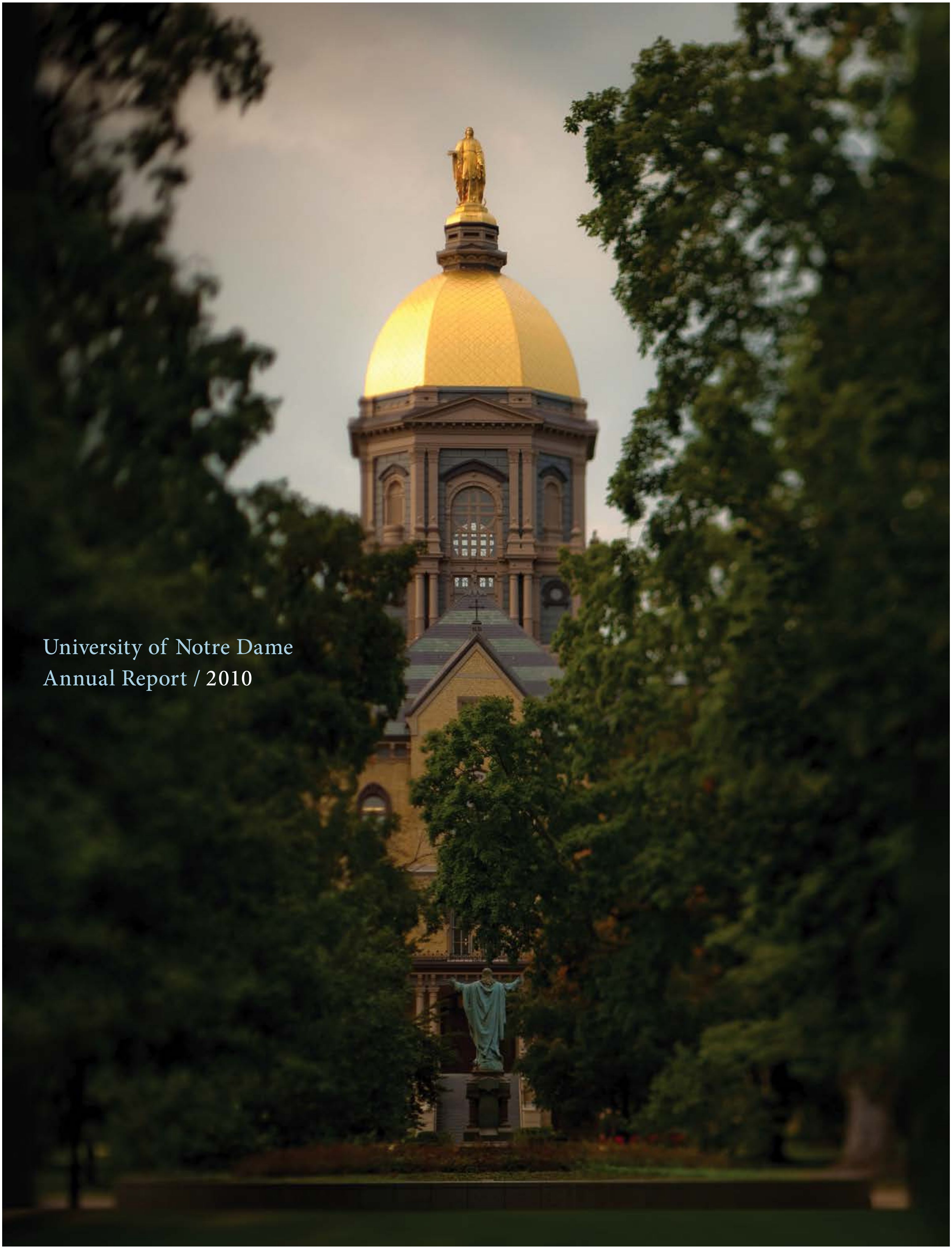
University of Notre Dame
Annual Report / 2010



Statistical Highlights

	Academic Years Ending May 2010	2009	2008	2007	2006
STUDENTS					
Undergraduate	**8,372**	8,363	8,371	8,352	8,275
Graduate and professional	**3,444**	3,368	3,362	3,251	3,142
Total fall enrollment	**11,816**	11,731	11,733	11,603	11,417
UNDERGRADUATE ADMISSIONS					
Applications	**14,357**	13,945	14,508	12,798	11,316
Offers of admission	**4,113**	3,727	3,548	3,492	3,581
Enrolled	**2,064**	2,000	1,999	2,039	1,995
Selectivity ratio	**28.6%**	26.7%	24.5%	27.3%	31.6%
Matriculation ratio	**50.2%**	53.7%	56.3%	58.4%	55.7%
DEGREES CONFERRED					
Baccalaureate	**2,126**	2,102	2,087	2,073	2,072
Master's	**910**	871	901	828	848
Doctorate-Professional Practice	**172**	209	196	195	182
Doctorate-Research	**160**	165	185	159	160
Total degrees conferred	**3,368**	3,347	3,369	3,255	3,262
Undergraduate tuition rate	**$37,970**	$36,340	$34,680	$32,900	$31,100
Percent increase over prior year	**4.5%**	4.8%	5.4%	5.8%	7.0%

From the President

Anchored in a tradition of moral principles that provide enduring strength, the University of Notre Dame is aiming higher than ever despite the challenging economic situation. Our talented financial team has maintained a cautious approach to fiscal management, including a sustainable rate of payout on the endowment and a conservative building policy that requires full funding before we begin construction. Regardless of the economic crisis, we have not had to freeze new initiatives or make cuts across the board. Instead, we have been able to continue pursuing our priorities.

We filled open positions, increased salaries, completed building projects, and increased student financial aid to meet the expected rise in need. The *Spirit* campaign, which will end in July of 2011, has been extremely successful. We are approaching $2 billion and, should we achieve that mark, we will be the first university in the nation without a medical school to do so in a seven-year campaign — a remarkable accomplishment.

In some ways, Notre Dame has made gains not only despite — but perhaps because of — the current environment. In the last two years, we have instituted well-planned cost-cutting measures that enabled us to reallocate valuable resources to our top priorities. While all of higher education faces difficulty, Notre Dame's relative financial strength has helped us capitalize on a range of opportunities. For example, our ability to hire in a year when a number of prestigious institutions had frozen hiring helped us to attract excellent faculty.

The challenge for Notre Dame in coming years will be to remain flexible in the face of current economic pressure and to make fiscally prudent and far-sighted decisions. At the same time, the University must reallocate resources and seize opportunities that maintain the momentum we now have toward our central goals. We are confident that we will succeed because we have a strong foundation, track record, and leadership team. We also share a commitment to a mission that inspires our pursuit of knowledge with a clear sense of direction.

We strive to make a difference in the world through our research to address today's challenges and through teaching that produces graduates grounded in faith and reason. What sets Notre Dame apart is that we combine this pursuit of academic excellence with a mission informed by faith, education infused with a moral vision, and inquiry in service of the highest ideals. The values of faith and service were highlighted in October 2010, when Brother André Bessette was canonized as the first religious from the Congregation of Holy Cross. This humble doorman revealed the power of faith through his devotion to God. We, too, have faith in our mission and our service as stewards of the tradition of Notre Dame. Through that faith and service, we are opening doors at the threshold of unprecedented potential.

Rev. John I. Jenkins, C.S.C.
PRESIDENT

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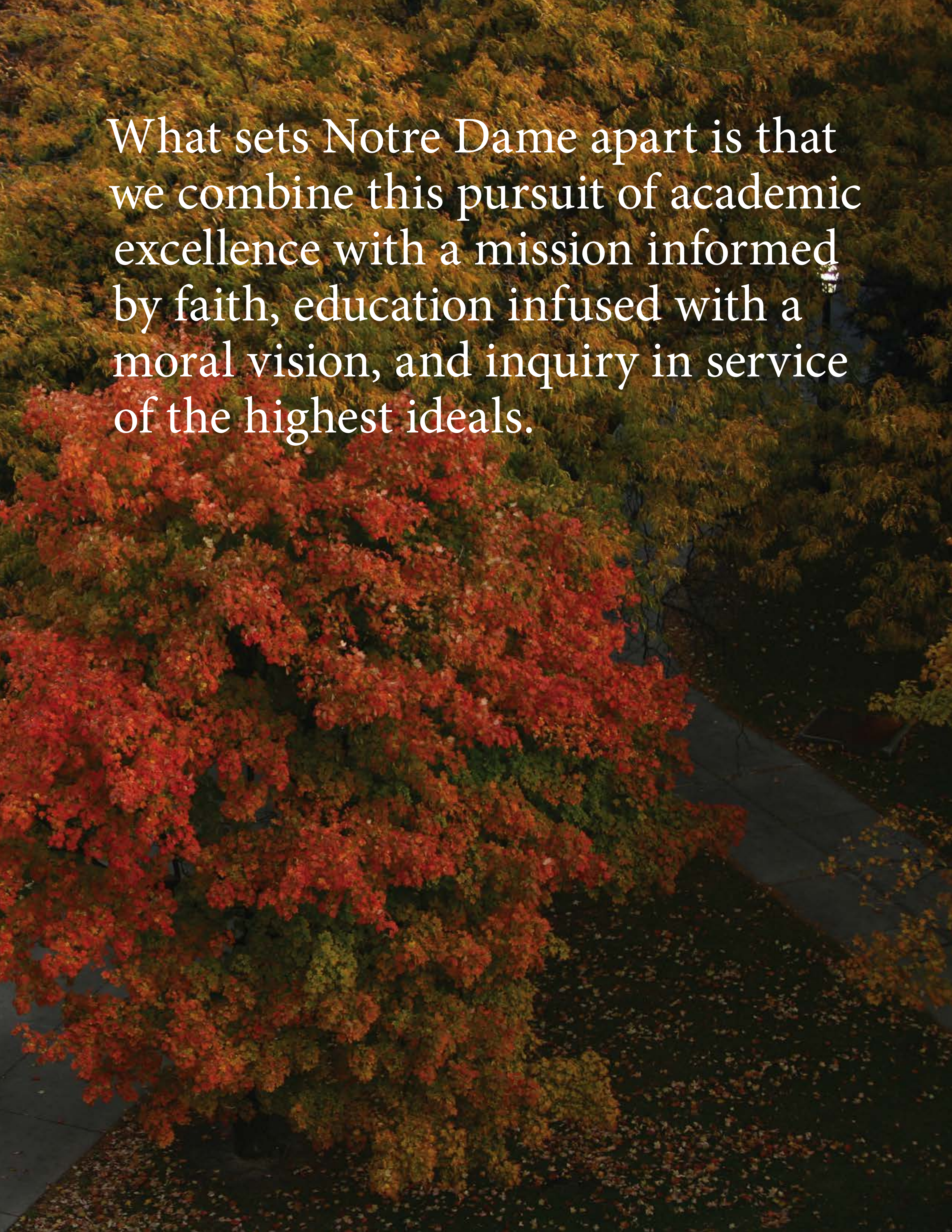

