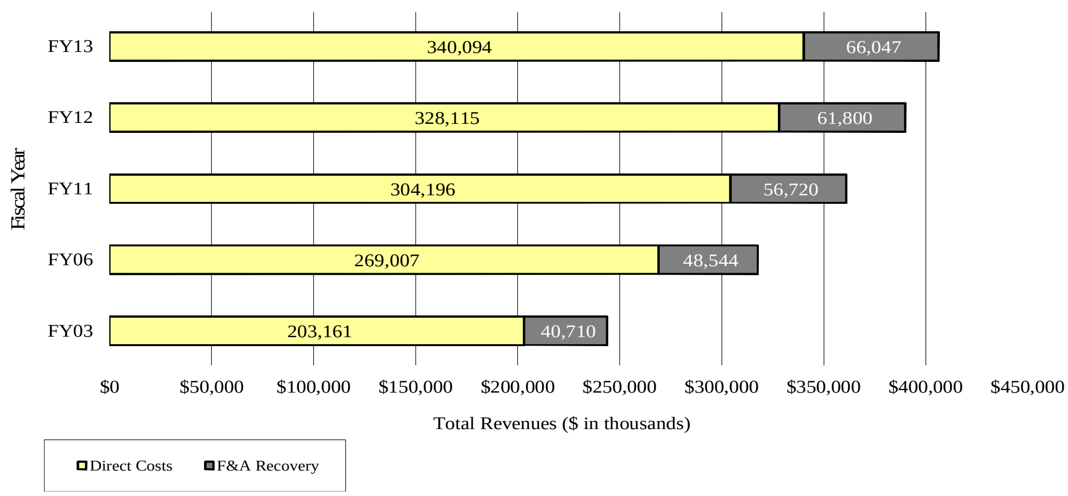
	2012-2013	2011-2012
Undergraduate	6,203	6,178
Graduate	6,290	5,777
Total fall enrollment	12,493	11,955

There were 17,313 undergraduate applicants for the fiscal year 2013 fall semester of which 27.8% were admitted; 29.3% of those admitted enrolled at Carnegie Mellon.

Sponsored projects revenue, including indirect cost recoveries, remains the largest source of operating revenue for the university, accounting for 38.1% of total operating revenues for fiscal year 2013, an increase of $16.2 million or 4.2% from the prior year. The increase is primarily driven by the university's Software Engineering Institute (SEI), a federally funded research and development center.

As Figure 5 illustrates, Carnegie Mellon has experienced significant increases in sponsored projects revenue over the past decade with revenues growing from $243.9 million in 2003 to $406.1 million in 2013, a 66.5% increase. The increase is partially due to SEI, which saw significant revenue growth ($44.6 million for fiscal year 2003 compared to $134.6 for fiscal year 2013) largely from the Department of Homeland Security. The increase is also due to over $40.0 million in American Recovery and Reinvestment Act of 2009 funding received between 2010 and 2012.

Figure 5 **Sponsored Projects Revenue**



The federal government continues to be the largest source of sponsored projects revenue for the university (including SEI), providing 86.7% of the revenue with the Department of Defense being the largest provider at 38.5% of the university's total federal funding followed by the National Science Foundation providing 22.5% of the total federal funding. The remaining sources of sponsored projects revenue are foundation/non-profit (3.4%), industry (6.6%), state (0.6%), and other non-federal (2.7%).

Private support accounts for 9.5% of total operating revenues and increased $7.2 million or 7.7% from the prior year to a total of $100.9 million. The components of private support are unrestricted contributions ($22.1 million, including $10.9 million of donated space and services), net assets released from restrictions ($53.7 million) and investment income ($25.1 million). The Board of Trustees approved distribution from endowment to support operations (endowment spending policy) for the fiscal year ended June 30, 2013 was 5.0% or $45.6 million and is reflected in investment income and net assets released from restriction.

Auxiliary services and other revenue increased $2.7 million or 1.7% to $159.8 million in fiscal year 2013, representing 15.0% of university operating revenues. This revenue category consists primarily of external revenues generated primarily by auxiliary enterprises (housing, dining, parking, etc.), international programs, and consolidated subsidiaries.

Operating Expenses

In fiscal year 2013, operating expenses totaled $1.0 billion, a 5.9% or $57.1 million increase from fiscal year 2012. Personnel costs remain the university's single largest category of expense (64.6%) at $660.7 million in 2013, representing an increase of $35.8 million or 5.7% from the prior year. The increase in personnel costs can be attributed to merit increases; continued growth in international programs and sponsored projects; and planned growth in other strategic areas. Depreciation and all other operating expenses represented 5.3% and 30.1%, respectively, of total operating expenses for fiscal year 2013.

Figure 7 **Operating Expenses**

(dollars in millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Salaries and benefits	$ 661	$ 625	$ 589	$ 567	$ 551
Supplies and services	170	159	151	140	146
Occupancy and related expenses	67	62	62	61	63
Other operating expenses	60	58	47	46	40
Depreciation and amortization	54	51	50	49	46
Interest expense	11	11	11	11	6
Total Expenses	$ 1,023	$ 966	$ 910	$ 874	$ 852

Nonoperating Results

Realized and unrealized gains or losses from investments, gains or losses on other financial instruments, such as swap agreements, and other activities not directly related to operations are reported as nonoperating items. In fiscal year 2013, unrestricted net assets from nonoperating activities increased to $31.9 million, primarily driven by the positive change in fair value related to interest rate swap liabilities and net realized and unrealized gains on investments.

Looking Ahead

Carnegie Mellon enters fiscal year 2014 in a strong financial position. This is an exciting time as our new university president, Dr. Subra Suresh, focuses the vision and strategic direction of the university for many years to come. While we must continue to employ financial prudence, we must also be prepared to act quickly and leverage new opportunities as they arise. Thoughtful strategic planning, data-driven decision-making, and careful evaluation of long term sustainability will be critically important in positioning Carnegie Mellon to continue to be at the forefront of education and research around the world.

