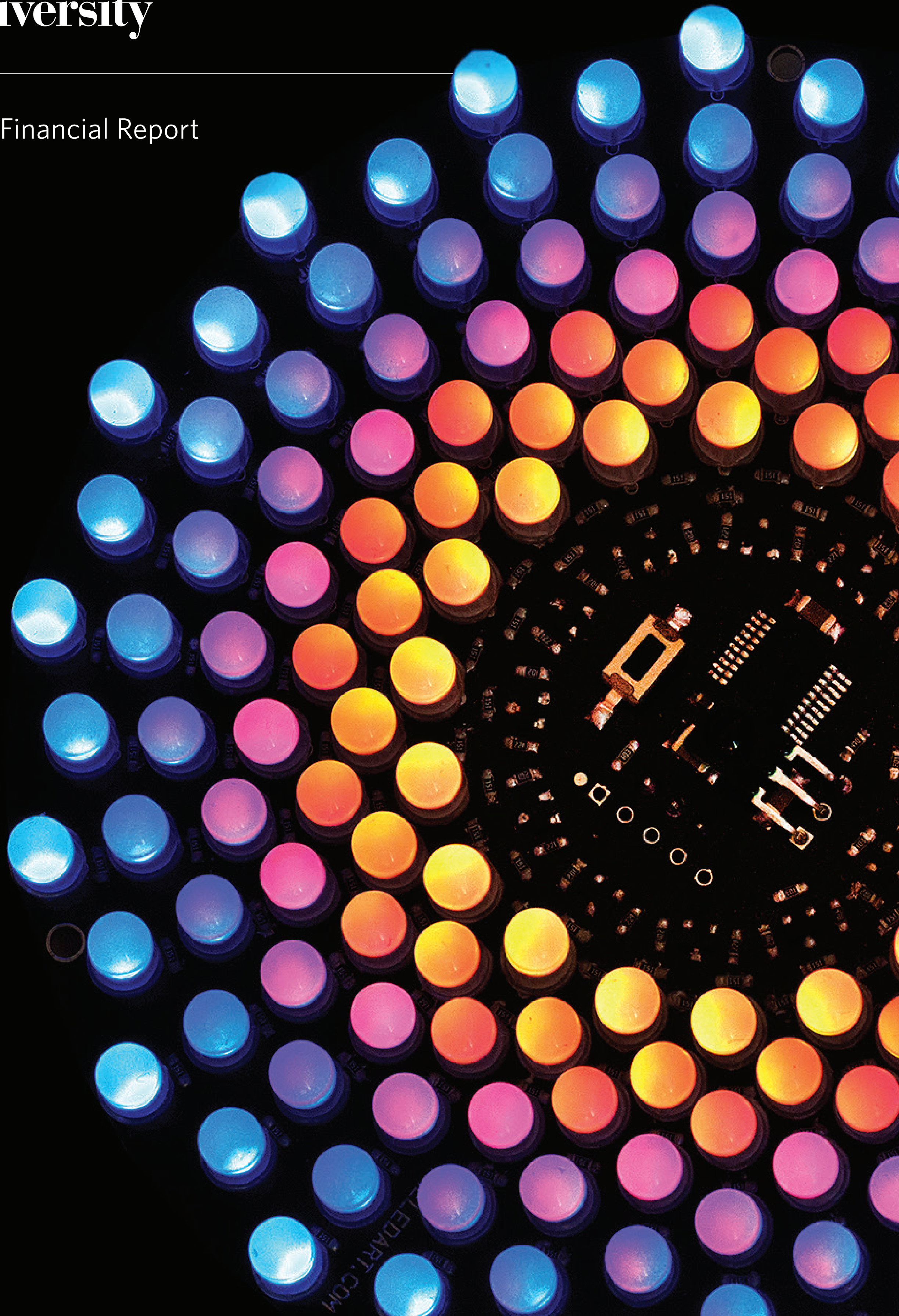
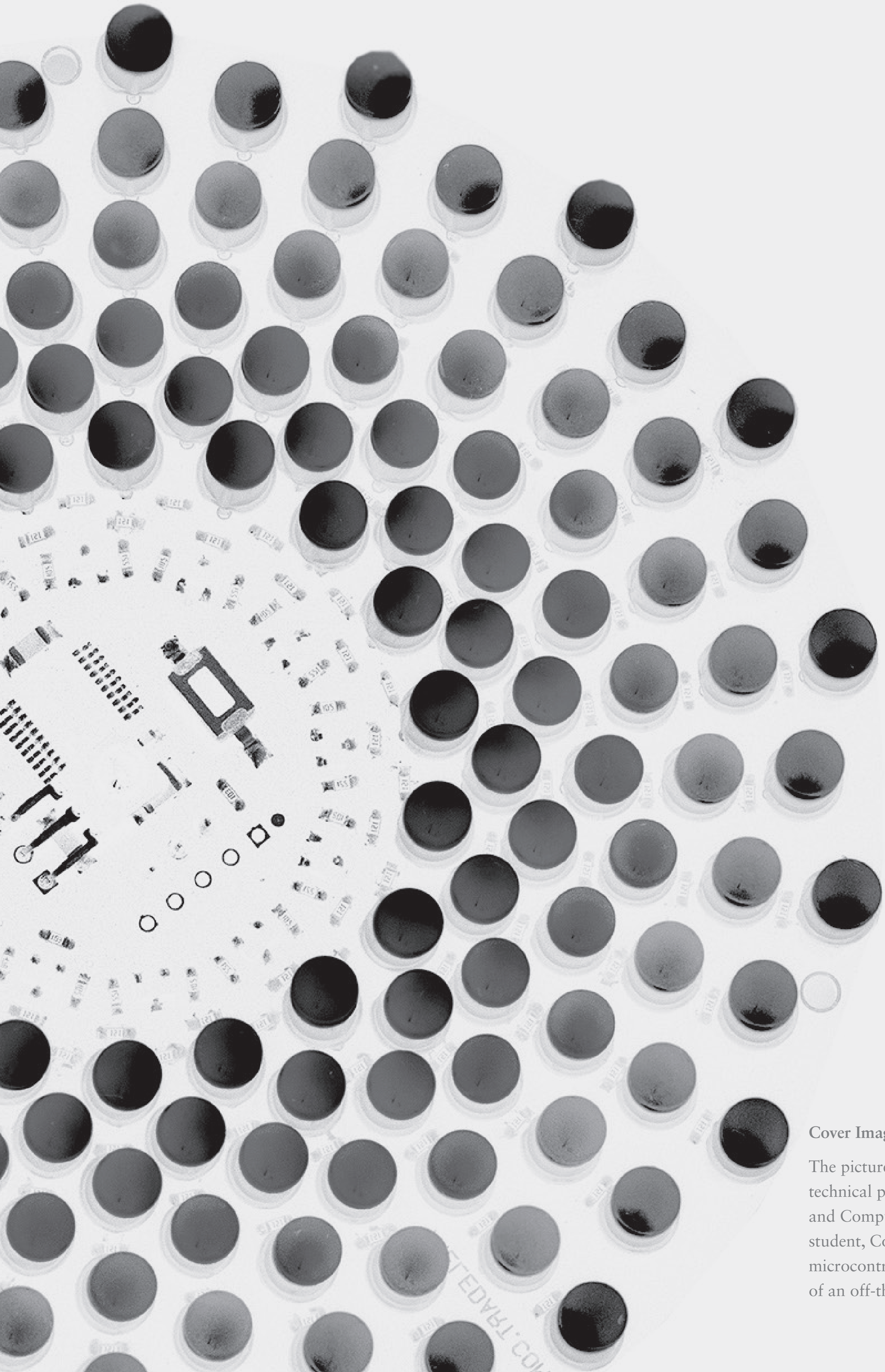
Carnegie Mellon University

2014 Financial Report





Cover Image:

The picture on the cover represents a technical project in which an Electrical and Computer Engineering (ECE) student, Collin Buchan, used an Arduino microcontroller to modify the performance of an off-the-shelf Aurora LED display.

Carnegie Mellon University

Facts and Figures

Type of University*

Private, coeducational, research, granting about 4,100 bachelor's, master's and doctoral degrees each year.

Colleges and Schools

Carnegie Institute of Technology (engineering)
College of Fine Arts
Dietrich College of Humanities and Social Sciences
(liberal arts and professional studies)
David A. Tepper School of Business
The H. John Heinz III College
Mellon College of Science
School of Computer Science

Number of Students*

6,223 undergraduates, 4,761 master's and 1,924 doctoral students, and 83 special non-degree students.

Number of Employees*

5,425 Total Employees
676 tenure-stream faculty
766 non-tenure stream faculty
3,983 staff

Number of Alumni

89,194

Carnegie Mellon Faculty and Alumni Award Highlights:

19 Nobel Prize Laureates
19 Members, American Academy of Arts & Sciences
49 Members, National Academy of Engineering
13 Members, National Academy of Sciences
98 Emmy Award Winners
37 Tony Award Winners
6 Academy Award Winners

Athletics

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

Computers

Carnegie Mellon is one of the most technologically sophisticated campuses in the world. When it introduced its "Andrew" computing network in the mid-1980s, it pioneered educational applications of technology. The "Wireless Andrew" system, developed in the mid-1990s, covers the vast majority of the 147.7-acre Pittsburgh campus.