Financial Overview

Notre Dame continues to prosper despite the volatile financial markets. In large part, this is the result of the University's long tradition of conservative fiscal management. In particular, our practice of modest increases in endowment spending during periods of strong investment returns gave us the flexibility necessary to weather the recent downturn without the need for sweeping budget cuts or hiring freezes. Similarly, the University's construction funding policy allowed us to complete our planned facilities projects on schedule. As we move forward, we are committed to maintaining these fiscally prudent policies so that we provide the same opportunities for future generations.

The economic pressures Notre Dame encountered in fiscal 2010 also had significant impact on our students and their families. Over the past year, we saw a dramatic increase in student financial need with 50 percent of our undergraduates receiving need-based aid, up from 43 percent the prior year. In the face of this challenge, we remain committed to our two-pronged philosophy of need-blind admissions and meeting the full demonstrated need of all admitted students. Fulfilling this promise to Notre Dame families required that we increase our financial aid spending 18 percent, from $75.9 million in 2009 to $89.6 million in 2010.

Students continue to recognize the quality of Notre Dame's undergraduate program, a fact demonstrated by the size and strength of our applicant pool. In the fall of 2010, more than 14,500 students applied for undergraduate admission, the largest number in University history. Enrolled students averaged 1410 on the SAT and 87 percent ranked in the top tenth of their high school graduating class. In addition, the Class of 2014 again reflects Notre Dame's strong commitment to diversity, with 24 percent coming from diverse socioeconomic backgrounds.

We recognize that one of the most powerful ways we can enhance the undergraduate experience is to grow and develop Notre Dame as a preeminent research university. It is through research excellence that we can both attract outstanding scholars to our faculty and provide exciting and challenging opportunities for our undergraduate and graduate students.

One indicator of this growth, particularly in the sciences and engineering, is the amount of sponsored research taking place at Notre Dame. We are pleased to report that awards grew 47 percent from $81 million in fiscal 2009 to $119 million this past year. In the humanities, where sponsored research is not as common, Notre Dame faculty earned five National Endowment for the Humanities fellowships in 2010, for a total of 42 since 1999, the most among the nation's leading research universities.

To ensure continued growth of our research and undergraduate programs, we asked colleges and divisions across campus to contain costs and identify funds for reallocation to strategic University priorities. Through these efforts, we were able to reallocate $9.4 million, with a large portion going toward undergraduate and graduate financial aid. These funds also allowed us to bolster retention of faculty by providing modest salary increases and to hire several new senior faculty.

Benefaction continued to provide another important source of funds for key initiatives. Fiscal year cash receipts from gifts increased 15 percent over last year to a total of $227.5 million, the second highest annual total in the University's history. Included were more than $29 million in unrestricted gifts that allowed us to respond to emerging needs and opportunities. A record $5.2 million of those unrestricted gifts came from our expanding President's Circle giving society. As of June 30, the *Spirit* campaign had reached a total of $1.76 billion due to the generosity of our benefactors.

Maintaining the ambitious course we have set will not be easy given the economic and financial realities we face. The challenges ahead remain great. But we remain confident that through careful stewardship of our resources, Notre Dame will continue to offer an outstanding undergraduate education and advance our research enterprise, while remaining firmly rooted in our Catholic heritage.

John F. Affleck-Graves
EXECUTIVE VICE PRESIDENT

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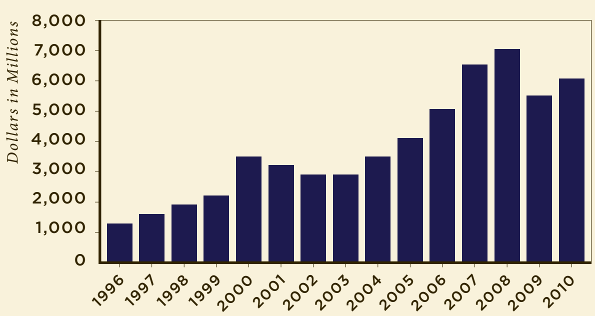
Investment Review

The Notre Dame Endowment Pool experienced a strong rebound and returned 11.1 percent net of investment management fees for the 2010 fiscal year. The market value of the Endowment Pool at year end increased to $6.07 billion compared to $5.52 billion at June 30, 2009. Key drivers of the fiscal year's investment performance were strength in emerging market equities and an underweight position in Europe while being overweight in Asia. The Marketable Alternatives and Private Equity asset classes, along with energy, gold, and other commodities in the Real Assets class, also added significant value to the portfolio.

Endowment Pool Market Value

AS OF JUNE 30

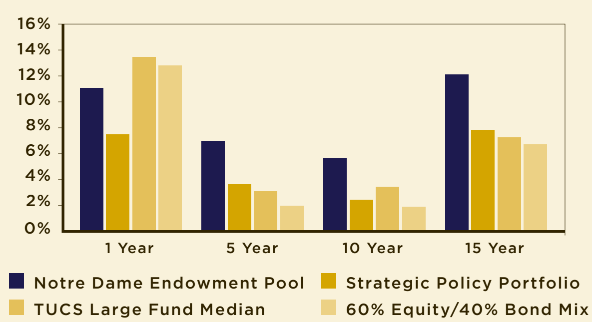


Investment performance compared to benchmarks over long-term periods are shown in the chart below:

Endowment Pool Investment Performance

(ANNUALIZED RETURNS NET OF FEES)

PERIODS ENDED JUNE 30, 2010

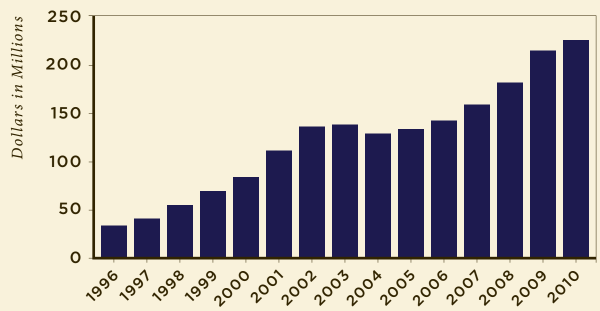


The Strategic Policy Portfolio is Notre Dame's internal benchmark consisting of indices representative of the target investment portfolio. The Trust Universe Comparison Service (TUCS) Large Fund Median is a compilation of returns of endowment, pension and foundation investors greater than $1 billion and thus provides a basis for comparison to the performance of large institutional investors generally. The 60/40 mix is an index blend of stocks/bonds as represented by the S&P 500 and the Barclays Capital U.S. Aggregate Bond Index.

Notre Dame's 15-year annualized return of 12.1 percent substantially outperformed the benchmarks and has been of vital importance in providing financial stability for the University, as the ability to retain capital appreciation in strong markets allows endowment spending to continue to grow even in turbulent markets. Endowment Pool spending during fiscal 2010 increased 5.1 percent compared to the prior year, rising to $226 million.

Endowment Pool Spending

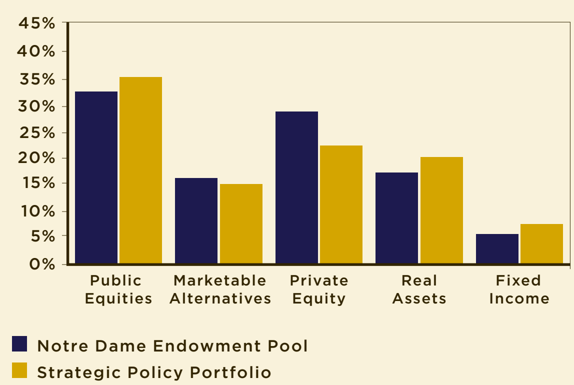
FISCAL YEARS ENDED JUNE 30



Even as market uncertainty and volatility continue, we will remain true to the investing principles that have led to this success over time: value investing with best-in-class managers, long-term focus, diversification, disciplined rebalancing, and tactical allocations to attractive opportunities while not attempting to time markets or react to short-term trends with major shifts in asset allocation.

Endowment Pool Asset Allocation

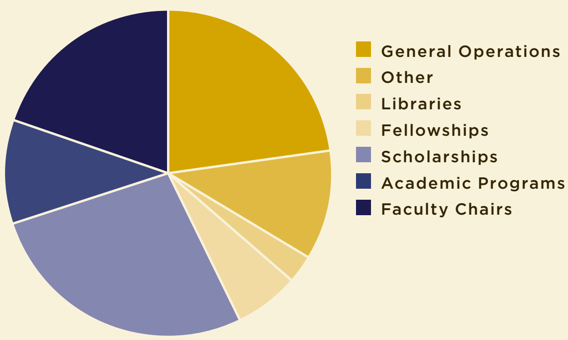
AS OF JUNE 30, 2010



With the financial buffer provided by a strong endowment, Notre Dame has been able to continue to recruit top faculty and to pursue other important academic initiatives even during the recent economic turmoil. This flexibility will benefit our students for years to come and highlights the long-term horizon and intergenerational nature of endowment management. Particularly during difficult economic times, financial aid through undergraduate scholarships and graduate fellowships remains a priority and continues to comprise the most significant area of endowment spending.