Amir Rahnamay-Azar
Vice President for Finance and Chief Financial Officer
October 18, 2013

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 University's long-term strategic allocation strategy shifted from one based on traditional, publicly held investments to one focused on allocation to non-traditional or alternative investments, such as private equity, hedge funds, and private real asset funds. This shift in targets has resulted in shifts in actual allocation starting in fiscal year 2006 when the first substantial commitments to private investment funds were made. 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, 2013 are as follows:

Figure 1 **<u>Policy Allocation Targets and June 30, 2013 Allocations</u>**

	Asset Allocation	
	Current Policy Target	Actual as of June 30, 2013
U.S. Public Equities	14 %	15 %
International - Developed	6 %	5 %
International - Emerging	9 %	9 %
Fixed Income	10 %	5 %
Private Equity	22 %	27 %
Hedge Funds	18 %	13 %
Real Assets	15 %	13 %
Opportunistic	6 %	7 %
Cash	0 %	6 %
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. Indeed, both gains in liquid public equity investments and distributions from realized private investments, which exceeded new capital calls by a ratio of 2.8-to-1 for fiscal year 2013, have contributed to reducing the allocation to private equity despite appreciation of the underlying investments.

Carnegie Mellon University
Financial Highlights from the Chief Investment Officer
Year Ended June 30, 2013 and 2012

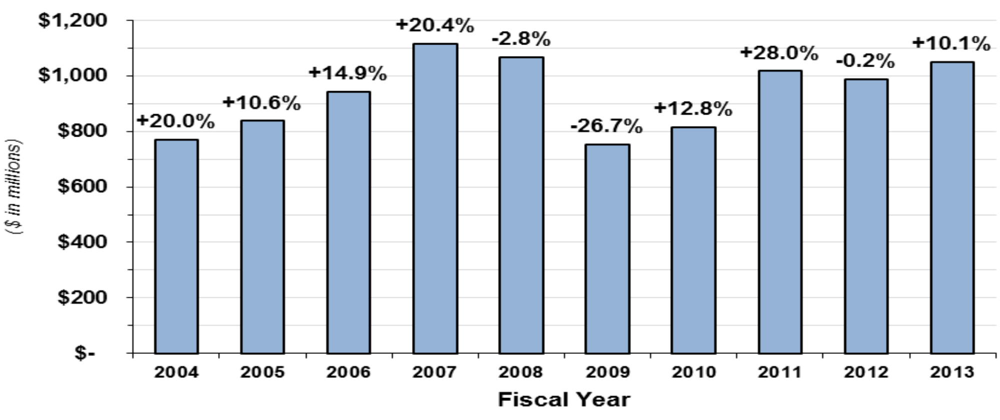
Investment Performance

Returns from equity investments were strong during the fiscal year beginning with the announcement of additional quantative easing by the Federal Reserve in the September quarter. Improving economic data continued to drive gains, although global stock market performance became increasingly divergent early in the 2013 calendar year, as U.S. markets continued to gain and ended the fiscal year up 21.5%, developed international markets rose 18.6%, and emerging market indices gained only 2.9% after retreating 8.1% during the June quarter. Although the relative overweight to emerging markets has dragged on performance recently, favorable long-term trends including age and workforce demographics, the rising middle class and domestic consumption, trade liberalization, and government reforms have contributed to emerging market equity returns of nearly 14% annually, versus 8% for developed market equities over the past 10 years. The University will continue to strategically allocate to emerging markets – both in public and private equities – with the goal of realizing this potential over its long-term investment horizon.

In marked contrast to steep equity market gains, fixed income markets rose modestly during much of the fiscal year before falling sharply in the final quarter on fears of an end to Federal Reserve bond buying programs and an eventual rise in interest rates. With ultra-low interest rates, real yields began the fiscal year in negative territory, meaning investors were locking in inflation-adjusted losses of purchasing power by holding U.S. TIPS debt securities. Given our anticipation of a rate increase at some point in the future and adverse expected return asymmetry (meaning, holding bonds would more likely expose the University to losses than further gains), the University's long-term U.S. government bond portfolio was liquidated in February and March of 2012, with the balance held in cash and bank loans to reduce duration risk against rising interest rates. Rates did increase during fiscal year 2013: the 10-year Treasury yield rose from 1.6% to over 2.5% and the 7-year doubled from 1.0% to 2.0%. Among the hardest hit in the interest rate rise, the U.S. TIPS index fell 4.8% during the fiscal year, losing over 7% in the June quarter alone.

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 in-line with the portfolio's custom benchmarks based on asset allocation. The University's net investment return was 10.1% for fiscal year 2013, which followed a net investment return of -0.2% for fiscal year 2012 and 28.0% for fiscal year 2011. 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 2013, 2012, 2011, and 2010, the returns would have been 8.9%, 1.9%, 26.2%, and 12.0%, respectively.