History

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

Physical Size

147.7-acre Pittsburgh campus; 107 campus-owned buildings; two additional campus locations

Location

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

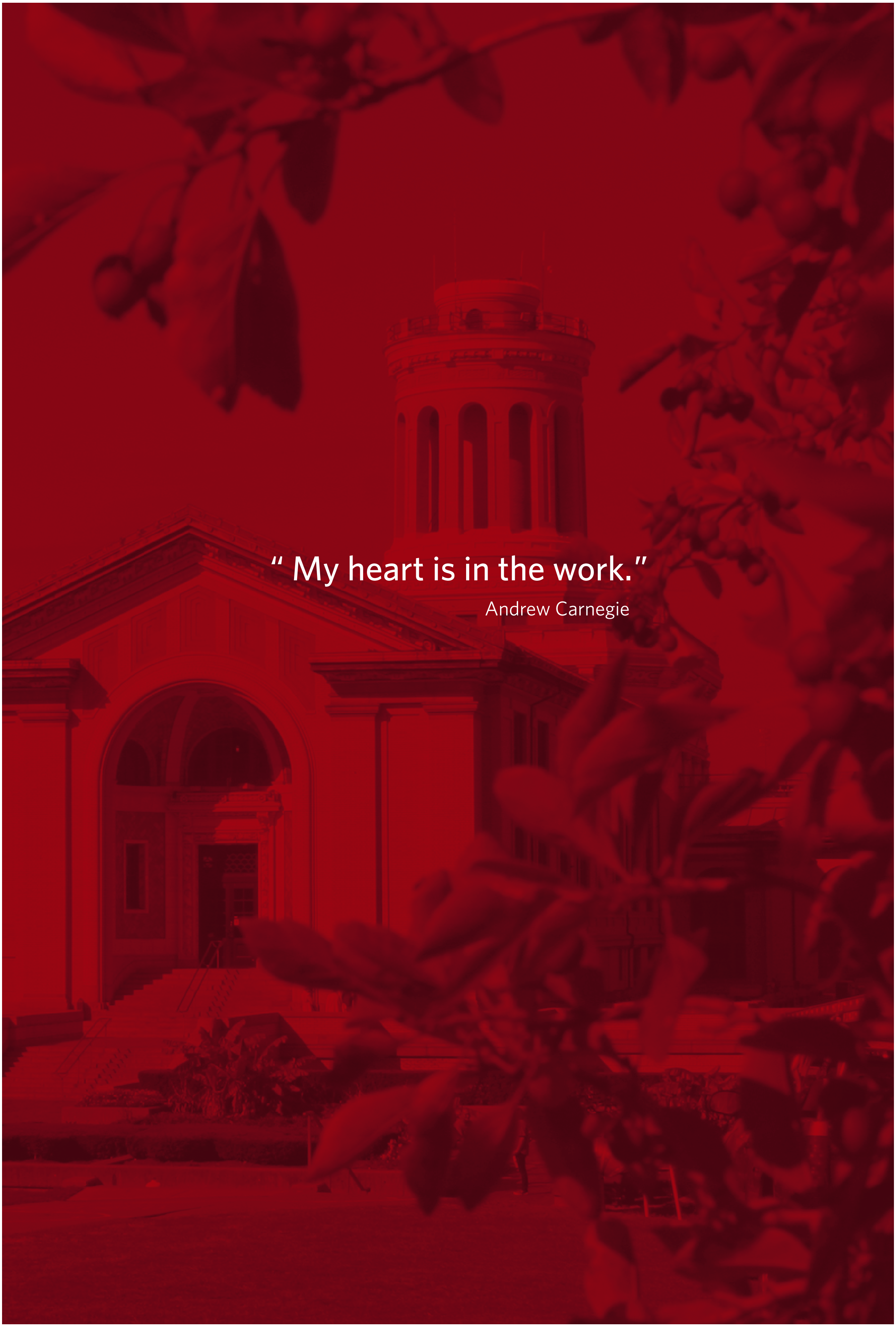
Additional campus locations: Doha, Qatar, and Silicon Valley, California

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

For more information about Carnegie Mellon, please contact:

Office of Media Relations
Carnegie Mellon University
5000 Forbes Avenue
Pittsburgh, PA 15213-3890
Phone: 412-268-2900
www.cmu.edu
www.carnegiemellontoday.com

* *Source: Factbook 2013-14, Vol. 28*



" My heart is in the work."

Andrew Carnegie

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

Amir Rahnamay-Azar

It is my pleasure to present the audited financial statements of Carnegie Mellon University ("Carnegie Mellon" or "the university") for the fiscal year ended June 30, 2014.

Fiscal year 2014 was a rewarding and challenging year for the university. Like many colleges and universities, we faced the government shutdown, decreasing federal funding due to the sequestration and rising costs associated with growth and expansion. Amid increasing global competition for talent, Carnegie Mellon faces the challenge of attracting the best and the brightest students and faculty. These challenges mean the university must continue to do what we do best — **innovate and create to forge our path for the future.**

We have many exceptional accomplishments to share from the fiscal year. At the start of fiscal year 2014, the university celebrated Dr. Subra Suresh's inauguration as the university's 9th president. In his first year, Dr. Suresh spent a great deal of time receiving community input from faculty, students, staff, alumni, trustees, parents and friends of the university. In response to this feedback, a number of initiatives and projects were introduced, including:

- **The Simon Initiative**, which seeks to accelerate innovation and research to further enhance learning outcomes by creating strategic links between learning research and the development of new technology, products and entrepreneurial activities.
- **Presidential Fellowships and Presidential Scholarships**, an initiative to raise a minimum of $100 million of endowed awards by June 30, 2017. This initiative enables us to compete more effectively in recruiting some of the world's brightest students.
- **ProSEED** is a university-wide seed-funding program that supports promising and creative ideas in education and research. ProSEED positions our community to apply for sustained support for ideas from federal, local, philanthropic and industrial funding sources.

Carnegie Mellon announced an extraordinary **pledged gift of $67.0 million from the charitable foundation of Carnegie Mellon alumnus and trustee David A. Tepper** to help establish a new university gateway and interactive hub, through the creation of the "David A. Tepper Quadrangle," which includes a new building that will serve as the home for the Tepper School of Business.

Carnegie Mellon University in Qatar marked its 10th year by welcoming 118 new students from 42 different countries for the 2013–2014 academic year. Women, historically under-represented among computer science majors nationwide, made up 40% of the incoming class of undergraduates this fall in the School of Computer Science. The Tony Awards® named the university as their first, exclusive higher education partner.

After decades of research, **General Motors-Carnegie Mellon Autonomous Driving Collaborative Research Lab** took its Cadillac SRX self-driving car for a spin, demonstrating its capabilities by providing 40 members of Congress the opportunity to ride the vehicle around Washington.

Overall Results

For fiscal year 2014 the university's operating revenues exceeded its operating expenses, yielding an operating surplus of $17.6 million. Carnegie Mellon's total net assets increased $251.5 million or 13.9% from fiscal year 2013 to an ending value of $2.1 billion at June 30, 2014. Investment returns, the impact of the results of operations, and new restricted gifts in fiscal year 2014 drove the increase. These results demonstrate Carnegie Mellon remains financially strong.

Investments

Total university assets at June 30, 2014 were $2.9 billion, an increase of $253.2 million or 9.7% higher than the prior year. Carnegie Mellon's investment portfolio represents 62.3% of total assets and was valued at $1.8 billion at June 30, 2014, an increase of $328.5 million or 22.7% over the prior year. The university's investments earned a return of 18.2% for fiscal year 2014. Carnegie Mellon's investment and endowment strategies and performance are discussed in greater detail in the "Highlights from the Chief Investment Officer."

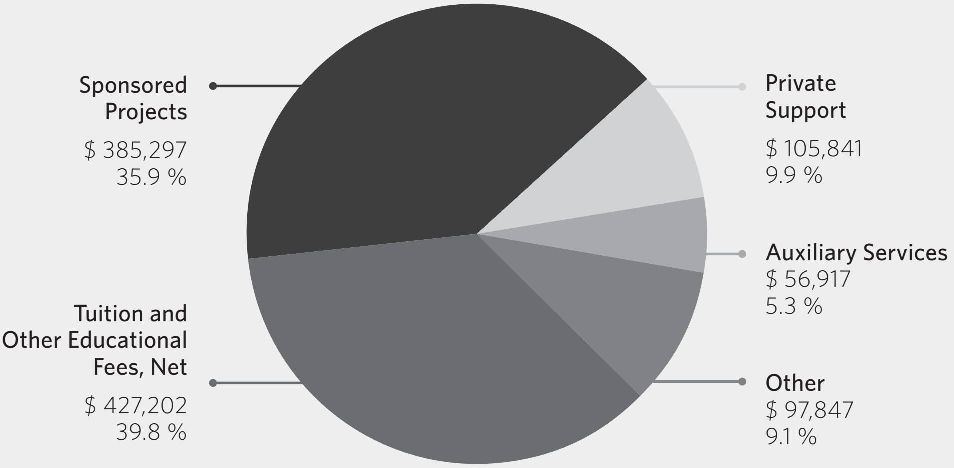
Capital Spending

The university's net investment in land, buildings and equipment of $710.3 million at June 30, 2014 represents 24.9% of the university's assets. In fiscal year 2014 the university continued to make strategic investments in its campus infrastructure to maintain existing buildings and construct new facilities. Capital spending on facilities totaled $37.4 million for fiscal year 2014, an increase of $11.3 million or 43.2% over the prior year. A large share of the university's capital spending ($16.8 million) on facilities and infrastructure in fiscal year 2014 was used in the construction of the Sherman and Joyce Bowie Scott Hall, which is expected to be completed in 2015 and will become the new home for the Wilton E. Scott Institute for Energy Innovation, nanotechnology fabrication lab and the Biomedical Engineering Department.