Endowment Pool Spending Purposes

FISCAL YEAR ENDED JUNE 30, 2010

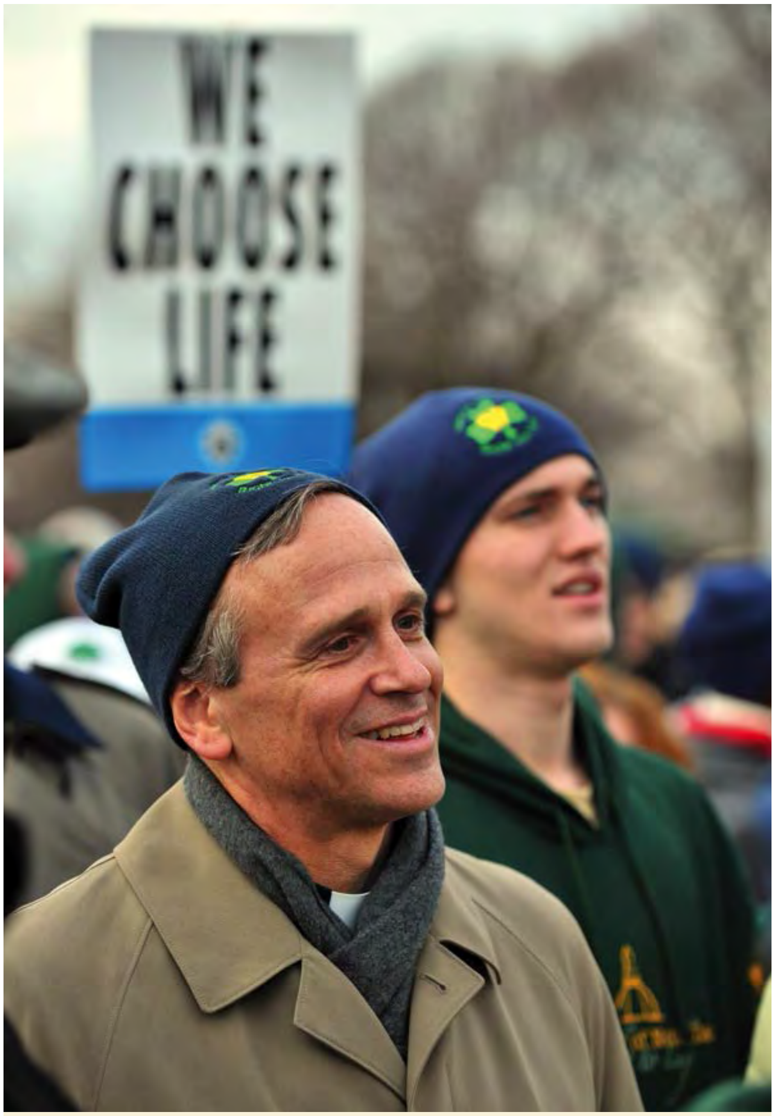


The macroeconomic environment remains challenging and volatile. Investors have to be concerned about a wider range of economic outcomes in the coming years than at any time since the Great Depression of the 1930s. Concerns about both deflation and inflation are justified in the coming months and years. It is more likely that we will see positive, but very muted, economic growth over the next year and there will be pockets of opportunity for investors willing to undertake the necessary due diligence. World GDP growth continues to shift to the emerging markets, where we will continue to take advantage of extensive networks that have been built over the past 20 years by our investment team. Notre Dame has one of the most extensive emerging markets portfolios in both public and private markets of any major institutional investor in the world.

While the climate for investors is as dynamic and as challenging as ever, the University remains committed to excellence in its investment management program as well as prudence in endowment spending.

Scott C. Malpass
VICE PRESIDENT AND
CHIEF INVESTMENT OFFICER

University Highlights / 2010



In the fall of 2009, Father Jenkins established a Task Force on Supporting the Choice for Life to consider and recommend ways in which the University can support the sanctity of life. Early recommendations included that Father Jenkins participate in the Walk for Life in Washington, D.C., in January 2010 and adopt an institutional statement in support of the Church position on the sanctity of life and institutional principles on charitable giving.

Graduates Mark W. and Stacey Miller Yusko of Chapel Hill, N.C., made a $35 million gift to Notre Dame to establish a new undergraduate scholarship program. The Yuskos' benefaction equals the third largest gift in the University's history and has been directed to the creation of the Hesburgh-Yusko Scholars Program, a comprehensive merit scholarship and enrichment initiative that seeks to attract talented undergraduate students and provide them with the tools to become transformational leaders in the image of Rev. Theodore M. Hesburgh, C.S.C., Notre Dame's president from 1952 to 1987. The inaugural class of 25 scholars arrived on campus in the fall of 2010.

Notre Dame hired Brian Kelly as the 29th head football coach in the University's history. At his introductory news conference, Kelly said: "We hear about academic standards...That is the mission of Notre Dame, excellence in academics and athletics, and I wanted that challenge, and I'm excited about that challenge, that you can do it both in the classroom and be prominent in the athletic arena, as well."

Businesses began to open in the late summer of 2009 at Eddy Street Commons, the mixed-use development adjacent to the southern boundary of the campus that includes restaurants, retail shops, residential units, and offices.

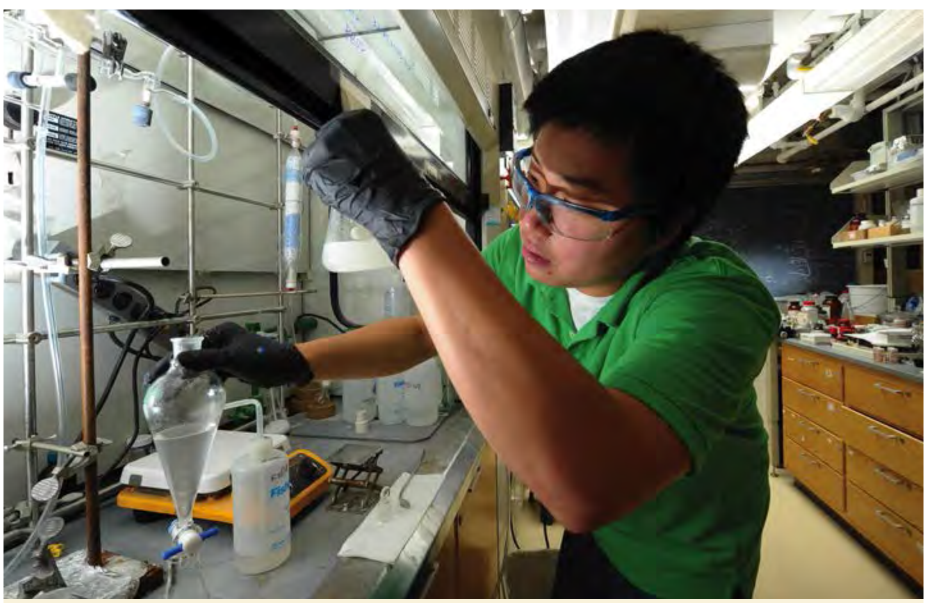
Bloomberg BusinessWeek ranked the Mendoza College of Business undergraduate program No. 1 in the country.

The men's lacrosse team advanced to the title game of the NCAA Championship for the first time in program history, falling to Duke 6-5 in overtime. It was the second trip to the Final Four for the Irish, and the fifth straight trip to the NCAA Championship.

The women's soccer team reached the College Cup for the fourth straight year in December 2009, and Randy Waldrum was named national coach of the year.

A variety of improvements to the Notre Dame football weekend experience were instituted for the 2009 season in the areas of hospitality, communication, and safety and security. They included a new hospitality village on Irish Green, fan access down the tunnel to the Notre Dame Stadium field on Friday afternoons of home football weekends, the deployment of guest services representatives across campus, and the development of sportsmanship guidelines for fans.

Notre Dame was identified as one of the top 10 higher education workplaces in the country in a survey by the *Chronicle of Higher Education*. The "Great Colleges to Work For" survey placed Notre Dame among 10 large universities that have achieved multiple high marks in such categories as overall job satisfaction, employee benefits, quality facilities, safety, and employee commitment to the institution's mission.



The University's research commitment, even in a recovering economy, remains strong, as evidenced by the announcement of a second allocation of $40 million of internal funding for a wide array of projects in the spring of 2010.

Nell Jessup Newton, most recently chancellor and dean of the Hastings College of the Law at the University of California, became Joseph A. Matson Dean of Notre Dame Law School in the fall of 2009. She succeeded Patricia A. O'Hara, who served for 10 years and remains professor of law at Notre Dame.

The Law School's completely renovated Biolchini Hall opened in June 2010. Connected by a covered archway and student commons to the Law School's new Eck Hall of Law (consisting of 92,000 square feet), Biolchini Hall of Law (consisting of 106,500 square feet) now houses an expanded Kresge Law Library along with new classrooms; offices and work space for admissions, career services, and library staff; and 26 new study rooms for collaborative study.

The College of Engineering's Stinson-Remick Hall opened in January 2010. The 160,000-square-foot structure houses a nanotechnology research center, the University's new Energy Center, an 11,800-square-foot semiconductor processing and device fabrication clean room, and an undergraduate interdisciplinary learning center. The building received LEED Gold Certification from the United States Green Building Council.

Notre Dame's already strong commitment to international studies received a significant boost with the announcement in April 2010 that J. Nicholas Entrikin, vice president for international studies at UCLA at the time, would accept the newly established position of vice president and associate provost for internationalization.