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



Endowment Attribution

The endowment's market value increased to $1,075.6 million as of June 30, 2013, from $987.1 million as of June 30, 2012. This net increase of approximately $88.5 million reflects the collective impact of $38.2 million from gifts and other sources, $96.1 million in investment gains, and $45.8 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 30th									
(dollars in millions)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Opening Endowment Value	654.7	769.0	837.5	941.5	1,115.7	1,067.7	754.1	815.1	1,017.3	987.1
Gifts/Other Additions	19.6	28.3	31.4	28.6	38.1	19.5	20.3	31.6	21.7	38.2
Annuity Reclassification			(11.7)							
Draw*	(36.5)	(36.3)	(36.8)	(40.5)	(45.7)	(51.6)	(53.0)	(51.3)	(46.9)	(45.8)
Investment Performance	131.2	76.4	121.2	186.1	(40.4)	(281.5)	93.6	221.9	(5.1)	96.1
Closing Endowment Value	769.0	837.5	941.5	1,115.7	1,067.7	754.1	815.1	1,017.3	987.1	1,075.6
Draw Details										
Total Operations	620.1	674.8	737.7	761.8	807.9	852.2	874.2	909.7	966.3	1,023.4
Draw % of Operations	5.9 %	5.4 %	5.0 %	5.3 %	5.7 %	6.1 %	6.1 %	5.6 %	4.9 %	4.5 %
Draw % of Beginning Value	5.6 %	4.7 %	4.4 %	4.3 %	4.1 %	4.8 %	7.0 %	6.3 %	4.6 %	4.6 %
Draw % of Ending Value	4.7 %	4.3 %	3.9 %	3.6 %	4.3 %	6.8 %	6.5 %	5.0 %	4.8 %	4.3 %
Draw Policy (%)	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %	4.9 %	5.0 %	5.0 %	5.0 %

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

During the last decade, the draw from the endowment has contributed, on average, approximately 5.4% of the University's annual operating budget. For fiscal year 2013, the draw from the endowment provided 4.5% of the University's operating budget. Viewed as a percentage of the annual budget, the relative support from the draw is affected not only by the growth in the endowment and the draw formula (see "Note 6" of the consolidated financial statements), but also by the growth in the University's annual operating budget, which has increased by an average of 6.4% annually for the past decade.

In fiscal year 2013, CMU's endowment received its initial annual gift from The Dietrich Foundation. The Dietrich Foundation, established by William S. Dietrich II, a Pittsburgh industrialist and longtime University Trustee, was created to manage in perpetuity approximately $500 million in assets intended to benefit the University and other higher education and charitable institutions. The Dietrich 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). The University's share of the annual distributions from the Dietrich Foundation is 53.5%. If this percentage is applied to the estimated value of the Dietrich Foundation's assets of $553 million as of June 30, 2013, and if the result were added to CMU's endowment of $1,075.6 million, the combination would total $1,371.5 million. Annual distributions from the Dietrich Foundation will, over time, equal 3% of the value of Dietrich Foundation's net assets as measured on January 1st of each year, or an estimated $9 million based on the most recent valuation of the Dietrich Foundation's net assets. Annual gifts from the Dietrich Foundation will be received by the University as endowed gifts. The gift for fiscal year 2013 was $7.7 million.

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 2013 and 2011 reflect the receipt of $2.5 million and $40.7 million, respectively, of funds from an investment in Westridge Capital Management, Inc. ("WCM") Enhancement Fund, which is under court-appointed receivership. 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 of future recoveries. The $43.2 million cumulatively recovered to date totals approximately 88% of the last recorded value of the investment prior to the write-down. 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 may ultimately receive relating to this investment (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. 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 18, 2013

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Report of Independent Auditors

To the Board of Trustees
Carnegie Mellon University

We have audited the accompanying consolidated financial statements of Carnegie Mellon University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2013 and June 30, 2012, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carnegie Mellon University and its subsidiaries at June 30, 2013 and June 30, 2012, and the results of their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
October 18, 2013

Carnegie Mellon University
Consolidated Statements of Financial Position
June 30, 2013 and 2012

(dollars in thousands)

	2013	2012
Assets		
Cash and cash equivalents (Note 2)	$ 141,339	$ 162,333
Accrued interest and dividends	514	162
Accounts receivable, net (Note 3)	93,279	92,389
Pledges receivable, net (Note 4)	95,530	95,371
Student loans receivable, net (Note 3)	18,130	16,673
Investments (Note 5 and Note 7)	1,449,713	1,274,966
Assets held in trust by others (Note 7)	11,367	11,479
Assets limited as to use (Note 2)	53,818	-
Other assets	39,627	30,547
Land, buildings and equipment, net (Note 9)	699,638	690,498
Total assets	$ 2,602,955	$ 2,374,418
Liabilities		
Accounts payable and other liabilities (Note 2)	$ 154,741	$ 170,351
Deferred revenue	105,512	95,906
Federal student loan funds	14,572	14,625
Present value of split interest agreements payable	13,755	13,084
Long-term debt (Note 10)	504,049	452,805
Total liabilities	792,629	746,771
Net assets		
Unrestricted	748,627	674,645
Temporarily restricted (Note 11)	484,461	403,931
Permanently restricted (Note 11)	577,238	549,071
Total net assets	1,810,326	1,627,647
Total liabilities and net assets	$ 2,602,955	$ 2,374,418

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

Carnegie Mellon University
Consolidated Statements of Activities
Year Ended June 30, 2013

(dollars in thousands)

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenue and other support				
Tuition and other educational fees revenue, net of financial aid	$ 398,694	$ -	$ -	$ 398,694
Sponsored projects revenue (Note 8)	406,141			406,141
Investment income (Note 5)	25,090	6,176	267	31,533
Contributions revenue (Note 4)	22,098	61,792	27,141	111,031
Auxiliary services revenue	54,806	-		54,806
Other sources (Note 2)	104,958	(91)	(363)	104,504
Net assets released from restrictions	53,679	(53,679)		-
Total revenue and other support	1,065,466	14,198	27,045	1,106,709
Expenses				
Salaries	542,366			542,366
Benefits	118,370			118,370
Supplies and services	169,811			169,811
Occupancy and related expenses	66,585			66,585
Other operating expenses	60,574			60,574
Depreciation and amortization	54,390			54,390
Interest expense	11,319			11,319
Total expenses	1,023,415	-	-	1,023,415
Increase in net assets before nonoperating activities	42,051	14,198	27,045	83,294
Nonoperating activities				
Net realized/unrealized gain on investments (Note 5)	16,269	66,403	1,122	83,794
Other sources/(uses) (Note 2)	13,202			13,202
Post retirement plan changes other than net periodic benefit costs (Note 15)	2,389			2,389
Net assets released from restrictions (Note 2)	71	(71)		-
Total nonoperating activities	31,931	66,332	1,122	99,385
Increase in net assets	$ 73,982	$ 80,530	$ 28,167	$ 182,679
Net assets				
Beginning of year	674,645	403,931	549,071	1,627,647
End of year	$ 748,627	$ 484,461	$ 577,238	$ 1,810,326