Operating Revenues

Unrestricted operating revenues for fiscal year 2014 were $1.1 billion, an increase of $7.6 million or 0.7% over fiscal year 2013. Carnegie Mellon has five primary sources of operating revenue: tuition and other educational fees, sponsored projects (primarily research), private support, auxiliary services and other revenues.

Fiscal Year 2014 Unrestricted Operating Revenue (dollars in thousands)



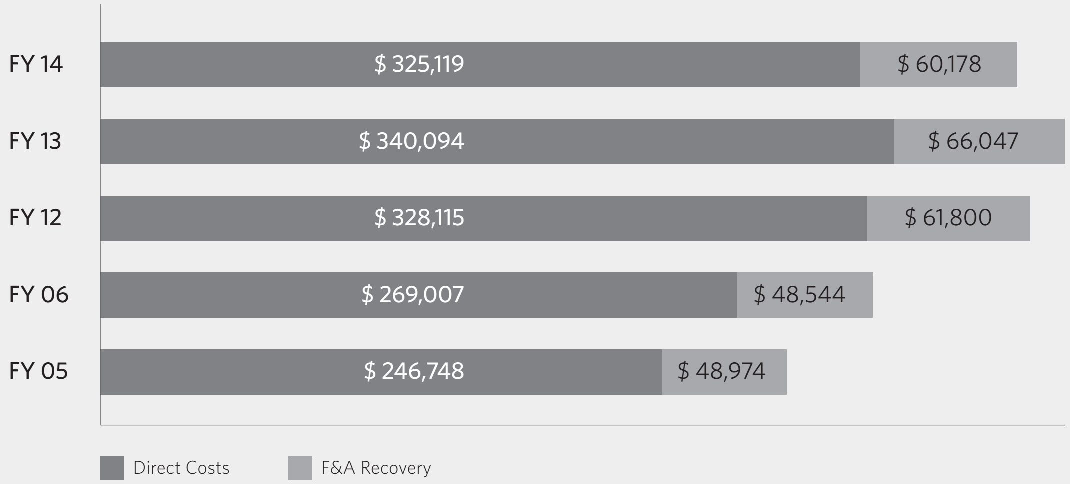
Tuition and other educational fees, net of financial aid, increased $28.5 million or 7.1% to $427.2 million in fiscal year 2014, representing 39.8% of university unrestricted operating revenues. Net revenues from undergraduate tuition increased $11.5 million or 5.2% to $231.3 million. Graduate net tuition revenues increased $17.0 million or 9.5% to $195.9 million. The increase in undergraduate and graduate gross tuition revenues was primarily due to increases in tuition and enrollment. Financial aid, which offsets tuition and other educational fees revenues, remains at approximately 23.0% of gross tuition income (undergraduate approximately 25.1% and graduate approximately 20.3%).

Student demand is robust with 18,884 undergraduate applicants for the fiscal year 2014 fall semester (compared to 17,313 for the fiscal year 2013 fall semester) of which 25.5% were admitted; 30.0% of those admitted enrolled at Carnegie Mellon.

Sponsored projects revenue, including indirect cost recoveries, accounts for 35.9% of total unrestricted operating revenues for fiscal year 2014, a decrease of $20.8 million or 5.1% from the prior year. This decline was driven largely by the federal spending cuts due to sequestration, which resulted in decreases in research and development budgets across most federal agencies. This impacted funding across the university including the Software Engineering Institute (SEI), a Federally Funded Research and Development Center (FFRDC).

Carnegie Mellon experienced significant increases in sponsored projects revenue through fiscal year 2013 prior to the impact of the sequestration in fiscal year 2014. Over the past decade, revenues have grown from $295.7 million in 2005 to $385.3 million in 2014, a 30.3% increase. The increase was partially due to SEI, which saw significant revenue growth ($62.3 million for fiscal year 2005 compared to $123.4 million for fiscal year 2014) largely from the Department of Homeland Security. The increase was also due to over $40.0 million in American Recovery and Reinvestment Act of 2009 funding received between 2010 and 2014.

Sponsored Projects Revenue Fiscal Year 2005 - 2014 (dollars in thousands)

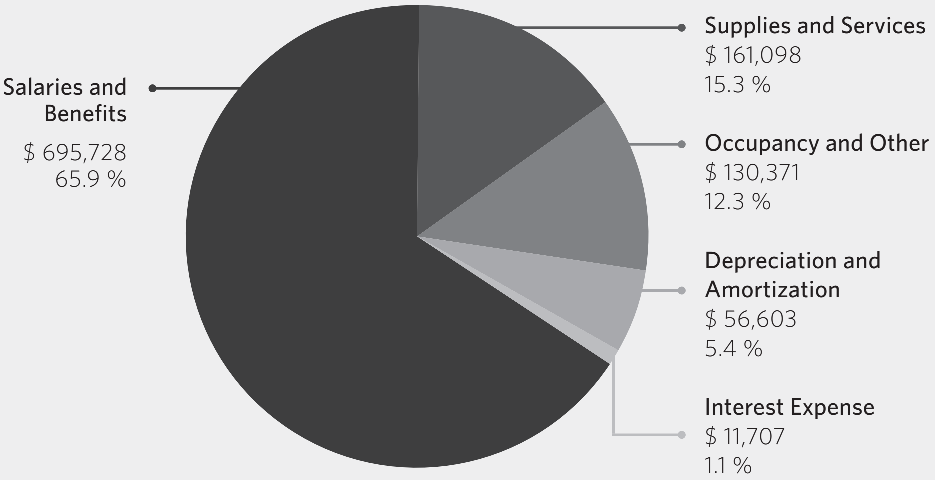


The federal government continues to be the largest source of sponsored projects revenue for the university (including SEI), providing 85.7% of the revenue. The Department of Defense is the largest provider at 38.8% of the university's total federal funding followed by the National Science Foundation providing 21.8% of total federal funding. The remaining sources of sponsored projects revenue are foundation/nonprofit (3.8%), industry (6.6%), state (0.8%), and other nonfederal (3.1%).

Operating Expenses

Operating expenses for fiscal year 2014 totaled $1.1 billion, a 3.1% or $32.1 million increase from fiscal year 2013. Personnel costs remain the university's single largest category of expense (66.0%) at $695.7 million in 2014, representing an increase of $35.0 million or 5.3% from the prior year and consist of salaries, wages and employee benefits.

Fiscal Year 2014 Operating Expenses (dollars in thousands)



Looking Ahead

> Entering fiscal year 2015, the university is excited to build upon our many successes from the past year, as well as to begin new endeavors. As we adapt to the ever-changing landscape of higher education, we are continually inspired by the ideas and opportunities that serve as solutions to our challenges. With a vision to meet the changing needs of society by building on its traditions of innovation, problem solving and interdisciplinarity, we will continue to make powerful impacts as educators, researchers, students, stewards and leaders of Carnegie Mellon University.

Amir Rahnamay-Azar
Vice President for Finance and Chief Financial Officer

November 13, 2014

Financial Highlights from the Chief Investment Officer

Charles A. Kennedy

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. Within the last 10 years, the university's long-term strategic allocation strategy shifted from one based on traditional, publicly held investments to one focused on allocation to nontraditional or alternative investments, such as private equity, hedge funds and private real asset funds. This shift in targets has resulted in changes in actual allocation starting in fiscal year 2006 after the first substantial commitments to private investment funds were made. This strategic 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 November 2013, and the actual allocations at June 30, 2014 are as follows:

***Figure 1** Policy Allocation Targets and June 30, 2014 Allocations*

	Current Policy Target	Actual as of June 30, 2014
U.S. public equities	14 %	14 %
International – developed	6 %	6 %
International – emerging	9 %	10 %
Fixed income	10 %	9 %
Private equity	25 %	29 %
Hedge funds	18 %	13 %
Real assets	15 %	12 %
Other	3 %	1 %
Cash	0 %	6 %
Total	**100 %**	**100 %**

Hedge funds are below target allocation as the illiquid investments in the portfolio, especially private equity, remained slightly higher than target. 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 1.6-to-1 for fiscal year 2014, have contributed to stabilizing the allocation to private equity despite appreciation of the underlying investments. Consistent with the balance as of June 30, 2013, cash remains relatively consistent at 6% as a hedge against possible interest rate increases.