UNIVERSITY OF NOTRE DAME DU LAC

Consolidated Financial Statements for the years ended June 30, 2010 and 2009

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
University of Notre Dame du Lac
Notre Dame, Indiana

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

PricewaterhouseCoopers LLP

Chicago, Illinois
November 16, 2010

Consolidated Statements of Financial Position

(in thousands)

		AS OF JUNE 30		
		2010		2009
Assets				
Cash and cash equivalents	$	107,363	$	127,648
Accounts receivable, net *(Note 2)*		24,730		23,540
Deferred charges and other assets *(Note 3)*		50,948		56,762
Contributions receivable, net *(Note 4)*		181,605		194,587
Notes receivable, net *(Note 5)*		45,836		32,891
Investments *(Note 6)*		6,189,177		5,640,727
Land, buildings and equipment, net of accumulated depreciation *(Note 7)*		1,154,018		1,053,919
Total assets	$	7,753,677	$	7,130,074
Liabilities				
Accounts payable *(Note 7)*	$	31,177	$	46,779
Short-term borrowing *(Note 8)*		140,094		75,036
Deferred revenue and refundable advances *(Note 9)*		87,094		81,624
Deposits and other liabilities *(Note 10)*		89,566		88,710
Liabilities associated with investments *(Note 6)*		258,688		216,820
Obligations under split-interest agreements *(Note 17)*		58,028		49,611
Bonds and notes payable *(Note 11)*		571,306		558,975
Conditional asset retirement obligations *(Note 7)*		22,243		21,131
Pension and other postretirement benefit obligations *(Note 13)*		149,031		111,578
Government advances for student loans *(Note 5)*		30,118		29,771
Total liabilities		1,437,345		1,280,035
Net Assets				
Unrestricted:				
Funds functioning as endowment *(Note 16)*		1,996,082		1,854,566
Invested in land, buildings and equipment		698,698		595,386
Other unrestricted net assets		60,841		22,210
Total unrestricted		2,755,621		2,472,162
Temporarily restricted *(Note 14)*		2,266,694		2,156,661
Permanently restricted *(Note 15)*		1,294,017		1,221,216
Total net assets		6,316,332		5,850,039
Total liabilities and net assets	$	7,753,677	$	7,130,074

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Unrestricted Net Assets

(in thousands)

	YEARS ENDED JUNE 30	
	2010	2009
Operating Revenues and Other Additions		
Tuition and fees	$ 419,271	$ 399,280
Less: Tuition scholarships and fellowships	(158,274)	(141,483)
Net tuition and fees	260,997	257,797
Grants and contracts *(Note 18)*	85,671	77,230
Contributions	29,629	36,569
Accumulated investment return distributed *(Note 6)*	85,091	82,647
Sales and services of auxiliary enterprises	186,762	173,893
Other sources	34,288	33,114
Total operating revenues	682,438	661,250
Net assets released from restrictions *(Note 14)*	150,587	138,028
Total operating revenues and other additions	833,025	799,278
Operating Expenses		
Instruction	303,876	289,695
Research	83,194	74,820
Public service	20,513	23,307
Academic support	44,152	44,197
Student activities and services	32,881	32,160
General administration and support	166,614	148,886
Auxiliary enterprises	177,994	150,940
Total operating expenses	829,224	764,005
Increase in unrestricted net assets from operations	3,801	35,273
Non-Operating Changes in Unrestricted Net Assets		
Contributions	1,232	956
Investment income *(Note 6)*	14,156	11,163
Net gain/(loss) on investments *(Note 6)*	275,463	(700,712)
Accumulated investment return distributed *(Note 6)*	(85,091)	(82,647)
Net gain/(loss) on debt-related derivative instruments *(Note 12)*	(20,083)	9,376
Net assets released from restrictions *(Note 14)*	125,198	65,279
Net pension and postretirement benefits-related changes other than net periodic benefits costs *(Note 13)*	(33,946)	(29,989)
Other non-operating changes	2,729	(2,661)
Increase/(decrease) in unrestricted net assets from non-operating activities	279,658	(729,235)
Increase/(decrease) in unrestricted net assets	$ 283,459	$ (693,962)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

(in thousands)

		YEARS ENDED JUNE 30
	2010	2009
Unrestricted Net Assets		
Operating revenues and other additions	$ 833,025	$ 799,278
Operating expenses	(829,224)	(764,005)
Increase in unrestricted net assets from operations	3,801	35,273
Increase/(decrease) in unrestricted net assets from non-operating activities	279,658	(729,235)
Increase/(decrease) in unrestricted net assets	283,459	(693,962)
Temporarily Restricted Net Assets		
Contributions	74,770	60,266
Investment income *(Note 6)*	17,479	12,909
Net gain/(loss) on investments *(Note 6)*	288,764	(783,770)
Change in value of split-interest agreements *(Note 17)*	698	(3,634)
Net assets released from restrictions *(Note 14)*	(275,785)	(203,307)
Other changes in temporarily restricted net assets	4,107	46
Increase/(decrease) in temporarily restricted net assets	110,033	(917,490)
Permanently Restricted Net Assets		
Contributions	72,433	55,282
Investment income *(Note 6)*	860	450
Net gain/(loss) on investments *(Note 6)*	510	(1,114)
Change in value of split-interest agreements *(Note 17)*	780	(3,264)
Other changes in permanently restricted net assets	(1,782)	1,513
Increase in permanently restricted net assets	72,801	52,867
Increase/(decrease) in net assets	466,293	(1,558,585)
Net assets at beginning of year	5,850,039	7,408,624
Net assets at end of year	$ 6,316,332	$ 5,850,039

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

	YEARS ENDED JUNE 30 2010	2009
Cash Flows from Operating Activities		
Increase/(decrease) in net assets	$ 466,293	$ (1,558,585)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net loss/(gain) on investments	(564,737)	1,485,596
Investment income restricted for reinvestment	(860)	(450)
Contributions for investments and physical facilities	(74,997)	(69,508)
Contributed securities	(62,891)	(20,914)
Depreciation	44,969	39,311
Loss on disposition of land, buildings and equipment	2,391	1,973
Change in obligations under split-interest agreements	8,417	(9,675)
Change in conditional asset retirement obligations	1,112	100
Change in pension and other postretirement benefit obligations	37,453	32,548
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	4,624	(14,816)
Contributions receivable	12,982	(6,733)
Accounts payable, deferred revenue and refundable advances, and deposits and other liabilities	(9,276)	48,940
Other, net	7,548	(10,866)
Net cash used by operating activities	(126,972)	(83,079)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,778,612	1,881,314
Purchases of investments	(1,665,981)	(1,808,620)
Purchases of land, buildings and equipment	(161,120)	(158,640)
Student loans granted	(4,426)	(5,631)
Student loans repaid	3,034	2,766
Other changes in notes receivable	(11,553)	1,320
Net cash used by investing activities	(61,434)	(87,491)
Cash Flows from Financing Activities		
Contributions for investments and physical facilities	74,997	69,508
Investment income restricted for reinvestment	860	450
Proceeds from short-term borrowing	663,353	670,011
Repayment of short-term borrowing	(598,295)	(689,785)
Proceeds from bonds and notes issued	168,293	150,000
Repayment of bonds and notes	(155,902)	(2,430)
Government advances for student loans	347	380
Net cash accepted for investment on behalf of religious affiliates	14,468	58,127
Net cash provided by financing activities	168,121	256,261
Net change in cash and cash equivalents	(20,285)	85,691
Cash and cash equivalents at beginning of year	127,648	41,957
Cash and cash equivalents at end of year	$ 107,363	$ 127,648
Supplemental Data		
Interest paid	$ 15,575	$ 8,969

See accompanying notes to consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The University of Notre Dame du Lac is a private, coeducational, national Catholic research university. The accompanying consolidated financial statements include the assets and operations of certain other entities under the financial control of the University of Notre Dame du Lac. The University of Notre Dame du Lac and entities included herein are referred to individually and collectively as the "University."

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements reflect the activities of the University as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets — Net assets not subject to donor-imposed restrictions and available for any purpose consistent with the University's mission. Revenues are generally reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Investment returns generated by unrestricted funds functioning as endowment and other sources are classified as changes in unrestricted net assets. Operating expenses are reported as decreases in unrestricted net assets.

Temporarily Restricted Net Assets — Net assets subject to specific, donor-imposed restrictions that must be met by actions of the University and/or passage of time. Contributed assets normally fund specific expenditures of an operating or capital nature. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets. Subject to the University's endowment spending policy and any restrictions on use imposed by donors, accumulated investment returns on donor-restricted endowments are generally available for appropriation to support operational needs. Temporarily restricted contributions or investment returns received and expended within the same fiscal period are reported as increases in temporarily restricted net assets and net assets released from restrictions, respectively.

Permanently Restricted Net Assets — Net assets subject to donor-imposed restrictions requiring they be maintained permanently. Permanently restricted net assets are generally restricted to long-term investment and are comprised primarily of donor-restricted endowment funds. The University classifies the following portions of donor-restricted endowment funds as permanently restricted net assets: (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

The University's measure of operations presented in the consolidated statements of changes in unrestricted net assets includes revenues from tuition and fees, grants and contracts, unrestricted contributions designated for operations, accumulated investment return distributed under the University's spending policy and revenues from auxiliary enterprises and other sources, such as licensing and conferences. Other additions include net assets released from restrictions based upon their expenditure in support of operations or net assets made available for operations by virtue of the expiration of a term restriction. Operating expenses are reported by functional categories, after allocating costs for operations and maintenance of plant, interest on indebtedness and depreciation.