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 (Note 5)	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/unrealized loss on investments (Note 5)	(11,768)	(9,227)	(603)	(21,598)
Other sources/(uses) (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 Cash Flows
Year Ended June 30, 2013 and 2012

(dollars in thousands)

	2013	2012
Cash flows from operating activities		
Increase in net assets	$ 182,679	$ 44,628
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized (gains) losses on investments	(100,719)	1,908
Depreciation and amortization	54,390	51,440
Amortization of bond premium/discount, net	(2,542)	(1,476)
Loss on extinguishment of debt	-	1,146
Gifts in kind	(1,264)	(641)
Losses on asset dispositions	817	229
Receipt of contributed securities	(20,056)	(5,649)
Provision for bad debt and other allowances	976	1,276
Contributions held in trust by others	112	1,338
Contributions for land, buildings, equipment and permanent endowment	(29,496)	(18,918)
(Increase) decrease in assets		
Accrued interest and dividends	(352)	820
Accounts receivable, net	(2,796)	(29,574)
Pledges receivable, net	880	(47,081)
Other assets	(8,772)	(4,688)
Increase (decrease) in liabilities		
Accounts payable and other liabilities	(14,388)	39,954
Deferred revenue	9,606	12,620
Present value of split interest agreements	671	(822)
Net cash provided by operating activities	69,746	46,510
Cash flows from investing activities		
Proceeds from sale and maturity of investments	531,869	475,078
Purchases of investments	(604,735)	(452,734)
Proceeds from sales of donated securities	20,108	5,492
Assets limited as to use	(53,818)	-
Purchases of land, buildings and equipment	(65,297)	(55,074)
Proceeds from the sale of property, plant and equipment	-	736
Federal loan programs	(53)	(4)
Disbursements of loans to students	(4,419)	(4,003)
Repayments of loans from students	2,853	2,539
Net cash used for investing activities	(173,492)	(27,970)
Cash flows from financing activities		
Proceeds from issuance of indebtedness	60,530	118,277
Payment of bond issue costs	(530)	(573)
Repayments of long-term debt	(6,744)	(123,682)
Contributions for land, buildings, equipment and permanent endowment	29,496	18,918
Net cash provided by financing activities	82,752	12,940
Net (decrease)/increase in cash and cash equivalents	(20,994)	31,480
Cash and cash equivalents		
Beginning of year	162,333	130,853
End of year	$ 141,339	$ 162,333
Noncash transactions		
Additions to property, plant and equipment (accruals, gifts in kind, environmental obligations, financed acquisitions)	$ 2,683	$ 4,247
Noncash stock contributions	20,056	5,649

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 12,500 students and grants approximately 3,900 bachelors, masters and doctoral degrees each year. Approximately 82% of undergraduate students are from the United States of America. International students comprise approximately 18% of undergraduate, 53% 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, iCarnegie, Inc., and Carnegie Innovations, LLC. All significant inter-entity transactions and balances have been eliminated in consolidation. Carnegie Mellon is a joint sponsor with the University of Pittsburgh in MPC Corporation (MPC), a beneficiary of the Dietrich Foundation, and an owner as a tenant in common of the Bellefield Boiler Plant. The activities of MPC Corporation, The Dietrich Foundation, 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 $132.2 million of securities transferred from a third party related to an overnight repurchase transaction were 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. At June 30, 2013, there were no amounts in the overnight repurchase investment.

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, 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 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 principal amount of the 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 Limited as to Use
Assets limited as to use in the amount of $53.8 million as of June 30, 2013 represent proceeds from the issuance of the 2013 bonds which are held by a trustee under the bond indenture for capital expenditures.

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 1.2% 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 $123.6 million and $121.8 million for the years ended June 30, 2013 and 2012, 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 or accounts in arrears.

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. $0.1 million and $0.2 million of capital contributions were released from restriction during fiscal year 2013 and 2012, 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. $3.4 million and $2.3 million of capital contributions were released from restriction during fiscal year 2013 and 2012, 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 $16.8 million gain and a $23.1 million loss in the fair value of the interest rate swap agreements as of June 30, 2013 and 2012, respectively (Note 12);

- Swap interest expense of $5.7 million and $5.2 million as of June 30, 2013 and 2012, respectively (Note 12);

- A $6.3 million gain on sale of technology as of June 30, 2012;
- A $1.1 million loss on extinguishment of debt 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 receivables and liabilities, and valuation of investments.

3. Accounts and Loans Receivable

Accounts receivable at June 30, 2013 and 2012, consist of the following (in thousands of dollars):

	2013	2012
Sponsored project grants and contracts		
Federal	$ 43,833	$ 40,554
Other	10,813	10,179
Total sponsored projects	54,646	50,733
Student accounts	6,715	7,148
Other	36,341	38,858
	43,056	46,006
Allowance for doubtful accounts	(4,423)	(4,350)
Net accounts receivable	$ 93,279	$ 92,389

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 $18.1 million and $16.7 million, as of June 30, 2013 and 2012, respectively, primarily represent student loans made under the Perkins federal loan program including loans under the Gate Loan Program (Note 18). These loans are reported net of an allowance for doubtful accounts of approximately $0.9 million and $0.7 million as of June 30, 2013 and 2012, respectively.

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, 2013 and 2012 is adequate to absorb credit losses inherent in the portfolio as of that date.