Investment Performance

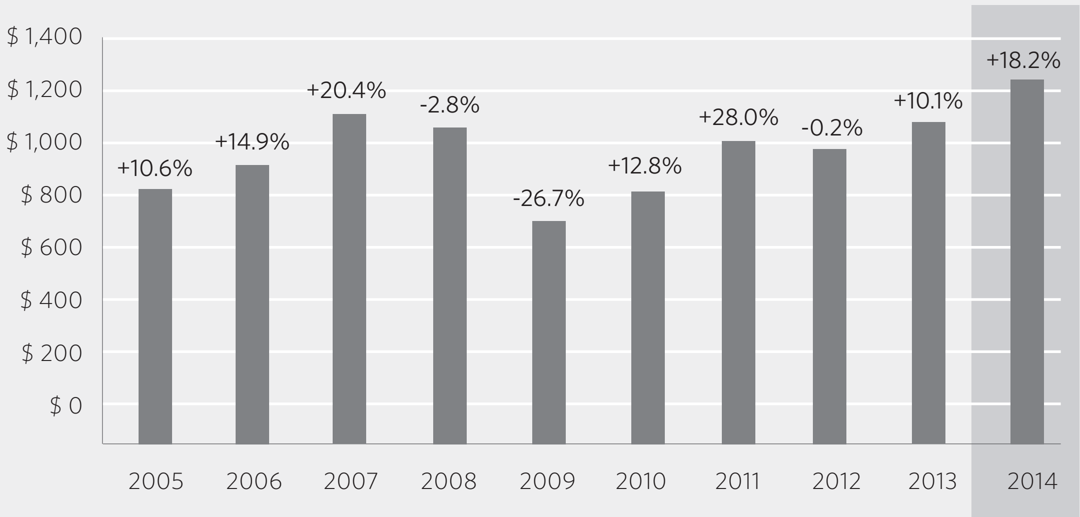
Returns from equity investments were strong during the fiscal year. Improving economic data continued to drive gains, despite potential disruption from geopolitical turmoil. Developed economy stock market performance converged in recent months, as U.S markets continued to gain and ended the fiscal year up 25.0% and developed international markets rose 23.6%; in contrast emerging market indices gained only 14.3%, 6.6% of which was achieved during only the June quarter. Although the relative overweight to emerging markets has dragged on performance for the past three years, 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 12% annually, versus less than 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 were down for the first half of the fiscal year, generating all their gains in the final two quarters; core U. S. bonds and Treasury Inflation-Protected Securities (TIPS) each returned 4.4%. With ultra-low interest rates, real yields began the fiscal year near zero, meaning investors were locking in almost no inflation-adjusted gain in purchasing power by holding U.S. TIPS debt securities, while being exposed to significant potential losses from a rise in interest rates (as occurred in June 2013). 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 TIPS 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; bank loans returned 5.4%, while cash gained only 0.1%. Rates were fairly stable during fiscal year 2014, but remain well above the trough in late 2012.

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 18.2% for fiscal year 2014, which followed a net investment return of 10.1% for fiscal year 2013 and -0.2% for fiscal year 2012. 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 2014, 2013, 2012 and 2011, the returns would have been 17.7%, 8.9%, 1.9% and 26.2%, respectively.

Figure 2 *Endowment Ending Value and Annual Investment Return (dollars in millions)*

Fiscal Year June 30



Endowment Attribution

The endowment's market value increased to $1,250.5 million as of June 30, 2014, from $1,075.6 million as of June 30, 2013. This net increase of approximately $174.9 million reflects the collective impact of $35.0 million from gifts and other sources, $189.5 million in investment gains and $49.6 million in distributions to support the university's 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 (dollars in millions)*

Fiscal Year June 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Opening 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
Gifts/other additions	28.3	31.4	28.6	38.1	19.5	20.3	31.6	21.7	38.2	35.0
Annuity reclassification	-	(11.7)	-	-	-	-	-	-	-	-
Draw*	(36.3)	(36.8)	(40.5)	(45.7)	(51.6)	(53.0)	(51.3)	(46.9)	(45.8)	(49.6)
Investment performance	76.4	121.2	186.1	(40.4)	(281.5)	93.6	221.9	(5.1)	96.1	189.5
Closing endowment value	837.5	941.5	1,115.7	1,067.7	754.1	815.1	1,017.3	987.1	1,075.6	1,250.5
Draw Details										
Total operations	674.8	737.7	761.8	807.9	852.2	874.2	909.7	966.3	1,023.4	1,055.5
Draw % of operations	5.4%	5.0%	5.3%	5.7%	6.1%	6.1%	5.6%	4.9%	4.5%	4.7%
Draw % of beginning value	4.7%	4.4%	4.3%	4.1%	4.8%	7.0%	6.3%	4.6%	4.6%	4.6%
Draw % of ending value	4.3%	3.9%	3.6%	4.3%	6.8%	6.5%	5.0%	4.8%	4.3%	4.0%
Draw policy (%)	5.0%	5.0%	5.0%	5.0%	5.0%	4.9%	5.0%	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 5.3% of the university's annual operating budget. For fiscal year 2014, the draw from the endowment provided 4.7% 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 expenses, which has increased by an average of 5.5% annually for the past decade.

In fiscal year 2014, Carnegie Mellon's endowment received its second 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 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 $653.2 million as of June 30, 2014, and if the result were added to Carnegie Mellon's endowment of $1,250.5 million, the combination would total $1,599.9 million. Annual distributions from The Dietrich Foundation will, over time, equal 3.0% of the value of The Dietrich Foundation's net assets as measured on January 1st of each year, or an estimated $10.0 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 2014 was $10.3 million. The impact on university operations over the next several years will be small but is expected to increase significantly over time as The Dietrich Foundation grows and as The Dietrich Foundation's endowed accounts within the Carnegie Mellon endowment grow.

> With changes designed to 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

November 13, 2014

Independent Auditor's Report and Consolidated Financial Statements

Independent Auditor's Report

To the Board of Trustees
Carnegie Mellon University and Subsidiaries

We have audited the accompanying consolidated financial statements of Carnegie Mellon University and its subsidiaries ("Carnegie Mellon" or "the university"), which comprise the consolidated statements of financial position as of June 30, 2014 and June 30, 2013, and the related consolidated statements of activities and changes in net assets 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, 2014 and June 30, 2013, 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

November 13, 2014

PricewaterhouseCoopers LLP, 600 Grant Street, Pittsburgh, PA 15219
T: 412.355.6000 | F: 412.355.8089 www.pwc.com/us

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(dollars in thousands)

	2014	2013
Assets		
Cash and cash equivalents *(Note 2)*	$ 92,108	$ 141,339
Accrued interest and dividends	999	514
Accounts receivable, net *(Note 3)*	80,472	93,279
Pledges receivable, net *(Note 4)*	82,921	95,530
Student loans receivable, net *(Note 3)*	17,928	18,130
Investments *(Note 5 and 7)*	1,778,198	1,449,713
Assets held in trust by others *(Note 7)*	10,807	11,367
Unexpended bond proceeds *(Note 2)*	42,073	53,818
Other assets	40,366	41,079
Land, buildings and equipment, net *(Note 9)*	710,283	698,186
Total assets	$ 2,856,155	$ 2,602,955
Liabilities		
Accounts payable and other liabilities *(Note 2)*	$ 159,156	$ 154,741
Deferred revenue	106,272	105,512
Federal student loan funds	14,597	14,572
Present value of split interest agreements payable	14,062	13,755
Debt obligations *(Note 10)*	500,227	504,049
Total liabilities	$ 794,314	$ 792,629
Net assets		
Unrestricted	810,825	748,627
Temporarily restricted *(Note 11)*	643,561	484,461
Permanently restricted *(Note 11)*	607,455	577,238
Total net assets	$ 2,061,841	$ 1,810,326
Total liabilities and net assets	**$ 2,856,155**	**$ 2,602,955**

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

Consolidated Statements of Activities

Year ended June 30, 2014

(dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Tuition and other educational fees revenue, net of financial aid	$ 427,202	$ -	$ -	$ 427,202
Sponsored projects revenue *(Note 8)*	385,297	-	-	385,297
Investment income *(Note 5)*	26,432	5,802	259	32,493
Contributions revenue *(Note 4)*	24,227	66,796	27,387	118,410
Auxiliary services revenue	56,917	-	-	56,917
Other sources *(Note 2)*	97,847	(1,014)	264	97,097
Net assets released from restrictions	55,182	(55,182)	-	-
Total revenue and other support	$ 1,073,104	$ 16,402	$ 27,910	$ 1,117,416
Expenses				
Salaries	$ 568,712	$ -	$ -	$ 568,712
Benefits	127,016	-	-	127,016
Supplies and services	161,098	-	-	161,098
Occupancy and related expenses	69,939	-	-	69,939
Other operating expenses	60,432	-	-	60,432
Depreciation and amortization	56,603	-	-	56,603
Interest expense	11,707	-	-	11,707
Total expenses	$ 1,055,507	$ -	$ -	$ 1,055,507
Increase in net assets before nonoperating activities	$ 17,597	$ 16,402	$ 27,910	$ 61,909
Nonoperating activities				
Net realized/unrealized gain on investments *(Note 5)*	50,059	142,698	2,307	195,064
Other sources (uses) *(Note 2)*	(4,906)	-	-	(4,906)
Post retirement plan changes other than net periodic benefit costs *(Note 15)*	(552)	-	-	(552)
Net assets released from restrictions *(Note 2)*	-	-	-	-
Total nonoperating activities	$ 44,601	$ 142,698	$ 2,307	$ 189,606
Increase in net assets	$ 62,198	$ 159,100	$ 30,217	$ 251,515
Net assets				
Beginning of year	**$ 748,627**	**$ 484,461**	**$ 577,238**	**$ 1,810,326**
End of year	**$ 810,825**	**$ 643,561**	**$ 607,455**	**$ 2,061,841**

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

Consolidated Statements of Activities

Year ended June 30, 2013

(dollars in thousands)

	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.