Non-operating activities presented in the consolidated statements of changes in unrestricted net assets include unrestricted contributions designated by the University for endowment or investment in buildings and equipment, investment return in excess of or less than the amount distributed for operations under the spending policy, any gains or losses on debt-related derivative instruments, and certain net pension and postretirement benefits-related changes in net assets. Other non-operating changes in unrestricted net assets includes the net activities of the consolidated limited liability company described in *Note 6* and *Note 11*, the effect of changes in donor intent with respect to endowment and other funds, and other activities considered to be more of an unusual or non-recurring nature. Non-operating net assets released from restrictions generally reflect the expenditure of net assets restricted to investment in land, buildings and equipment.

GRANTS AND CONTRACTS

The University recognizes revenues on grants and contracts for research and other sponsored programs as the awards for such programs are expended. Indirect cost recovery by the University on U.S. government grants and contracts is based upon a predetermined negotiated rate and is recorded as unrestricted revenue. Advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed.

AUXILIARY ENTERPRISES

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence and dining halls, intercollegiate athletics, college stores and other campus retail operations. Auxiliary enterprise revenues and related expenses are reported as changes in unrestricted net assets.

CASH AND CASH EQUIVALENTS

Resources invested in money market funds and in short-term investments with maturities at date of purchase of three months or less are classified as cash equivalents, except that any such investments purchased by external investment managers are classified as investments. Substantially all cash and cash equivalents are concentrated in accounts in which balances exceed Federal Deposit Insurance Corporation limits.

CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recognized at fair value as contributions — either temporarily restricted or permanently restricted — in the period such promises are made by donors. Contributions recognized as such during the year ended June 30, 2009 and subsequent periods are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Contributions recognized in prior periods under such commitments were recorded at a discount based on a U.S. Treasury rate. Amortization of the discounts is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management's expectations regarding collection of outstanding promises to give and past collection experience. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTES RECEIVABLE

Notes receivable, which are recorded at face value, principally represent amounts due from students under Perkins and other U.S. government sponsored loan programs, which are subject to significant restrictions with respect to transfer or disposition.

INVESTMENTS

Investments are stated at estimated fair value. The University measures the fair values of investments in securities at the last sales price on the primary exchange where the security is traded. Non-exchange-traded instruments and over-the-counter positions are primarily valued using independent pricing services, broker quotes or models with externally verifiable inputs. The fair values of alternative investments (interests in private equity, hedge, real estate and other similar funds) for which quoted market prices are not available are generally measured based on reported partner's capital or net asset value ("NAV") provided by the associated external investment managers. The reported partner's capital or NAV is subject to management's assessment that the valuation provided is representative of fair value. The University exercises diligence in assessing the policies, procedures and controls implemented by its external investment managers, and thus believes the carrying amount of these assets represents a reasonable estimate of fair value. However, because alternative investments are generally not readily marketable, their estimated value is subject to inherent uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

As described in *Note 12*, the University utilizes certain derivative instruments to manage risks associated with its investment portfolio. These instruments are stated at fair value. Open futures and options contracts are primarily valued at the closing exchange quotations on the last business day of the fiscal year. The fair value of certain over-the-counter contracts for which market quotations are not readily available is based upon independent pricing services, broker quotes or models with externally verifiable inputs. When appropriate, independent appraisers may also be engaged to assist in the valuation of such instruments. The fair value of forward currency exchange contracts is estimated using quotes obtained from banks and foreign exchange dealers. Where management believes a legal right of offset exists under an enforceable netting agreement, the fair value of these contracts is reported on a net-by-counterparty basis. Any gains or losses resulting from changes in the fair value of derivative instruments associated with the investment portfolio or periodic net cash settlements with counterparties is recorded as a gain or loss on investments.

Investments Held on Behalf of Other Entities

The University serves as the trustee for its employees' defined benefit pension plan and certain revocable charitable trusts, managing the investment assets held within the plan and the trusts. The University also manages investment assets on behalf of two religious affiliates that share the University's Catholic ministry and educational missions. Accordingly, the University reports an equal asset and liability in the consolidated statements of financial position representing the fair value of investments managed on behalf of these entities.

DEBT-RELATED DERIVATIVE INSTRUMENTS

The University utilizes derivative instruments in a limited manner outside of its investment portfolio. As described in *Notes 11* and *12*, interest rate swap agreements are used to manage interest rate risk associated with variable rate bond obligations. These instruments are reported in the consolidated statements of financial position at fair value. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. Any gains or losses resulting from changes in the fair value of these instruments or periodic net cash settlements with counterparties, including settlements related to the termination of such instruments, are recognized as non-operating changes in unrestricted net assets.

LAND, BUILDINGS AND EQUIPMENT

Institutional properties are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, averaging 15 years for land improvements, 25-50 years for buildings and 5-25 years for equipment.

The University does not capitalize the cost of library books, nor the cost or fair value of its art collection. The latter is held for exhibition and educational purposes only and not for financial gain.

Conditional Asset Retirement Obligations

The University recognizes asset retirement obligations when incurred. A discounting technique is used to calculate the present value of the capitalized asset retirement costs and the related obligation. Asset retirement costs are depreciated over the estimated remaining useful life of the related asset and the asset retirement obligation is accreted annually to the current present value. Upon settlement of an obligation, any difference between the retirement obligation and the cost to settle is recognized as a gain or loss in the consolidated statement of changes in unrestricted net assets. The University's conditional asset retirement obligations relate primarily to asbestos remediation and will be settled upon undertaking associated renovation projects.

SPLIT-INTEREST AGREEMENTS

The University's split-interest agreements consist principally of charitable gift annuities and irrevocable charitable remainder trusts for which the University serves as trustee. Contribution revenue is recognized at the date a gift annuity or trust is established after recording a liability at fair value of the estimated future payments to be made to beneficiaries. Estimated future payments to beneficiaries are discounted at a risk-adjusted rate. Liabilities are adjusted during the terms of the agreements to reflect payments to beneficiaries, returns on trust assets, accretion of discounts and other considerations that affect the estimates of future payments. Net adjustments to the liabilities are recorded as changes in the value of split-interest agreements.

FAIR VALUE MEASUREMENTS

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles provide a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are described briefly as follows:

> *Level 1* – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
>
> *Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> *Level 3* – Unobservable inputs for the asset or liability, used in situations in which little or no market activity exists for the asset or liability at the measurement date.

The categorization of fair value measurements by level of the hierarchy is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

Fair value measurements of investment assets for which the measurement was based on NAV (or its equivalent) as provided by an external manager are primarily categorized within Level 3 of the hierarchy at June 30, 2009. Following a change in accounting guidance, fair value measurements of such investments at June 30, 2010 are categorized within Level 2 of the hierarchy to the extent such investments were redeemable with the manager at the NAV (or its equivalent) at the reporting date or within the near term (defined by the University as within approximately 90 days of the reporting date). Measurements of any such investments that were not redeemable at the reporting date, whether by nature of the investment or as a result of unexpired terms or conditions restricting redemption at the reporting date, are categorized within Level 3 of the hierarchy.

In the event that changes in the inputs used in the fair value measurement of an asset or liability results in a transfer of the fair value measurement in its entirety to a different categorization (e.g. from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(All Amounts in Thousands)

SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 16, 2010, the date the financial statements were issued.

TAX STATUS

The University is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code ("IRC"), except to the extent the University generates unrelated business income.

RECLASSIFICATIONS

Certain amounts in the 2009 financial statements and footnotes have been reclassified to conform to 2010 presentation.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable primarily represent reimbursable costs related to research activities and other sponsored programs. Accounts receivable are stated net of allowances of $664 and $1,073 at June 30, 2010 and 2009, respectively.

NOTE 3. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets are summarized as follows at June 30:

	2010	2009
Debt-related derivative instruments *(Note 12)*	$ 12,625	$ 25,644
Retail and other inventories	9,608	9,665
Beneficial interests in perpetual trusts *(Note 15)*	4,143	3,923
Prepaid rental expenses	14,295	7,780
Other deferred charges and prepaid expenses	10,277	9,750
	$ 50,948	$ 56,762

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	$ 53,235	$ 63,546
One year to five years	133,762	138,100
More than five years	102,233	91,302
	289,230	292,948
Less:		
Unamortized discounts	72,865	70,752
Allowances for uncollectible amounts	34,760	27,609
	107,625	98,361
	$ 181,605	$ 194,587

Contributions receivable are discounted at rates ranging from 0.77 percent to 6.91 percent and 1.11 percent to 6.91 percent at June 30, 2010 and 2009, respectively.

(All Amounts in Thousands)

Contributions receivable, net, are summarized by net asset classification as follows at June 30:

	2010	2009
Temporarily restricted for:		
Operating purposes	$ 35,130	$ 37,874
Investment in land, buildings and equipment	40,631	31,273
Funds functioning as endowment *(Note 16)*	6,657	7,669
Total temporarily restricted *(Note 14)*	82,418	76,816
Permanently restricted for endowment *(Notes 15 and 16)*	99,187	117,771
	$ 181,605	$ 194,587

As of June 30, 2010, the University had received documented conditional pledges of $48,500 which are not reflected in the accompanying consolidated financial statements.

NOTE 5. NOTES RECEIVABLE

Notes receivable are summarized as follows at June 30:

	2010	2009
Student notes receivable, related to:		
Government sponsored loan programs	$ 33,570	$ 32,300
Institutional student loans	1,110	1,045
Other notes receivable	12,259	649
	46,939	33,994
Less allowances for uncollectible amounts	1,103	1,103
	$ 45,836	$ 32,891

Government advances to the University for student loan funding, primarily under the Perkins Loan program, totaled $30,118 and $29,771 at June 30, 2010 and 2009, respectively. Due to significant restrictions that apply to government sponsored student loans, determining the fair value of student notes receivable is not practicable. The estimated fair value of other notes receivable approximated the carrying amount at June 30, 2010 and 2009.