4. Pledges Receivable and Contributions

Pledges as of June 30, 2013 and 2012 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):

	2013		
	Temporarily Restricted	**Permanently Restricted**	**Total**
In one year or less	$ 2,506	$ 2,072	$ 4,578
Between one year and five years	60,986	41,555	102,541
More than five years	1,425	1,070	2,495
Pledges receivable, gross	64,917	44,697	109,614
Less			
Unamortized discount	4,552	5,552	10,104
Allowance for unfulfilled pledges	2,415	1,565	3,980
Pledges receivable, net of allowances	$ 57,950	$ 37,580	$ 95,530

	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

Pledges receivable, as of June 30, 2013 and 2012, net of allowances, are intended for the endowment in the amounts of $37.6 million and $48.1 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $58.0 million and $47.2 million, respectively.

Contribution revenue includes gifts, unconditional pledges to give, and grants and are recorded in the appropriate net asset category based upon donor stipulations. Contributions for the fiscal years ended June 30, 2013 and 2012 are as follows (in thousands of dollars):

	2013	**2012**
Unrestricted	$ 22,098	$ 21,661
Temporarily restricted	61,792	64,743
Permanently restricted	27,141	33,748
Total	$ 111,031	$ 120,152

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 $10.1 million and $8.2 million as of June 30, 2013 and 2012, 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, 2013 and 2012 are as follows (in thousands of dollars):

	2013	**2012**
Cash and cash equivalents	$ 194,364	$ 133,974
Fixed income	160,356	133,856
Common stock	378,834	304,784
Alternative investments	716,159	702,352
Total investments	$ 1,449,713	$ 1,274,966

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

	2013	2012
Endowment	$ 1,066,149	$ 979,229
Reserves for working capital and plant - short term	149,644	83,186
Reserves for working capital and plant - long term	183,781	163,912
Split interest agreements	21,978	20,430
Other investments	28,161	28,209
Total investments	$ 1,449,713	$ 1,274,966

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, 2013 are composed of approximately 51.4% domestic equities and 48.6% international and emerging market equities. Common stock investments at June 30, 2012 were composed of approximately 52.1% domestic equities and 47.9% 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, 2013 and 2012 (in thousands of dollars):

	2013	2012
Dividends and interest (net of $3.0 million and $2.8 million of investment fees)	$ 14,608	$ 9,859
Net realized gains on sale of investments	45,014	47,607
Net unrealized gains (losses) on investments	55,705	(49,515)
Total return on investments	$ 115,327	$ 7,951

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 $16.9 million and $19.7 million in the years ended June 30, 2013 and 2012, 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, 2013 and 2012, Carnegie Mellon had unfunded commitments of approximately $226.8 million and $211.3 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, 2013 and 2012 (in thousands of dollars):

Alternative Investment Strategy	**Number of Funds**	**2013 Fair Value**
Opportunistic (including distressed securities)	18	$ 43,453
Hedge funds	20	169,481
Natural resources	19	81,932
Private equity (buyout) funds	46	138,478
Real estate	14	74,038
Venture capital	78	208,777
Total	195	716,159
Total investments		$ 1,449,713
% Alternative		49.4%

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%

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. The resolution of the University's lawsuit depends largely on the outcome and distributions of the receivership proceedings.

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. On March 21, 2011 certain investors filed an appeal regarding the allocation of the court's distribution. The Second Circuit heard the appeal on May 16, 2012 and affirmed the lower court's ruling on April 3, 2013, thus clearing the way for distributions to be made of any additional recoveries. As of June 30, 2013 distributions totaling $43.2 million, including $2.5 million received during fiscal year 2013, 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.

6. Endowments

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

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Beginning of year endowment value	$ 224,965	$ 274,831	$ 487,258	$ 987,054
Gifts and other additions				
Contributions (excluding pledges)	34	-	37,016	37,050
Terminated life income trusts and income and gains reinvested	-	-	1,155	1,155
Total gifts and other additions	34	-	38,171	38,205
Investment income				
Interest and dividends	4,687	5,776	45	10,508
Net realized gains on sale of securities	8,747	29,478	152	38,377
Net unrealized gains	10,774	36,494	-	47,268
Total investment gain	24,208	71,748	197	96,153
Income distributed				
Cash and accrued interest and dividends	(4,687)	(5,776)	(45)	(10,508)
Accumulated realized investment gains	(15,730)	(19,385)	(152)	(35,267)
Total income distributed	(20,417)	(25,161)	(197)	(45,775)
End of year endowment value	$ 228,790	$ 321,418	$ 525,429	$ 1,075,637 [(1)]

[(1)]Includes $9,488 of endowment gifts and other transfers pending investment and other accruals.

	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 (2)

(2) Includes $7,825 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 2013 and 2012 (in thousands of dollars):

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 321,418	$ 525,429	$ 846,847
Board-designated funds	228,790	-	-	228,790
Total funds	$ 228,790	$ 321,418	$ 525,429	$ 1,075,637

	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

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 2013 and 2012, 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 2013 and 2012 divided by the June 30 endowment market values for the those fiscal years) was 4.3% and 4.7%, 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 2013 and 2012 by caption on the Consolidated Statements of Financial Position by the valuation hierarchy defined above (in thousands of dollars):