Consolidated Statements of Cash Flows

Year Ended June 30, 2014 and 2013

(dollars in thousands)

	2014	2013
Cash flows from operating activities		
Increase in net assets	$ 251,515	$ 182,679
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized gains on investments	(214,548)	(100,719)
Depreciation and amortization	56,604	54,390
Amortization of bond premium	(2,990)	(2,542)
Gifts in kind and gifts of stock	(2,264)	(1,264)
Loss on asset dispositions	1,448	817
Receipt of contributed securities	(25,051)	(20,056)
Provision for bad debt and other allowances	1,598	976
Contributions held in trust by others	560	112
Contributions for land, buildings, equipment and permanent endowment	(39,655)	(29,496)
Proceeds from sales of donated securities	11,406	6,803
(Increase) decrease in assets		
Accrued interest and dividends	(485)	(352)
Accounts receivable, net	10,361	(2,796)
Pledges receivable, net	13,134	880
Other assets	703	(10,224)
Increase (decrease) in liabilities		
Accounts payable and other liabilities	939	(13,169)
Pensions/post-retirement liability	1,397	(1,219)
Deferred revenue	760	9,606
Present value of split interest agreements	307	671
Net cash provided by operating activities	$ 65,739	$ 75,097
Cash flows from investing activities		
Proceeds from sale and maturity of investments	744,810	531,869
Purchases of investments	(856,633)	(604,735)
Unexpended bond proceeds	11,745	(53,818)
Purchases of land, buildings and equipment	(67,739)	(63,845)
Federal loan programs	25	(53)
Disbursements of loans to students	(2,193)	(4,419)
Repayments of loans from students	2,718	2,853
Net cash used for investing activities	$ (167,267)	$ (192,148)
Cash flows from financing activities		
Proceeds from issuance of indebtedness	-	60,530
Payment of bond issue costs	-	(530)
Repayments of debt obligations	(832)	(6,744)
Proceeds from sales of donated securities restricted for long-term purposes	13,474	13,305
Contributions of land, buildings, equipment and permanent endowment	39,655	29,496
Net cash provided by financing activities	$ 52,297	$ 96,057
Net decrease in cash and cash equivalents	$ (49,231)	$ (20,994)
Cash and cash equivalents		
Beginning of year	141,339	162,333
End of year	$ 92,108	$ 141,339
Noncash transactions		
Additions to land, buildings and equipment	$ 2,015	$ 1,270
Gifts of stock	$ 2,115	$ 1,413
Noncash stock contributions	$ 25,051	$ 20,056

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

Notes to Consolidated Financial Statements

1. Carnegie Mellon

Carnegie Mellon University ("Carnegie Mellon" or "the university") is a private, not-for-profit educational and research institution. Carnegie Mellon currently enrolls about 13,000 students and grants approximately 4,100 bachelor's, master's and doctoral degrees each year. Approximately 81% of undergraduate students are from the United States of America. International students comprise approximately 19% of undergraduate, 58% of master's, and 54% of Ph.D. students.

A substantial portion of Carnegie Mellon's revenues is 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 (see Note 16).

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 requiring 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 the donor or by law. Expiration or satisfaction of temporary restrictions on net assets is 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year's presentation.

Cash Equivalents

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

Investments

Debt and equity securities held by Carnegie Mellon are carried at fair value as established by the major securities markets with gains and losses reported in the Consolidated 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.

Unexpended Bond Proceeds

Unexpended bond proceeds in the amount of $42.1 million and $53.8 million as of June 30, 2014 and June 30, 2013, respectively, represent proceeds from the issuance of the 2013 bonds that 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 that 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 include 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 student loans receivable, net.

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 stipulations 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 unrestricted 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 $127.4 million and $123.6 million for the years ended June 30, 2014 and 2013, 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. For the period ended June 30, 2014 and 2013, 45% of sponsored projects revenue is generated from two federal agencies.

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. Unconditional promises to give 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 of capital contributions was released from restriction during fiscal year 2013, and was reclassified from temporarily to unrestricted net assets through nonoperating activities. There were no capital contributions released from restriction during fiscal year 2014.

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. $0.3 million and $3.4 million of capital contributions were released from restriction during fiscal year 2014 and 2013, 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 and (Uses)

Nonoperating activities – other sources/(uses) presented in the Consolidated Statements of Activities include:

- A \$0.7 million gain and a \$16.8 million gain in the fair value of the interest rate swap agreements for the period ended June 30, 2014 and 2013, respectively (Note 12); and
- Swap interest expense of \$5.7 million for the period ended June 30, 2014 and 2013 (Note 12).

Income Taxes

Carnegie Mellon is a nonprofit 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 and valuation of investments.

Recent Accounting Pronouncements

In October 2012, the FASB issued ASU 2012-05 concerning the classification of cash receipts arising from the sale of donated financial assets in the statement of cash flows of not-for-profit entities. The guidance requires that the cash receipts from the sale of donated securities that were converted nearly immediately into cash should be classified as cash inflows from operating activities unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. Carnegie Mellon implemented ASU 2012-05 for the financial statements as of June 30, 2014 and retrospectively to the financial statements as of June 30, 2013. Adoption of ASU 2012-05 increased cash flows from operating activities by \$6.8 million, decreased cash flows from investing activities by \$20.1 million, and increased cash flows from financing activities by \$13.3 million for the year ended June 30, 2013.

In May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers, a principles-based standard to recognize revenue from customer contracts. ASU 2014-09 is effective for Carnegie Mellon's fiscal year ending June 30, 2018. The university is evaluating the impact that the ASU may have on its financial statements.

3. Accounts and Student Loans Receivable

Accounts receivable at June 30, 2014 and 2013, consist of the following *(dollars in thousands)*:

	2014	2013
Sponsored project grants and contracts		
Federal	$ 43,097	$ 43,833
Other	8,579	10,813
Total sponsored projects	$ 51,676	$ 54,646
Student accounts	5,387	6,715
Other	27,024	36,341
	$ 32,411	$ 43,056
Allowance for doubtful accounts	(3,615)	(4,423)
Net accounts receivable	**$ 80,472**	**$ 93,279**

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.

Student Loans Receivable

Net student loans receivable of approximately $17.9 million and $18.1 million, as of June 30, 2014 and 2013 respectively, primarily represent student loans made under the Perkins federal loan program. These loans are reported net of an allowance for doubtful accounts of approximately $0.5 million and $0.9 million as of June 30, 2014 and 2013, respectively.

4. Pledges Receivable and Contributions

Pledges as of June 30, 2014 and 2013 are discounted to the present value of future cash flows as of the date of the gift and are due as follows *(dollars in thousands)*:

2014	Temporarily Restricted	Permanently Restricted	Total
In one year or less	$ 9,273	$ 4,686	$ 13,959
Between one year and five years	48,310	30,731	79,041
More than five years	1,103	780	1,883
Pledges receivable, gross	$ 58,686	$ 36,197	$ 94,883
Unamortized discount	(4,138)	(4,369)	(8,507)
Allowance for unfulfilled pledges	(2,182)	(1,273)	(3,455)
Pledges receivable, net of allowances	**$ 52,366**	**$ 30,555**	**$ 82,921**

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
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**

Pledges receivable, as of June 30, 2014 and 2013, net of allowances, are intended for the endowment in the amounts of $30.6 million and $37.6 million, respectively, and other donor restricted and unrestricted purposes in the amounts of $52.4 million and $58.0 million, respectively.

Contribution revenue includes gifts and unconditional pledges to give and is recorded in the appropriate net asset category based upon donor stipulations. Contributions for the fiscal years ended June 30, 2014 and 2013 are as follows *(dollars in thousands)*:

	2014	2013
Unrestricted	$ 24,227	$ 22,098
Temporarily restricted	66,796	61,792
Permanently restricted	27,387	27,141
Total	**$ 118,410**	**$ 111,031**

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 unpaid conditional pledges for Carnegie Mellon were approximately $70.9 million and $10.1 million as of June 30, 2014 and 2013, respectively. These amounts were not recognized as contribution revenue during the respective fiscal year as the conditions had not been met. In fiscal year 2014, the David A. Tepper Charitable Foundation, Inc. pledged $67.0 million to help establish a new university gateway and interactive hub through the creation of the David A. Tepper Quadrangle which includes a new building that will serve as the home for the Tepper School of Business. The pledge is conditioned upon university and external fundraising matching contributions and construction milestones. As of June 30, 2014, $9.0 million has been received and recognized as deferred revenue.

5. Investments

Investments by major category at June 30, 2014 and 2013 are as follows *(dollars in thousands)*:

	2014	2013
Uninvested cash	$ 177,811	$ 176,856
Fixed income	191,891	160,356
Short term fixed income investments	132,035	17,508
Common stock	468,643	378,834
Alternative investments	807,818	716,159
Total investments	**$ 1,778,198**	**$ 1,449,713**

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

	2014	2013
Endowment	$ 1,235,968	$ 1,066,149
Reserves for working capital and plant – short term	260,756	149,644
Reserves for working capital and plant – long term	225,789	183,781
Split interest agreements	24,635	21,978
Other investments	31,050	28,161
Total investments	**$ 1,778,198**	**$ 1,449,713**

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, 2014 are composed of approximately 59.7% domestic equities and 40.3% international and emerging market equities. Common stock investments at June 30, 2013 were composed of approximately 51.4% domestic equities and 48.6% international and emerging market equities. Alternative investments are largely investments in buyout funds, venture capital, real estate, natural resources and hedge funds.

The allocation to each major category in the previous table 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 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, 2014 and 2013 *(dollars in thousands)*:

	2014	2013
Dividends and interest (net of $3.7 million and $3.0 million of investment fees)	$ 13,009	$ 14,608
Net realized gains on sale of investments	68,922	45,014
Net unrealized gains on investments	145,626	55,705
Total return on investments	**$ 227,557**	**$ 115,327**

Operating investment income as reported on the Consolidated Statements of Activities includes dividends and interest earned on unrestricted funds as well as unrestricted accumulated gains utilized for current operations in the amounts of $19.5 million and $16.9 million in the years ended June 30, 2014 and 2013, 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, 2014 and 2013, Carnegie Mellon had unfunded commitments of approximately $257.3 million and $226.8 million, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. Carnegie Mellon maintains sufficient liquidity in its investment portfolio to cover such calls.