(All Amounts in Thousands)

NOTE 6. INVESTMENTS

Investments reflected in the consolidated statements of financial position are summarized as follows at June 30:

	2010	2009
Notre Dame Endowment Pool assets	$ 6,054,497	$ 5,502,354
Other investments, associated with:		
Endowment and funds functioning as endowment	28,026	31,490
Working capital and other University designations	6,852	20,370
Split-interest agreements *(Note 17)*	9,438	6,583
Revocable charitable trusts	2,340	2,103
Defined benefit pension plan *(Note 13)*	88,024	77,827
	134,680	138,373
	$ 6,189,177	$ 5,640,727

Liabilities associated with investments include the following at June 30:

	2010	2009
Notre Dame Endowment Pool liabilities	$ 2,013	$ 377
Liabilities representing the fair value of investments held on behalf of:		
Religious affiliates	166,311	136,513
Revocable charitable trusts	2,340	2,103
Defined benefit pension plan *(Note 13)*	88,024	77,827
	$ 258,688	$ 216,820

The Notre Dame Endowment Pool ("NDEP") represents the University's primary investment portfolio. Certain investments, however, are held in specific instruments outside the NDEP to comply with donor requirements or other considerations. The pooled assets and liabilities of the NDEP are summarized as follows at June 30:

	2010	2009
Investment assets	$ 6,054,497	$ 5,502,354
Liabilities associated with investments[1] *(Note 12)*	(2,013)	(377)
NDEP net assets reflected within the financial statements	6,052,484	5,501,977
Equity interest in consolidated company[2]	17,154	20,101
NDEP net assets unitized	$ 6,069,638	$ 5,522,078

[1] *Represents the fair value of derivative instrument liabilities.*

[2] *The University is the majority owner of an externally managed limited liability company, the assets and liabilities of which are reflected in the consolidated financial statements at cost. However, the estimated fair value of the University's equity interest in the company, $17,154 and $20,101 at June 30, 2010 and 2009, respectively, is included in NDEP net assets for unitization purposes.*

Transactions within participating funds that constitute additions to or withdrawals from the NDEP are unitized on a quarterly basis. The unitized net assets of the NDEP were attributable to the following at June 30:

	2010	2009
Endowment and funds functioning as endowment	$ 5,177,776	$ 4,730,501
Working capital and other University designations	646,431	586,272
Student loan funds	4,578	4,140
Split-interest agreements *(Note 17)*	74,542	64,652
Funds invested on behalf of religious affiliates	166,311	136,513
	$ 6,069,638	$ 5,522,078

(All Amounts in Thousands)

The NDEP is comprised primarily of endowment-related holdings. As such, its investment objectives seek to preserve the real purchasing power of the endowment, while providing a stable source of financial support to its beneficiary programs. To satisfy its long-term rate of return objectives, the NDEP relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The NDEP maintains a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Investment assets are summarized in the following tables by asset class at June 30, 2010 and 2009, respectively:

	NDEP	OTHER INVESTMENTS	2010 TOTAL
Short-term investments	$ 86,481	$ 1,662	$ 88,143
Public equities	1,993,149	31,432	2,024,581
Fixed income securities	266,976	13,191	280,167
Marketable alternatives	970,473	291	970,764
Private equity	1,728,428	-	1,728,428
Real estate	392,507	80	392,587
Other real assets	616,483	-	616,483
	6,054,497	46,656	6,101,153
Defined benefit pension plan assets *(Note 13)*	-	88,024	88,024
	$ 6,054,497	$ 134,680	$ 6,189,177

	NDEP	OTHER INVESTMENTS	2009 TOTAL
Short-term investments	$ 117,167	$ 1,815	$ 118,982
Public equities	1,817,676	43,406	1,861,082
Fixed income securities	257,070	10,557	267,627
Marketable alternatives	843,887	4,719	848,606
Private equity	1,420,074	-	1,420,074
Real estate	402,944	49	402,993
Other real assets	643,536	-	643,536
	5,502,354	60,546	5,562,900
Defined benefit pension plan assets *(Note 13)*	-	77,827	77,827
	$ 5,502,354	$ 138,373	$ 5,640,727

Short-term investments include cash and cash equivalents, money market funds, securities with short-term maturities (such as commercial paper and government securities held either directly or via commingled pools with daily liquidity) and the fair value of certain derivative instrument assets (see *Note 12* for further information about derivative instruments). Public equities investments cover the U.S. as well as both developed and emerging markets overseas, and long/short hedge funds. Marketable alternatives encompass other hedge fund strategies less correlated with broad equities markets. This includes credit-oriented strategies, multi-strategy funds where the manager has a broad mandate to invest opportunistically, and event driven funds where managers seek opportunity in various forms of arbitrage strategies as well as in corporate activities such as mergers and acquisitions. Private equity primarily includes domestic and foreign buyout and venture capital funds. Other real assets represents investments in energy and commodities.

(All Amounts in Thousands)

NDEP investments are primarily invested with external managers. The University is committed under contracts with certain external managers to periodically advance additional funding as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. Uncalled commitments related to NDEP investments are summarized by investment class as follows at June 30:

	2010	2009
Private equity	$ 1,042,506	$ 1,331,328
Real estate	314,716	404,788
All other	234,168	313,703
	$ 1,591,390	$ 2,049,819

The following tables reflect fair value measurements of investment assets (excluding defined benefit pension plan assets) at June 30, 2010 and 2009, respectively, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	LEVEL 1	LEVEL 2	LEVEL 3	2010 TOTAL
Short-term investments	$ 6,232	$ 81,911	$ -	$ 88,143
Public equities:				
U.S.	196,083	66,592	203,967	466,642
Non-U.S.	105,007	273,886	308,060	686,953
Long/short strategies	-	404,410	466,576	870,986
Fixed income securities	71,465	208,702	-	280,167
Marketable alternatives	-	248,138	722,626	970,764
Private equity	-	54,256	1,674,172	1,728,428
Real estate	80	-	392,507	392,587
Other real assets	81,164	52,162	483,157	616,483
	$ 460,031	$ 1,390,057	$ 4,251,065	$ 6,101,153

	LEVEL 1	LEVEL 2	LEVEL 3	2009 TOTAL
Short-term investments	$ 61	$ 118,921	$ -	$ 118,982
Public equities:				
U.S.	100,343	-	258,945	359,288
Non-U.S.	56,847	54,954	488,950	600,751
Long/short strategies	-	-	901,043	901,043
Fixed income securities	52,289	157,130	58,208	267,627
Marketable alternatives	-	-	848,606	848,606
Private equity	-	-	1,420,074	1,420,074
Real estate	49	-	402,944	402,993
Other real assets	130,529	2,856	510,151	643,536
	$ 340,118	$ 333,861	$ 4,888,921	$ 5,562,900

Certain short-term investments and fixed income securities categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes, or using models with externally verifiable inputs, such as relevant interest or exchange rates. Investments with certain private equity funds were held for sale at June 30, 2010. The fair value for these funds of $54,256, also reflected in Level 2, was measured based on the proceeds actually received upon closing the sale subsequent to June 30, 2010.

(All Amounts in Thousands)

Other investments categorized within Levels 2 and 3 primarily reflect assets invested with external managers, the fair value measurements for which are generally based on NAV (or the equivalent) as provided to the University by the external managers. Investments in funds within public equities and marketable alternatives redeemable at NAV (or its equivalent) at the measurement date or within the near term are reflected in Level 2, while funds that are subject to restrictions that limit the University's ability to withdraw capital within the near term are reflected in Level 3. Redemption terms for these funds generally restrict withdrawals of capital for a defined "lock-up" period after investment, and thereafter typically allow withdrawals on a quarterly or annual basis with notice periods ranging from 30 to 180 days. Lock-up periods for funds reflected in *Level 3* generally expire during the period from 6 months to three years after the measurement date. In addition, investor capital in these funds attributable to illiquid investments, often referred to as "side pockets," generally is not available for redemption until the investments are realized by the fund. Most funds within private equity, real estate and other real assets, as well as certain marketable alternatives funds, are not redeemable at the direction of the investor and are reflected in Level 3. These funds make distributions to investing partners as the underlying assets of the funds are liquidated. The University expects the underlying assets of these funds to be substantially liquidated over the next 5 to 10 years, the timing of which would vary by fund and depend on market conditions as well as other factors.

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2010:

	BEGINNING OF THE YEAR	NET ACQUISITIONS/ (DISPOSITIONS)	NET REALIZED/ UNREALIZED GAINS/(LOSSES)	NET TRANSFERS IN/(OUT) OF LEVEL 3	END OF THE YEAR
Public equities:					
U.S.	$ 258,945	$ (35,275)	$ 44,904	$ (64,607)	$ 203,967
Non-U.S.	488,950	(76,604)	107,378	(211,664)	308,060
Long/short strategies	901,043	(69,355)	39,298	(404,410)	466,576
Fixed income securities	58,208	5,330	7,796	(71,334)	-
Marketable alternatives	848,606	(73,331)	195,489	(248,138)	722,626
Private equity	1,420,074	132,089	176,265	(54,256)	1,674,172
Real estate	402,944	83,147	(93,584)	-	392,507
Other real assets	510,151	(37,319)	62,486	(52,161)	483,157
	$ 4,888,921	$ (71,318)	$ 540,032	$ (1,106,570)	$ 4,251,065

During the year ended June 30, 2010, the University recognized net unrealized appreciation of $266,818 on investments still held at June 30, 2010 for which fair value is measured using Level 3 inputs. Net transfers out of Level 3 primarily reflect the migration to Level 2 of assets measured at fair value based on NAV (or its equivalent) that were eligible for redemption at the reporting date or within the near term. The fair values of such assets are classified within Level 2 at June 30, 2010 following a change in accounting guidance.