	2013			
	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)]	$ 194,222	$ 142	$ -	$ 194,364
Common stock				
U.S. - Equity	192,599	-	2,429	195,028
International - Developed	59,418	11,764	-	71,182
International - Emerging	76,843	35,781	-	112,624
Fixed income (with commingled funds) [(a)]	160,065	291	-	160,356
Hedge funds				
Absolute Return Strategies	-	81,079	28,177	109,256
Directional Return Strategies	-	21,940	38,285	60,225
Natural resources [(a)]	-	-	81,932	81,932
Private equity [(a)]	-	-	347,255	347,255
Real estate [(a)]	-	-	74,038	74,038
Opportunistic (with distressed securities) [(a)]	-	-	43,453	43,453
Total investments	683,147	150,997	615,569	1,449,713
Interest rate swaps receivable	-	-	-	-
Beneficial interests held by third party	-	-	3,909	3,909
Perpetual trusts held by third party	-	-	7,458	7,458
Total assets held in trust by others	-	-	11,367	11,367
Total assets at fair value	$ 683,147	$ 150,997	$ 626,936	$ 1,461,080
Liabilities				
Interest rate swaps payable	$ -	$ 34,754	$ -	$ 34,754
Total liabilities at fair value	$ -	$ 34,754	$ -	$ 34,754

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

	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	-	79,317	27,447	106,764
Directional Return Strategies	-	27,408	27,944	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	136,179	596,643	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	$ 137,052	$ 608,122	$ 1,287,318
Liabilities				
Interest rate swaps payable	$ -	$ 52,468	$ -	$ 52,468

(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 2013 and 2012.

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, opportunistic and certain hedge funds). The majority of alternative investment values represent 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 well established controls surrounding investment valuation and has performed due diligence regarding these investments to ensure NAV is an appropriate measure of fair value as of June 30. Management’s internal controls surrounding the review of third party provided NAV include frequent communication with fund managers, review of audited financial statements and fund valuation policies, and continuous monitoring of existing investments.

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 (a)	Redemption Notice Period (a)
Common Stock				
U.S. Equity	$ 2,429	$ -		
Hedge funds			Semi-annual and Annually	30-90 days
Absolute Return Strategies	109,256	-		
Directional Return Strategie	60,225	-		
Natural resources	81,932	19,509		
Private equity	347,255	156,748		
Real estate	74,038	16,560		
Opportunistic	43,453	33,956		
Total investments	$ 718,588	$ 226,773		

(a) 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, 2012	$ 1,016	$ 55,391	$ 345,193	$ 69,094	$ 73,523	$ 52,426	$ 596,643
Realized gains (losses)	-	-	23,433	1,209	2,755	5,347	32,744
Unrealized gains (losses)	300	5,411	4,192	4,299	4,855	928	19,985
Purchases	-	6,000	34,825	8,882	12,936	4,025	66,668
Sales	-	(340)	(60,388)	(9,446)	(12,137)	(19,273)	(101,584)
Issuances	1,113	-	-	-	-	-	1,113
Transfers in (out)	-	-	-	-	-	-	-
Fair value, June 30, 2013	$ 2,429	$ 66,462	$ 347,255	$ 74,038	$ 81,932	$ 43,453	$ 615,569

	Common Stock	Hedge Funds	Private Equity	Real Estate	Natural Resources	Opportunistic (With Distressed Securities)	Total Investments
Fair value, July 1, 2011	$ 406	$ 62,497	$ 312,835	$ 58,860	$ 75,538	$ 53,749	$ 563,885
Realized gains (losses)	-	-	9,701	(1,866)	9,540	3,355	20,730
Unrealized gains (losses)	-	(1,146)	(2,899)	5,389	(2,149)	(417)	(1,222)
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	$ 55,391	$ 345,193	$ 69,094	$ 73,523	$ 52,426	$ 596,643

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, 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

	Beneficial Interests Held by Third Party	Perpetual Trusts Held by Third Party	Total Trusts Held by Third Party
Fair value, July 1, 2012	$ 4,293	$ 7,186	$ 11,479
Realized gains (losses)	-	-	-
Unrealized gains (losses)	189	272	461
Transfers in (out)	(573)	-	(573)
Fair value, June 30, 2013	$ 3,909	$ 7,458	$ 11,367

All net realized and unrealized gains (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, 2013 and 2012 are as follows (in thousands of dollars):

	2013	2012
Federal		
Direct	$ 294,421	$ 280,250
Indirect	57,790	55,362
Total federal	352,211	335,612
State, industrial and other		
Direct	45,673	47,865
Indirect	8,257	6,438
Total state, industrial and other	53,930	54,303
Total sponsored projects revenue	$ 406,141	$ 389,915

Included in other sponsored projects revenue for the fiscal years ended June 30, 2013 and 2012 are amounts from private sources (foundation grants) which amounted to $11.9 million and $12.2 million, respectively.

9. Land, Buildings and Equipment

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

	2013	2012
Buildings	$ 970,789	$ 944,057
Moveable equipment	253,248	248,340
Utilities and building-related assets	57,750	56,585
Land improvements	12,664	12,664
Leasehold improvements	14,457	13,847
Subtotal	1,308,908	1,275,493
Accumulated depreciation	(683,696)	(654,917)
Subtotal	625,212	620,576
Land	45,682	45,411
Construction in progress	28,744	24,511
Land, buildings and equipment, net	$ 699,638	$ 690,498

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, 2013 and 2012. 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 $9.9 million and $8.1 million for the years ended June 30, 2013 and 2012, respectively. Amortization expense of $3.1 million and $2.6 million was charged to expense for the years ended June 30, 2013 and 2012, respectively.

10. Long-Term Debt

Long term debt consists of the following as of June 30, including unamortized premiums* (in thousands of dollars):

	Interest %	2013	2012
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series 2008	Variable	120,820	120,820
Pennsylvania Higher Education Facility Authority, Fixed University Revenue Bonds, Series 2009*	3.5-5.0%	179,071	180,155
Allegheny County Higher Education Building Authority, Fixed Revenue Refunding Bonds, Series A of 2012*	2.0-5.0%	66,632	67,865
Allegheny County Higher Education Building Authority, Variable Revenue Refunding Bonds, Series B of 2012	Variable	50,000	50,000
Allegheny County Higher Education Building Authority, Variable Revenue Bonds, Series 2013*	4.0-5.0%	60,306	-
Notes Payable	Variable	-	4,600
Dormitory bonds/mortgage notes	3.0 %	-	1,355
Collaborative Innovation Center financing	5.2 %	27,220	28,010
Total long-term debt		$ 504,049	$ 452,805

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 0.12% and 0.10% during fiscal years 2013 and 2012, 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% during fiscal years 2013 and 2012.