Alternative investments are less liquid than Carnegie Mellon's other investments. The following tables summarize these investments by strategy type at June 30, 2014 and 2013 *(dollars in thousands)*:

Alternative investment strategy	Number of Funds	2014 Fair Value
Hedge funds	20	$ 190,433
Natural resources	19	94,181
Private equity (buyout) funds	47	154,228
Real estate	16	79,329
Venture capital	94	274,065
Other	12	15,582
Total	**208**	**$ 807,818**
Total investments		**$ 1,778,198**
% Alternative		**45.4 %**

Alternative investment strategy	Number of Funds	2013 Fair Value
Hedge funds	20	$ 169,481
Natural resources	19	81,932
Private equity (buyout) funds	40	136,563
Real estate	14	74,038
Venture capital	88	233,250
Other	14	20,895
Total	**195**	**$ 716,159**
Total investments		**$ 1,449,713**
% Alternative		**49.4 %**

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 *(dollars in thousands)*:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 228,790	$ 321,418	$ 525,429	$ 1,075,637
Gifts and other additions				
Contributions (excluding pledges)	94	3	34,272	34,369
Terminated life income trusts, income and gains reinvested	-	-	647	647
Total gifts and other additions	$ 94	$ 3	$ 34,919	$ 35,016
Investment income				
Interest and dividends	4,125	5,235	44	9,404
Net realized gains on sale of securities	12,183	44,905	187	57,275
Net unrealized gains	26,169	96,847	-	123,016
Total investment gain	$ 42,477	$ 146,987	$ 231	$ 189,695
Income distributed				
Cash and accrued interest and dividends	(4,125)	(5,235)	(44)	(9,404)
Accumulated realized investment gains	(17,725)	(22,494)	(187)	(40,406)
Total income distributed	$ (21,850)	$ (27,729)	$ (231)	$ (49,810)
Endowment net assets, end of year	**$ 249,511**	**$ 440,679**	**$ 560,348**	**$ 1,250,538**[1]

[1] *Includes $14,570 of endowment gifts and other transfers pending investment and other accruals.*

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 224,965	$ 274,831	$ 487,258	$ 987,054
Gifts and other additions				
Contributions (excluding pledges)	34	-	37,016	37,050
Terminated life income trusts, 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)
Endowment net assets, end of year	**$ 228,790**	**$ 321,418**	**$ 525,429**	**$ 1,075,637[2]**

[2] *Includes $9,488 of endowment gifts and other transfers pending investment and other accruals.*

The following tables outline the endowment net asset composition by type of fund for fiscal years 2014 and 2013 *(dollars in thousands)*:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 440,679	$ 560,348	$ 1,001,027
Board-designated funds	249,511	-	-	249,511
Total funds	**$ 249,511**	**$ 440,679**	**$ 560,348**	**$ 1,250,538**

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**

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 36-month average of endowment market values at December 31. For fiscal years 2014 and 2013, 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 2014 and 2013 divided by the June 30 endowment market values for the those fiscal years) was 4.0% and 4.3%, 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-820") 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

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

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 that can be redeemed on the measurement date or in the near term are included in this category.

Fair value for Level 3

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 2014 and 2013 by caption in the Consolidated Statements of Financial Position by the valuation hierarchy defined previously *(dollars in thousands)*:

2014	Quoted Prices in Active Markets *Level 1*	Significant Other Observable Inputs *Level 2*	Significant Unobservable Inputs *Level 3*	Total Fair Value
Assets				
Deferred compensation plan assets	$ 5,337	$ 3,918	$ 1,341	$ 10,596
Unexpended bond proceeds	$ 42,073	$ -	$ -	$ 42,073
Investments				
Uninvested cash [a]	$ 82,649	$ 95,162	$ -	$ 177,811
Common Stock				
U.S. equity	179,539	45,972	4,544	230,055
International – developed	2,511	89,862	-	92,373
International – emerging	98,960	47,255	-	146,215
Short-term fixed income	-	132,035	-	132,035
Fixed income (with commingled funds) [a]	191,608	283	-	191,891
Hedge funds				
Absolute return strategies	-	84,568	30,121	114,689
Directional return strategies	-	25,786	49,958	75,744
Natural resources [a]	-	-	94,181	94,181
Private equity [a]	-	-	428,293	428,293
Real estate [a]	-	-	79,329	79,329
Other	-	-	15,582	15,582
Total investments	**$ 555,267**	**$ 520,923**	**$ 702,008**	**$ 1,778,198**
Beneficial interests held by third party	-	-	2,622	2,622
Perpetual trusts held by third party	-	-	8,185	8,185
Total assets held in trust by others	$ -	$ -	$ 10,807	$ 10,807
Total assets at fair value	**$ 602,677**	**$ 524,841**	**$ 714,156**	**$ 1,841,674**
Liabilities				
Interest rate swaps payable	-	34,104	-	34,104
Total liabilities at fair value	**$ -**	**$ 34,104**	**$ -**	**$ 34,104**

[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 2014 and 2013.

2013	Quoted Prices in Active Markets *Level 1*	Significant Other Observable Inputs *Level 2*	Significant Unobservable Inputs *Level 3*	Total Fair Value
Assets				
Deferred compensation plan assets	$ 3,456	$ 3,210	$ 1,191	$ 7,857
Unexpended bond proceeds	$ 53,818	$ -	$ -	$ 53,818
Investments				
Uninvested cash [a]	$ 77,272	$ 99,584	$ -	$ 176,856
Common Stock				
U.S. equity	156,782	35,817	2,429	195,028
International – developed	4,274	66,908	-	71,182
International – emerging	76,843	35,781	-	112,624
Short-term fixed income	-	17,508	-	17,508
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]	-	-	369,813	369,813
Real estate [a]	-	-	74,038	74,038
Other	-	-	20,895	20,895
Total investments	**$ 475,236**	**$ 358,908**	**$ 615,569**	**$ 1,449,713**
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	**$ 532,510**	**$ 362,118**	**$ 628,127**	**$ 1,522,755**
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.*

There were no significant transfers between Level 1 and Level 2 for fiscal years 2014 and 2013.

Investments included in Level 3 primarily consists of the university's ownership in alternative investments (principally limited partnership interests in private equity, real estate, natural resources, and certain hedge funds). The 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.

Unexpended bond proceeds are valued at the net asset value of the money market fund.

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.

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.

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 as of June 30, 2014 *(dollars in thousands)*:

	Fair Value	Unfunded Commitments	Redemption Frequency [a]	Redemption Notice Period [a]
Hedge Funds			Semi-annual	
Absolute return strategies	$ 114,689	$ -	and annually	30-90 days
Directional return strategies	75,744	-		
Natural resources	94,181	22,194		
Private equity	428,293	190,945		
Real estate	79,329	28,079		
Other	15,582	16,127		
Total investments	**$ 807,818**	**$ 257,345**		

[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 that restrict the available redemption period to monthly, quarterly, semi-annually or annually and require 30 – 90 days prior written notice, potentially limiting the university's ability to respond quickly to changes in market conditions.*

Other Level 3 assets, including classifications of natural resources, private equity and real estate, 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 four to eight years.

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 *(dollars in thousands)*:

	Deferred Compensation	Common Stock	Hedge Funds	Private Equity	Real Estate	Natural Resources	Trusts Held by Others	Other	Total Investments
Fair value, July 1, 2013	$ 1,191	$ 2,429	$ 66,462	$ 369,813	$ 74,038	$ 81,932	$ 11,367	$ 20,895	$ 628,127
Realized gains (losses)	-	-	-	45,704	2,079	5,243	105	3,432	56,563
Unrealized gains (losses)	32	237	8,271	38,809	9,711	17,187	998	(908)	74,337
Purchases	156	-	8,000	56,662	10,388	7,334	-	1,238	83,778
Sales	-	-	(2,654)	(82,695)	(16,887)	(17,515)	-	(9,075)	(128,826)
Issuances	-	1,879		-	-	-	-	-	1,879
Transfers in (out)	(38)	-	-	-	-	-	(1,663)	-	(1,701)
Fair value, June 30, 2014	**$ 1,341**	**$ 4,544**	**$ 80,079**	**$ 428,293**	**$ 79,329**	**$ 94,181**	**$ 10,807**	**$ 15,582**	**$ 714,156**

	Deferred Compensation	Common Stock	Hedge Funds	Private Equity	Real Estate	Natural Resources	Trusts Held by Others	Other	Total Investments
Fair value, July 1, 2012	$ 1,099	$ 1,016	$ 55,391	$ 369,266	$ 69,094	$ 73,523	$ 11,479	$ 28,352	$ 609,220
Realized gains (losses)	-	-	-	25,042	1,209	2,755	-	3,739	32,745
Unrealized gains (losses)	(54)	300	5,411	5,577	4,299	4,855	461	(457)	20,392
Purchases	158	-	6,000	37,144	8,882	12,936	-	1,705	66,825
Sales	-	-	(340)	(67,216)	(9,446)	(12,137)	-	(12,444)	(101,583)
Issuances	-	1,113		-	-	-	-	-	1,113
Transfers in (out)	(12)	-	-	-	-	-	(573)	-	(585)
Fair value, June 30, 2013	**$ 1,191**	**$ 2,429**	**$ 66,462**	**$ 369,813**	**$ 74,038**	**$ 81,932**	**$ 11,367**	**$ 20,895**	**$ 628,127**

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, 2014 and 2013 are as follows *(dollars in thousands)*:

	2014	2013
Federal		
Direct	$ 278,351	$ 294,421
Indirect	52,020	57,790
Total federal	$ 330,371	$ 352,211
State, industrial and other		
Direct	46,768	45,673
Indirect	8,158	8,257
Total state, industrial and other	$ 54,926	$ 53,930
Total sponsored projects revenue	**$ 385,297**	**$ 406,141**

Included in other sponsored projects revenue for the fiscal years ended June 30, 2014 and 2013 are amounts from private sources (foundation grants) that amounted to $12.5 million and $11.9 million, respectively.