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2009:

	BEGINNING OF THE YEAR	NET ACQUISITIONS/ (DISPOSITIONS)	NET REALIZED/ UNREALIZED GAINS/(LOSSES)	NET TRANSFERS IN/(OUT) OF LEVEL 3	END OF THE YEAR
Public equities:					
U.S.	$ 329,412	$ (16,564)	$ (53,903)	$ -	$ 258,945
Non-U.S.	716,550	(65,965)	(161,635)	-	488,950
Long/short strategies	1,112,741	(48,363)	(163,335)	-	901,043
Fixed income securities	60,768	(3,951)	1,391	-	58,208
Marketable alternatives	950,479	58,336	(160,209)	-	848,606
Private equity	1,545,118	231,545	(356,589)	-	1,420,074
Real estate	509,005	88,155	(194,216)	-	402,944
Other real assets	750,948	164	(240,961)	-	510,151
	$ 5,975,021	$ 243,357	$ (1,329,457)	$ -	$ 4,888,921

(All Amounts in Thousands)

During the year ended June 30, 2009, the University recognized net unrealized depreciation of $1,409,034 on investments still held at June 30, 2009 for which fair value is measured using Level 3 inputs.

Due to the pooled nature of assets held in the NDEP, a portion of any unrealized gains or losses is attributed to NDEP holdings of split-interest agreements and the University's religious affiliates.

INVESTMENT RETURN

Investment return as reflected in the consolidated statements of changes in net assets is summarized as follows for the years ended June 30:

	2010	2009
Investment income, net	$ 32,495	$ 24,522
Net gain/(loss) on investments:		
Realized gains, net	125,539	8,049
Unrealized gains/(losses), net	439,198	(1,493,645)
	564,737	(1,485,596)
	$ 597,232	$ (1,461,074)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2010 TOTAL	2009 TOTAL
Investment income, net	$ 14,156	$ 17,479	$ 860	$ 32,495	$ 24,522
Net gain/(loss) on investments	275,463	288,764	510	564,737	(1,485,596)
	$ 289,619	$ 306,243	$ 1,370	$ 597,232	$ (1,461,074)

Investment income is reported net of related expenses of $17,243 and $16,082 for the years ended June 30, 2010, and 2009, respectively. Investment-related expenses consist of fees paid to external investment managers, as well as expenses related to internal investment office operations.

A portion of accumulated investment returns is distributed annually to beneficiary programs under the University's endowment spending policy. In addition, a portion of unrestricted returns accumulated on working capital and other assets is distributed to supplement the University's general operating needs and other initiatives. Accumulated investment return distributed is summarized by source as follows for the years ended June 30:

	UNRESTRICTED	TEMPORARILY RESTRICTED	2010 TOTAL	2009 TOTAL
Endowment and funds functioning as endowment *(Note 16)*	$ 82,012	$ 141,277	$ 223,289	$ 207,314
Working capital and other sources	3,079	-	3,079	8,174
	$ 85,091	$ 141,277	$ 226,368	$ 215,488

(All Amounts in Thousands)

NOTE 7. LAND, BUILDINGS AND EQUIPMENT

The following is a summary of land, buildings and equipment at June 30:

	2010	2009
Land and land improvements	$ 109,833	$ 98,809
Buildings	1,222,321	999,533
Equipment	213,572	209,522
Construction in progress	59,993	173,315
	1,605,719	1,481,179
Less accumulated depreciation	451,701	427,260
	$ 1,154,018	$ 1,053,919

Depreciation expense was $44,969 and $39,311 for the years ended June 30, 2010, and 2009, respectively.

The University recorded accounts payable associated with construction in progress costs of $11,766 and $28,427 at June 30, 2010 and 2009, respectively. In addition, the University has commitments to expend approximately $48,008 to complete various construction projects as of June 30, 2010.

Changes in conditional asset retirement obligations are summarized as follows for the years ended June 30:

	2010	2009
Beginning of year	$ 21,131	$ 21,031
New obligations recognized	66	-
Obligations settled	(507)	(659)
Accretion expense	1,553	759
End of year	$ 22,243	$ 21,131

SUBSEQUENT EVENTS

On October 25, 2010, the University entered into a contract to purchase a building in London for approximately $58,800 to use in support of its international studies programs in England. The purchase is expected to be completed in fiscal 2012.

NOTE 8. SHORT-TERM BORROWING

The University maintains a $200,000 commercial paper program under which it may issue either standard or extendible municipal commercial paper through St. Joseph County, Indiana on behalf of the University. Standard municipal commercial paper issues are supported by a $200,000 standby credit facility with a major commercial bank. Interest on commercial paper may be either taxable or tax-exempt to investors, depending on the University's intended use of the proceeds. Generally, commercial paper issued to finance the purchase of equipment and improvements to educational facilities is tax-exempt, while commercial paper issued to provide funding for operations is taxable. Standard taxable commercial paper in the amount of $115,094 and $70,036 was outstanding at June 30, 2010 and June 30, 2009, respectively.

The University also maintains unsecured lines of credit with commercial banks in the aggregate amount of $300,000 to be utilized primarily for working capital purposes. Termination dates on lines of credit available at June 30, 2010 ranged from January 16, 2011 to March 31, 2013. Total outstanding balances on lines of credit were $25,000 and $5,000 at June 30, 2010 and 2009, respectively.

Total interest costs incurred on short-term borrowing were approximately $253 and $1,066 for the years ended June 30, 2010 and 2009, respectively.

(All Amounts in Thousands)

NOTE 9. DEFERRED REVENUE AND REFUNDABLE ADVANCES

Deferred revenue and refundable advances are summarized as follows at June 30:

	2010	2009
Deferred ticket sales and other revenues from intercollegiate athletics	$ 55,545	$ 53,691
Deferred tuition and other student revenues	12,624	13,600
Refundable advances for research and other sponsored programs	16,964	12,776
Other deferred revenues	1,961	1,557
	$ 87,094	$ 81,624

NOTE 10. DEPOSITS AND OTHER LIABILITIES

Deposits and other liabilities are summarized as follows at June 30:

	2010	2009
Debt-related derivative instruments *(Note 12)*	$ 15,858	$ 27,315
Accrued compensation and employee benefits	36,551	25,252
Student organization funds and other deposits	13,686	15,737
Payroll and other taxes payable	8,361	7,443
Accrued interest expense, pledges payable and other liabilities	15,110	12,963
	$ 89,566	$ 88,710

NOTE 11. BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following at June 30:

	2010	2009
Obligations of the University:		
St. Joseph County (IN) Educational Facilities Revenue Bonds[1]	$ 366,828	$ 368,215
Notre Dame du Lac Dormitory Refunding and Construction Bonds	840	930
Series 2009 Taxable Fixed Rate Notes	150,000	150,000
Mortgage notes payable	14,340	-
	532,008	519,145
Obligations of consolidated company:		
Mortgage note payable	39,298	39,830
	$ 571,306	$ 558,975

[1]*Includes the unamortized premium of $7,328 on Series 2009 bonds at June 30, 2010.*

(All Amounts in Thousands)

The fair value of bond and note obligations approximates the aggregate carrying value at June 30, 2010 and 2009. The aggregate scheduled maturities of bonds and notes payable are summarized as follows:

2011	$ 3,037
2012	3,235
2013	3,190
2014	153,316
2015	3,455
Thereafter	397,745
	$ 563,978

Notre Dame du Lac Dormitory Refunding and Construction Bonds bear interest at a fixed rate of 3.00 percent through 2018. These bonds are collateralized by the facilities to which they relate. The University incurred interest costs of $27 and $30 on these bonds during the years ended June 30, 2010 and 2009, respectively.

The Series 2009 Taxable Fixed Rate Notes bear interest at a fixed rate of 4.141 percent and are due September 1, 2013. The notes constitute unsecured general obligations of the University and the associated interest is taxable to investors. The University incurred $6,211 and $2,623 in interest costs on the notes during the years ended June 30, 2010 and 2009, respectively.

Mortgage notes in the amount of $14,340 relate to the refinancing of facilities constructed for a not-for-profit organization consolidated by the University. The notes bear interest at a fixed rate of 1.103 percent and are due on July 1, 2042. These notes are secured by the facilities to which they relate. The University incurred interest costs of $66 on the notes during the year ended June 30, 2010.

The University is the majority owner of an externally managed limited liability company, the activities of which are reflected in the University's consolidated financial statements. The company's assets consist primarily of real estate, the acquisition of which was financed in part with a note payable bearing interest at 5.68 percent, due on February 1, 2016. The note is not a general obligation of the University and is fully collateralized by the property acquired. Interest costs of $2,018 and $1,859 related to the note are reflected within non-operating changes in unrestricted net assets for the years ended June 30, 2010 and 2009, respectively.

(All Amounts in Thousands)

ST. JOSEPH COUNTY (INDIANA) EDUCATIONAL FACILITIES REVENUE BONDS

St. Joseph County (Indiana) Educational Facilities Revenue Bonds ("SJC bonds") represent general obligations of the University and are not collateralized by any facilities. Issues outstanding are summarized as follows at June 30:

	OUTSTANDING THROUGH	CURRENT RATE OF INTEREST[1]	2010	2009
Issues bearing variable rates:				
Series 1998	2033		$ -	$ 43,000
Series 2003	2038	0.340%	55,045	57,325
Series 2005	2040		-	110,000
Series 2007	2042	0.320%	75,000	75,000
			130,045	285,325
Issues bearing fixed rates:				
Series 1996	2026	6.500%	7,890	7,890
Series 2005[2]	2040	3.875%	75,000	75,000
Series 2009[3]	2036	5.000%	153,893	-
			236,783	82,890
			$ 366,828	$ 368,215

[1]Variable rates reset weekly. Represents annual percentage rate in effect at June 30, 2010.
[2]Converted from variable to a fixed term rate in November 2008. Rate is fixed through February 2012.
[3]Series 2009 bonds were issued at a premium. Carrying amount includes the principal of $146,565 and unamortized premium of $7,328 at June 30, 2010. The premium will be amortized using the effective-interest method over the period the bonds are outstanding.

Proceeds from the Series 2009 bonds issued during the year ended June 30, 2010 were used to fund the full redemption of the $43,000 variable rate Series 1998 bonds and $110,000 Series 2005 bonds bearing a variable rate.