Series 2012 Bonds
On March 1, 2012, Carnegie Mellon issued through the ACHEBA, Variable Rate 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 0.83% and .84% during fiscal years 2013 and 2012, respectively.

Series 2013 Bonds
On March 1, 2013, Carnegie Mellon issued through the ACHEBA, Variable Rate Revenue Bonds, Series 2013, with a face value of $52.3 million (the “2013 Bonds”). The proceeds of the 2013 Bonds, including an original issue premium of $8.3 million, were used to finance a portion of the costs of a project consisting of the construction, furnishing and equipping of The Nano Fabrication, Energy Futures, and Biomedical Engineering Technologies Building and to pay certain costs of issuance of the Bonds. The Series 2013 Bonds mature at $10.0 million in fiscal year 2021, $22.3 million in fiscal year 2028 and $20.0 million in fiscal year 2043. The 2013 Bonds bear fixed rates of interest and the effective interest rate including the effect of the original issue premium was 3.19% during fiscal year 2013.

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 were due upon each anniversary of the closing date for four consecutive years. The fourth and final installment of $4.6 million plus interest was paid in June 2013. The interest rate calculated and paid for fiscal year 2013 was approximately 0.45%.

Dormitory Bonds and Mortgage Notes
The dormitory bonds and mortgage notes were prepaid in full on June 1, 2013 in the amount of $1.2 million. The debt instruments had original maturities through fiscal year 2024 and an interest rate of 3.0%.

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, 2013 and 2012 in the amount of $27.2 million and $28.0 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 2013 and 2012. 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.

With the exception of fixed rate long-term debt, we believe that the reported carrying amounts of our long-term debt approximate their fair values. At June 30, 2013 and 2012, the fair value of Carnegie Mellon's long-term debt obligations are approximately $513.6 million and $475.3 million, respectively. The fair value was determined using market comparisons available for instruments with similar terms and maturities and would be classified within level 2 of the fair value hierarchy.

Cash paid for interest on long-term bonds and notes for the fiscal years ended June 30, 2013 and 2012 totaled $13.0 million and $12.1 million, respectively. The University also utilizes interest rate swaps to manage the cost and risk of its debt. When the net interest payments on these swaps are included, cash paid for interest for the fiscal years ended June 30, 2013 and 2012 was $18.7 million and $17.1 million, respectively.

Aggregate maturities of debt instruments for each of the next five years ending June 30 are as follows (in thousands of dollars):

2014	$ 833
2015	51,667
2016	-
2017	-
2018	52,430
Thereafter	375,875
Total	$ 480,805

Carnegie Mellon entered into a Standby Bond Purchase Agreement (SBPA) with a financial institution to provide credit support for its 2008 Variable Rate Demand Bond (VRDB). The Agreement requires the guarantor to purchase the bonds if they cannot be successfully remarketed to investors. The three year term of the SBPA ends in April of 2015. In the unlikely event that CMU could not renew or replace this SBPA when it matures, the $120.8 million 2008 VRDB would become due and payable.

The University entered into a $50.0 million unsecured line of credit agreement that expires on October 19, 2014. 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):

	2013	2012
Endowment earnings	$ 321,418	$ 274,831
Capital and other donor designations	98,992	76,040
Pledges and assets held in trust by others	59,675	49,196
Split interest agreements	3,584	3,123
Loan funds	792	741
Total	$ 484,461	$ 403,931

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

	2013	2012
Endowment	$ 525,429	$ 487,258
Pledges and assets held in trust by others	47,223	57,653
Split interest agreements and other donor designations	4,586	4,160
Total	$ 577,238	$ 549,071

12. Derivative Instruments and Hedging Activities

Carnegie Mellon has entered into the following “fixed payer” 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, 2013 and 2012 (in thousands of dollars):

Date of SWAP Agreement	Derivatives Reported as Assets (Liabilities) 2013	2012
Oct 2004 spot	$ (5,731)	$ (7,820)
Apr 2006 forward	(18,239)	(29,069)
May 2007 spot	(1,031)	(1,595)
May 2007 forward	(8,734)	(13,984)
Mar 2012 spot	(1,019)	873
Total	$ (34,754)	$ (51,595)

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. No collateral was required as of June 30, 2013.

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, 2013 and 2012 (in thousands of dollars):

Date of SWAP Agreement	Interest (Expense) Revenue 2013	Interest (Expense) Revenue 2012	Fair Value (Loss) Gain 2013	Fair Value (Loss) Gain 2012	Total (Loss) Gain 2013	Total (Loss) Gain 2012
Interest rate swaps:						
Oct 2004 spot	$ (1,436)	$ (1,436)	$ 2,089	$ (2,379)	$ 653	$ (3,815)
Apr 2006 forward	(3,275)	(3,276)	10,830	(12,760)	7,555	(16,036)
May 2007 spot	(185)	(185)	564	(754)	379	(939)
May 2007 forward	(1,459)	(489)	5,250	(8,101)	3,791	(8,590)
Mar 2012 spot	672	220	(1,892)	873	(1,220)	1,093
Total	$ (5,683)	$ (5,166)	$ 16,841	$ (23,121)	$ 11,158	$ (28,287)

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

13. Expenses by Functional Category

Operating expenses by functional category for the years ended June 30, 2013 and 2012 are as follows (in thousands of dollars):

	2013	2012
Instruction and departmental research	$ 351,435	$ 342,717
Sponsored projects	360,150	334,101
Administration and institutional support	111,125	97,852
Academic support	108,134	101,534
Student service	46,527	45,647
Auxiliary services and activities	46,044	44,470
Total	$ 1,023,415	$ 966,321

Total fundraising expense of $16.8 million and $15.7 million ($16.0 million and $15.0 million in administration and institutional support) is included above for the years ended June 30, 2013 and 2012, 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 $17.0 million and $14.0 million (excluding International donated space of $9.4 million and $8.8 million) for the years ending June 30, 2013 and 2012, respectively. Future minimum operating lease payments at June 30, 2013 are as follows (in thousands of dollars):

2014	$ 18,960
2015	10,551
2016	6,239
2017	4,357
2018	2,583
Thereafter	3,258
Total	$ 45,948

At June 30, 2013 and 2012 Carnegie Mellon had contractual obligations of approximately $8.2 million and $9.0 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $94.4 million.