9. Land, Buildings and Equipment

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

	2014	2013
Buildings	$ 978,651	$ 970,789
Movable equipment	208,985	253,248
Utilities and building-related assets	60,556	57,750
Land improvements	12,664	12,664
Leasehold improvements	17,851	14,457
Subtotal	1,278,707	1,308,908
Accumulated depreciation	(672,613)	(683,696)
Subtotal	606,094	625,212
Land	46,771	45,682
Construction in progress	57,418	27,292
Land, buildings and equipment, net	**$ 710,283**	**$ 698,186**

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, 2014 and 2013. The CIC building was constructed on land owned by Carnegie Mellon. This land is subject to a long-term ground lease between Carnegie Mellon and the Regional Industrial Development Corporation (RIDC). In April 2014 Carnegie Mellon notified RIDC of its intent to acquire the CIC building by terminating the ground lease for the price specified in the ground lease. The transaction closed in September 2014. See Note 19, Subsequent Events, for additional information.

The university acquired $6.7 million and $11.3 million in equipment through grants for the years ended June 30, 2014 and 2013, respectively.

Also included in movable equipment is unamortized computer software cost of $9.7 million and $9.9 million for the years ended June 30, 2014 and 2013, respectively. Amortization expense of $3.3 million and $3.1 million was charged to expense for the years ended June 30, 2014 and 2013, respectively.

10. Debt Obligations

Debt obligations consist of the following as of June 30, including unamortized premiums of $20.3 million and $23.2 million, respectively *(dollars in thousands)*:

	Interest %	2014	2013
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%	177,987	179,071
Allegheny County Higher Education Building Authority, Fixed Revenue Refunding Bonds, Series A of 2012	2.0 - 5.0%	65,398	66,632
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%	59,634	60,306
Collaborative Innovation Center financing	5.2%	26,388	27,220
Total debt obligations		$ 500,227	$ 504,049

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 0.05% and 0.12% during fiscal years 2014 and 2013, respectively.

Carnegie Mellon has entered into a Standby Bond Purchase Agreement (SBPA) with a financial institution 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 maturing on or after August 1, 2019 are subject to optional redemption prior to their scheduled maturity on or after February 1, 2019. 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 2014 and 2013.

Series 2012 Bonds
On March 1, 2012, Carnegie Mellon issued through the ACHEBA, Revenue Refunding Bonds, Series A of 2012, with a face value of $58.1 million and Series B of 2012, with a face value of $50.0 million (the "2012 Bonds"). The proceeds of the 2012 Bonds, including an original issue premium of $10.2 million, were used to finance the cost of refunding the 1998 Bonds and the 2002 Bonds, and to pay certain costs of issuance of the Bonds. The Series A of 2012 Bonds mature at $25.3 million in fiscal year 2015, which are expected to be refinanced at maturity dependent upon market conditions at the time and $32.8 million in fiscal year 2024. The 2012 Bonds maturing on or after March 1, 2023 are subject to optional redemption prior to their scheduled maturity on or after March 1, 2022. 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 were 2.64% during fiscal years 2014 and 2013. The Series B of 2012 Bonds bear variable rates of interest based on one month LIBOR. Average interest rates on the Bonds were 0.79% and 0.83% during fiscal years 2014 and 2013, respectively.

Series 2013 Bonds
On March 1, 2013, Carnegie Mellon issued through the ACHEBA, 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, are being 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 maturing on or after March 1, 2028 are subject to optional redemption prior to maturity on or after March 1, 2023. The 2013 Bonds bear fixed rates of interest and the effective interest rate including the effect of the original issue premium were 3.33% and 3.19% during fiscal years 2014 and 2013, respectively.

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, 2014 and 2013 in the amount of $26.4 million and $27.2 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 2014 and 2013. 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 approximates the amount which Carnegie Mellon would have to pay in order to exercise a purchase option for the CIC building. In April 2014 Carnegie Mellon notified RIDC of its intent to exercise the purchase option for the CIC building. The transaction closed in September 2014 and is disclosed in Note 19, Subsequent Events.

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, 2014 and 2013, the fair value of Carnegie Mellon's long-term debt obligations are approximately $509.5 million and $513.6 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 financing obligations for the fiscal years ended June 30, 2014 and 2013 totaled $15.3 million and $13.0 million, respectively. The university utilizes interest rate swaps to synthetically adjust its exposure to variable rates. Including the swap expense, cash paid for interest for the fiscal years ended June 30, 2014 and 2013 was $21.0 million and $18.7 million, respectively.

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

2015	$ 51,667
2016	-
2017	-
2018	52,430
2019	-
Thereafter	375,875
Total	**$ 479,972**

The university has outstanding variable rate demand bonds (VRDB) in the amount of $120.8 million which is subject to daily optional tender by the bondholders. These bonds are reflected in the table above based on original scheduled maturities. In the event that a bondholder tenders these variable rate demand bonds, the purchase price will be repaid from the remarketing of the bonds to a new investor. However, in the unlikely event that none of the bonds could be remarketed, the Standby Bond Purchase Agreement (SBPA) provider would purchase the bonds. The bonds would then become amortizing five-year bank bonds, payable back to the liquidity provider per the terms of the agreement.

Carnegie Mellon entered into an SBPA with a financial institution to provide credit support for its 2008 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 subject to a mandatory tender.

The university has a $50.0 million unsecured line of credit agreement that expires on October 19, 2015. 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 *(dollars in thousands)*:

	2014	2013
Endowment earnings	$ 440,679	$ 321,418
Capital and other donor designations	142,359	96,774
Pledges and assets held in trust by others	52,730	59,675
Split interest agreements	4,417	3,584
Term endowments	2,524	2,218
Loan funds	852	792
Total	**$ 643,561**	**$ 484,461**

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

	2014	2013
Endowment	$ 560,348	$ 525,429
Pledges and assets held in trust by others	41,000	47,223
Split interest agreements and other donor designations	6,107	4,586
Total	**$ 607,455**	**$ 577,238**

12. Derivative Instruments and Hedging Activities

Carnegie Mellon has entered into the following interest rate swap agreements to adjust the exposure to variable interest rates *(dollars in thousands)*:

Swap Agreement	Effective Date	Notional Amount	Interest Rate Paid by CMU	Interest Received	Term (in years)	Termination Date	Counterparty Cancellation Option
Oct 2004 spot	Oct 2004	$ 50,000	3.0 %	67 % of 1M LIBOR	15	Oct 2019	Oct 2014*
Apr 2006 forward	Dec 2006	$ 100,000	3.4 %	67 % of 1M LIBOR	22	Dec 2028	Dec 2016
May 2007 spot	Jun 2007	$ 5,125	3.8 %	67 % of 1M LIBOR	20	Mar 2027	N/A
May 2007 forward	Mar 2012	$ 40,325	3.8 %	67 % of 1M LIBOR	20	Mar 2032	N/A
Mar 2012 spot	Mar 2012	$ 38,000	SIFMA	1.92 %	12	Mar 2024	N/A

* Counterparty cancellation option is monthly after October 1, 2014.

The following fair values of the swap agreements were recorded as accounts payable and other liabilities in the Consolidated Statements of Financial Position for the years ended June 30, 2014 and 2013 *(dollars in thousands)*:

	Derivatives Reported as Liabilites	
Date of Swap Agreement	2014	2013
Oct 2004 spot	$ (5,067)	$ (5,731)
Apr 2006 forward	(18,223)	(18,239)
May 2007 spot	(1,079)	(1,031)
May 2007 forward	(9,292)	(8,734)
Mar 2012 spot	(443)	(1,019)
Total	**$ (34,104)**	**$ (34,754)**

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. No collateral was required as of June 30, 2014 and 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, 2014 and 2013 *(dollars in thousands)*:

	Interest (Expense) Revenue		Fair Value (Loss) Gain		Total (Loss) Gain	
	2014	2013	2014	2013	2014	2013
Oct 2004 spot	$ (1,456)	$ (1,436)	$ 664	$ 2,089	$ (792)	$ 653
Apr 2006 forward	(3,315)	(3,275)	16	10,830	(3,299)	7,555
May 2007 spot	(188)	(185)	(48)	564	(236)	379
May 2007 forward	(1,476)	(1,459)	(558)	5,250	(2,034)	3,791
Mar 2012 spot	706	672	576	(1,892)	1,282	(1,220)
Total	**$ (5,729)**	**$ (5,683)**	**$ 650**	**$ 16,841**	**$ (5,079)**	**$ 11,158**

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, 2014 and 2013 are as follows *(dollars in thousands)*:

	2014	2013
Instruction and departmental research	$ 353,792	$ 351,435
Sponsored projects	347,932	360,150
Administration and institutional support	125,094	111,125
Academic support	133,003	108,134
Student service	47,096	46,527
Auxiliary services and activities	48,590	46,044
Total	**$ 1,055,507**	**$ 1,023,415**

Total fundraising expense of $17.0 million and $16.8 million ($16.2 million and $16.0 million in administration and institutional support) is included above for the years ended June 30, 2014 and 2013, 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 $19.5 million and $17.0 million (excluding international donated space of $8.8 million and $9.4 million) for the years ending June 30, 2014 and 2013, respectively. Future minimum operating lease payments at June 30, 2014 are as follows *(dollars in thousands)*:

2015	$ 18,727
2016	9,443
2017	7,349
2018	2,583
2019	1,591
Thereafter	1,668
Total	**$ 41,361**

At June 30, 2014 and 2013 Carnegie Mellon had contractual obligations of approximately $69.4 million and $8.2 million, respectively, in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $288.3 million.