Carnegie Mellon has two letters of credit with a commercial bank totaling $0.4 million. There were no draws against these letters of credits as of June 30, 2013 and 2012.

15. Retirement Plans and Other Post-Employment Benefits

Carnegie Mellon has various pension and retirement programs covering substantially all of its employees including defined contribution plans 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, 2013 and 2012 totaled $32.0 million and $30.0 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 2013 and 2012.

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 within post-retirement benefit obligations and not yet recognized as components of net periodic benefit cost consist of the following at June 30 (in thousands of dollars):

	2013	2012
Net actuarial gain	$ (5,920)	$ (3,128)
Prior service credit	(1,317)	(1,720)
Total	$ (7,237)	$ (4,848)

The net actuarial gain at June 30, 2013 and June 30, 2012 of $5.9 million and $3.1 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 $2.8 million due primarily to a change in the discount rate from 4.1% as of June 30, 2012 to 4.8% as of June 30, 2013.

The components of net periodic benefit costs for the years ended June 30, 2013 and 2012 are as follows (in thousands of dollars):

	2013	2012
Service cost	$ 1,209	$ 881
Interest cost	895	920
Amortization of prior service credit	(403)	(402)
Amortization of net gain	(77)	(379)
Net periodic benefit cost	$ 1,624	$ 1,020

During fiscal year 2014, amortization of $0.4 million prior service credit and $0.3 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):

	2013	2012
Benefit obligation, beginning of year	$ 20,803	$ 16,016
Service cost	1,209	881
Interest cost	895	920
Assumption changes and actuarial (gain) loss	(2,869)	3,294
Benefit payments	(314)	(308)
Benefit obligation, end of year	19,724	20,803
Fair value of plans' assets	-	-
Funded status	$ 19,724	$ 20,803

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2013 and 2012 was 4.8% and 4.1%, respectively. An annual rate of increase in the per capita cost of covered healthcare benefits for the fiscal years ending June 30, 2013 and 2012 of 7.3% and 7.5%, respectively, 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, 2013 and 2012 by $3.4 million and $3.8 million, respectively, and increase the aggregate service cost and interest cost components for 2013 and 2012 by $0.5 million and $0.3 million, respectively . Decreasing the assumed health care cost trend rate by 1.0% in each year would decrease the benefit obligation as of June 30, 2013 and 2012 by $2.7 million and $3.0 million, respectively, and decrease the aggregate service cost and interest cost components for 2013 and 2012 by $0.4 million and $0.3 million, respectively.

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
2014	$ 935	$ 389	$ 1,324
2015	1,284	593	$ 1,877
2016	1,674	755	$ 2,429
2017	2,057	910	$ 2,967
2018	2,414	975	$ 3,389
2019-2023	16,640	5,884	$ 22,524

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 $21.6 million and $21.7 million at June 30, 2013 and 2012, 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 2014 since these trust assets exceed the benefit obligation.

16. Related Party Transactions

Sponsored projects revenue for fiscal years 2013 and 2012 includes $7.5 million and $10.7 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 supercomputer and related activities.

Sponsored projects revenue for fiscal years 2013 and 2012 includes $0.1 million and $0.6 million, respectively, received from the Pittsburgh Life Sciences Greenhouse (PLSG), a nonprofit related entity of MPC.

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

Boiler. As of June 30, 2013 and 2012, Carnegie Mellon's percentage obligation was 15.2%. Included in other assets at June 30, 2013 and 2012 are $0.4 million and $0.5 million of advances, respectively, resulting primarily from operating surpluses. Included in occupancy and related expenses is $4.3 million and $4.2 million, respectively, for steam costs paid to Bellefield Boiler for the years ended June 30, 2013 and 2012.

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, 2011. 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. The Foundation's assets at June 30, 2013 and June 30, 2012 total approximately $552.7 million and $532.0 million, respectively. As of June 30, 2013, 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(s) 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) authorized by the Foundation's Trustees. Distributions of $7.7 million were received in fiscal year 2013. 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, 2013 and 2012, $4.9 million and $4.8 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, 2013 and 2012 (in thousands of dollars):

	2013	2012
Asset retirement obligations as of July 1	$ 4,767	$ 4,432
Accretion expense	197	199
Liabilities assumed	-	238
Liabilities settled or disposed	(80)	(102)
Asset retirement obligations as of June 30	$ 4,884	$ 4,767

The discount rates used range from 3.3% to 5.1%. The expected aggregate undiscounted amount is $7.6 million. The majority of the obligation will be paid out over the next 6 to 25 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 of 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 was administered by Goal Structured Solutions ("GSS") as of June 30, 2013 and administered by First Marblehead Corporation at June 30, 2012. For this program, Carnegie Mellon guarantees a certain percentage of loans provided by GSS 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, 2013 and 2012 is approximately $0.8 million and $1.3 million and $1.3 million and $1.4 million, respectively. The maximum potential amount of future payments (undiscounted) that Carnegie Mellon could be required to make in the future under this program is approximately $6.7 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 18, 2013, the date on which the consolidated financial statements were issued.