Carnegie Mellon has two letters of credit with a commercial bank totaling $0.5 million. There were no draws against these letters of credits as of June 30, 2014 and 2013.

15. Retirement Plans and Other Post-Employment Benefits

Carnegie Mellon sponsors two defined contribution retirement plans for eligible faculty and staff, health care plans for retirees, and participates in a multi-employer pension fund for union staff. Such plans are fully funded on a current basis. Retirement plan expense for the year ended June 30, 2014 and 2013 totaled $33.4 million and $32.0 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 2014 and 2013.

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 *(dollars in thousands)*:

	2014	2013
Net actuarial gain	$ (5,771)	$ (5,920)
Prior service credit	(915)	(1,317)
Total	**$ (6,686)**	**$ (7,237)**

The net actuarial gain at June 30, 2014 and June 30, 2013 of $5.8 million and $5.9 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 that 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 components of net periodic benefit costs and other changes in benefit obligations recognized in the statement of activities for the years ended June 30, 2014 and 2013 are as follows *(dollars in thousands)*:

Components of net periodic benefit cost	**2014**	**2013**
Service cost	$ 1,085	$ 1,209
Interest cost	990	895
Amortization of prior service credit	(403)	(403)
Amortization of net gain	(294)	(77)
Net periodic benefit cost	**$ 1,378**	**$ 1,624**
Other changes in benefit obligation recognized in the statement of activities:		
Assumption changes and actuarial gain	(145)	(2,869)
Amortization of prior service credit	403	403
Amortization of net gain	294	77
Total recognized in nonoperating activities	**$ 552**	**$ (2,389)**
Total recognized in net periodic benefit cost and nonoperating activities	**$ 1,930**	**$ (765)**

During fiscal year 2015, 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 *(dollars in thousands)*:

	2014	2013
Benefit obligation, beginning of year	**$ 19,724**	**$ 20,803**
Service cost	1,085	1,209
Interest cost	990	895
Assumption changes and actuarial gain	(145)	(2,869)
Benefit payments	(347)	(314)
Benefit obligation, end of year	**21,307**	**19,724**
Fair value of plans' assets	-	-
Funded status	**$ 21,307**	**$ 19,724**

The assumed discount rate used for calculating the benefit obligation for the fiscal years ending June 30, 2014 and 2013 was 4.4% and 4.8%, respectively. An annual rate of increase in the per capita cost of covered health care benefits for the fiscal years ending June 30, 2014 and 2013 of 7.0% and 7.3%, 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 health care cost trend rate by 1.0% in each year would increase the benefit obligation as of June 30, 2014 and 2013 by $3.8 million and $3.4 million, respectively, and increase the aggregate service cost and interest cost components for 2014 and 2013 by $0.4 million and $0.5 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, 2014 and 2013 by $3.0 million and $2.7 million, respectively, and decrease the aggregate service cost and interest cost components for 2014 and 2013 by $0.3 million and $0.4 million, respectively.

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

June 30	Retiree Contributions	Employer Payments	Total Expected Benefit Payments
2015	$ 761	$ 375	$ 1,136
2016	1,112	549	1,661
2017	1,447	725	2,172
2018	1,752	854	2,606
2019	2,049	973	3,022
2020 – 2024	14,553	6,144	20,697

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 at June 30, 2014 and 2013, 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 2015 since these trust assets exceed the benefit obligation.

16. Related Party Transactions

Sponsored projects revenue for fiscal years 2014 and 2013 includes $6.1 million and $7.5 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 year 2013 includes $0.1 million received from the Pittsburgh Life Sciences Greenhouse, 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. Bellefield operates 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. As of June 30, 2014 and 2013, Carnegie Mellon’s percentage obligation was 15.2%. Included in other assets at June 30, 2014 and 2013 are $0.9 million and $0.4 million of advances, respectively, resulting primarily from operating surpluses. Included in occupancy and related expenses is $3.9 million and $4.3 million, respectively, for steam costs paid to Bellefield for the years ended June 30, 2014 and 2013, respectively.

Carnegie Mellon is one of 15 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. As of June 30, 2014, Carnegie Mellon’s distribution share remained at 53.5%.

The distributions to Carnegie Mellon have been recorded as permanently restricted contribution revenue as 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 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 $10.3 million and $7.7 million were received in fiscal years 2014 and 2013, respectively.

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, 2014 and 2013 $5.0 million and $4.9 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, 2014 and 2013 *(dollars in thousands)*:

	2014	2013
Asset retirement obligations as of July 1	$ 4,884	$ 4,767
Accretion expense	212	197
Liabilities assumed	-	-
Liabilities settled or disposed	(115)	(80)
Asset retirement obligations as of June 30	**$ 4,981**	**$ 4,884**

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 5 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.

19. Subsequent Events

The university has performed an evaluation of subsequent events through November 13, 2014, the date on which the consolidated financial statements were issued.

On September 30, 2014 Carnegie Mellon acquired the CIC building from RIDC by way of termination of the ground lease with RIDC (See Note 9). As part of the agreement to terminate the ground lease, Carnegie Mellon assumed a $16.8 million mortgage note, paid off an additional $0.8 million in debt, paid total cash consideration to RIDC of approximately $0.3 million, and assumed RIDC's obligation to fund any shortfall (if any) between the amount of real estate and parking taxes collected and pledged to, and the debt service and annual costs for, the outstanding tax increment financing ("TIF") to which the CIC building is subject. The $16.8 million mortgage note matures March 1, 2025 and requires monthly principal and interest (6.78% annual rate) payments starting October 1, 2014. As of September 30, 2014 the balance of the outstanding TIF note is $2.7 million. Carnegie Mellon must make semi-annual payments of the shortfall between the amount of real estate and parking taxes collected and pledged to, and the debt service and annual costs for, the TIF, if any, starting October 15, 2014 through October 15, 2022. As detailed in Notes 9 and 10, Carnegie Mellon previously recorded the cost of the CIC building in land, buildings and equipment and the financing obligation as part of debt obligations.

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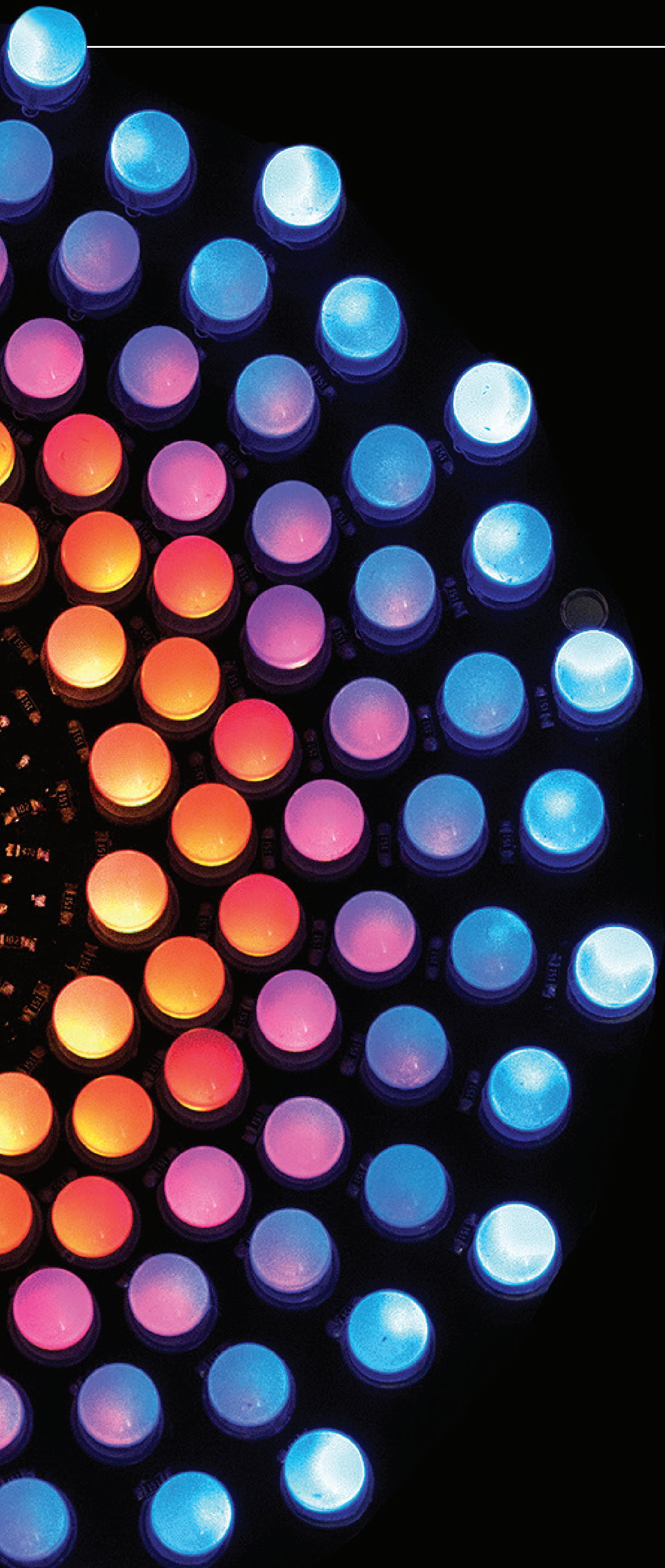

Carnegie Mellon University

5000 Forbes Avenue
Pittsburgh, PA 15213

Finance Division
4516 Henry Street
Pittsburgh, PA 15213

fin-comm@andrew.cmu.edu