The University maintains standby credit facilities with commercial banks to provide alternative liquidity to support the repurchase of tendered variable rate SJC bonds in the event they are unable to be remarketed. Financing obtained through standby credit facilities to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues, and mature over the five year period following repurchase. The standby credit facilities in effect at June 30, 2010 expire in December 2014.

The University utilizes interest rate swap agreements as a strategy for managing interest rate risk associated with variable rate SJC bond issues. Under the terms of swap agreements in effect at June 30, 2010, the University pays fixed rates ranging from 2.01 percent to 4.97 percent and receives variable rates equal to 67 percent or 70 percent of the one-month London Interbank Offered Rate ("LIBOR") on total notional amounts of $128,130. An additional swap agreement under which the University would pay a fixed rate of 2.05 percent and receive 70 percent of the three-month LIBOR on a notional amount of $75,000 becomes effective in March 2012, concurrent with the end of the Series 2005 fixed term rate period. The estimated fair value of interest rate swaps was a net unrealized loss position of $3,233 and $1,671 at June 30, 2010 and 2009, respectively. See *Note 12* for further information on the University's interest rate swaps.

In conjunction with the issuance of the Series 2009 bonds, the University terminated five interest rate swap agreements with an aggregate notional amount of $153,000. The University made net payments totaling $13,339 to its counterparties to terminate these swap agreements.

(All Amounts in Thousands)

Interest costs incurred on SJC bonds and periodic net settlements paid to counterparties pursuant to associated interest rate swaps are summarized below for the years ended June 30:

	2010		2009	
	INTEREST EXPENSE	NET PERIODIC SETTLEMENTS	INTEREST EXPENSE	NET PERIODIC SETTLEMENTS
Issues bearing variable rates	$ 343	$ 5,182	$ 3,608	$ 6,604
Issues bearing fixed rates	8,873	-	2,410	-
	$ 9,216	$ 5,182	$ 6,018	$ 6,604

SUBSEQUENT EVENTS

Subsequent to June 30, 2010, the University issued Series 2010 Taxable Fixed Rate Bonds in the amount of $160,000. The Series 2010 bonds bear interest at a fixed rate of 4.90 percent and mature in 2041.

NOTE 12. DERIVATIVE INSTRUMENTS

The University utilizes a variety of derivative instruments within the NDEP, including certain interest rate derivatives, forward currency contracts and futures contracts. As described in *Note 11*, the University also utilizes interest rate swap agreements to manage interest rate risk associated with its variable rate bond obligations.

Derivative instruments by their nature bear, to varying degrees, elements of market risk and credit risk that are not reflected in the amounts recorded in financial statements. Market risk in this context represents the potential for changes in the value of derivative instruments due to levels of volatility and liquidity or other events affecting the underlying asset, reference rate, or index, including those embodied in interest and foreign exchange rate movements and fluctuations in commodity or security prices. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the consolidated statements of financial position, not the notional amounts of the instruments, and is further limited by the collateral arrangements as specified for specific instruments.

Collateral associated with NDEP derivatives is moved as required by market fluctuations, and is generally in the form of cash or cash equivalents. Interest rate swaps associated with the University's variable rate bonds have credit-risk-related contingent features that could require the University to post collateral on instruments in net liability positions in the event of a downgrade to the rating on the University's debt. The aggregate fair value of interest rate swaps with credit-risk-related contingent features that were in a liability position at June 30, 2010 is $15,858. If the credit-risk-related contingent features associated with these instruments had been triggered, the University would have been required to post collateral to its counterparties in an amount up to the full liability position of the instruments, depending on the level of the University's credit rating. Based on the quality of its credit rating, the University had posted no collateral associated with these instruments at June 30, 2010.

(All Amounts in Thousands)

The estimated fair value of derivative instrument assets and liabilities, certain of which are reflected on a net-by-counterparty basis within the consolidated statements of financial position, are summarized in the table below at June 30, 2010, along with the net gains and losses for the year then ended:

		NOTIONAL AMOUNTS		DERIVATIVE ASSETS		DERIVATIVE LIABILITIES		NET GAIN/(LOSS)
NDEP derivatives:								
Interest rate contracts[1]	$	1,597,548	$	19,302	$	-	$	(15,531)
Forward currency contracts[1]	$	156,926		1,086		1,434		924
Futures contracts[2]	$	594,907		6,188		1,513		10,920
Gross value				26,576		2,947		(3,687)
Counterparty netting				(934)		(934)		-
Net by counterparty			$	25,642	$	2,013	$	(3,687)
Debt-related derivatives:								
Interest rate contracts[1]	$	128,130	$	12,625	$	15,858	$	(20,083)

[1]*Fair value measurements of over-the-counter derivative instruments are based on observable inputs, such as relevant interest rates, that fall within Level 2 of the hierarchy of fair value inputs.*

[2]*Futures contracts are exchange-traded. Fair value is based on quoted prices that fall within Level 1 of the hierarchy of fair value inputs. Notional amount on futures at June 30, 2010 reflect $672,047 and $77,140 in long and short exposures, respectively.*

Derivative instrument assets and liabilities summarized above are reflected within the following lines of the consolidated statements of financial position at June 30, 2010:

NDEP derivatives:		
Investments[1]	$	25,642
Liabilities associated with investments *(Note 6)*	$	2,013
Debt-related derivatives:		
Deferred charges and other assets *(Note 3)*	$	12,625
Deposits and other liabilities *(Note 10)*	$	15,858

[1]*Reflected within the "Short-term investments" investment class in Note 6.*

Certain interest rate contracts are employed within the NDEP as a strategy for protecting the investment portfolio against significant fluctuations in interest rates. Interest rate contracts held in the NDEP are fully collateralized at June 30, 2010. Forward currency contracts are utilized to settle planned purchases or sales, for investment purposes, and to mitigate the impact of exchange rate fluctuations on the U.S. dollar value of NDEP international holdings. A variety of currency, interest rate, equity, bond and commodities futures contracts are also employed in the NDEP to manage exposure to various financial markets.

Gains and losses on derivative instruments held in the NDEP are primarily included in the net gain or loss on investments as reflected in the financial statements. However, due to the pooled nature of the NDEP, a minor portion of these gains and losses would be attributed to NDEP holdings of split-interest agreements and the University's religious affiliates. The net gain or loss on debt-related derivatives (interest rate swaps associated with the University's variable rate bonds) is reported as such within non-operating changes in unrestricted net assets.

(All Amounts in Thousands)

NOTE 13. PENSION AND OTHER POSTRETIREMENT BENEFITS

DEFINED CONTRIBUTION RETIREMENT SAVINGS PLANS

Faculty and certain administrative employees are eligible to participate in the defined contribution retirement savings plan. The plan, operated under section 403(b) of the IRC, is funded by mandatory employee contributions and University matching contributions. All faculty, administrators and staff may also participate in a supplemental defined contribution retirement savings plan, under which participants may make additional contributions up to the annual limit established by the Internal Revenue Service. Participants are immediately vested in the plans, and may direct their contributions and the University's contributions on their behalf to Teachers Insurance and Annuity Association, Fidelity Investments or the Vanguard Group. The University's share of the cost of these benefits was $23,915 and $21,028 for the years ended June 30, 2010 and 2009, respectively.

DEFINED BENEFIT PENSION PLAN AND POSTRETIREMENT MEDICAL INSURANCE BENEFITS

Retirement benefits are provided for University staff under a defined benefit pension plan, for which the University serves as trustee and administrator. This plan provides benefits for certain administrators and staff after one year of qualifying service. During the year ended June 30, 2009, the plan was amended such that qualifying service is based on the fiscal year rather than a calendar year. Retirement benefits are based on the employee's total years of service and final average pay as defined by the plan. Plan participants are fully vested after five years of service. The University funds the plan with annual contributions that meet minimum requirements under the Employee Retirement Income Security Act of 1974.

Other postretirement benefit plans offered by the University provide medical insurance benefits for retirees and their spouses. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. The plans hold no assets and are funded by the University as claims are paid.

The University recognizes the full funded status of its defined benefit pension and other postretirement benefit plans in the consolidated statements of financial position. Accordingly, the liability for pension benefits as recognized in the statement of financial position represents the excess of the actuarially determined projected benefit obligation ("PBO") over the fair value of plan assets at year end. The liability for other postretirement benefits as recognized in the consolidated statements of financial position represents the actuarially determined accumulated postretirement benefit obligation ("APBO") at year end. The following table summarizes the liabilities for pension and other postretirement benefits reflected in the consolidated statements of financial position at June 30:

	2010	2009
Liability for pension benefits:		
PBO at end of year	$ 155,804	$ 127,378
Less: Fair value of plan assets at end of year *(Note 6)*	(88,024)	(77,827)
	67,780	49,551
Liability for other postretirement benefits (APBO at year end)	81,251	62,027
	$ 149,031	$ 111,578

(All Amounts in Thousands)

Changes in the actuarially determined benefit obligations are summarized below for the years ended June 30:

	PENSION BENEFITS (PBO)		OTHER POSTRETIREMENT BENEFITS (APBO)	
	2010	2009	2010	2009
Beginning of year	$ 127,378	$ 117,614	$ 62,027	$ 56,765
Service cost	4,811	4,813	3,689	3,357
Interest cost	8,114	7,521	3,865	3,492
Plan amendments	-	4,856	-	-
Actuarial loss/(gain)	20,496	(2,976)	12,682	(817)
Benefit payments	(4,995)	(4,450)	(1,012)	(770)
End of year	$ 155,804	$ 127,378	$ 81,251	$ 62,027

The accumulated benefit obligation associated with pension benefits was $130,227 and $107,539 at June 30, 2010 and 2009, respectively.

The change in the fair value of pension plan assets is summarized below for the years ended June 30:

	2010	2009
Fair value of plan assets at beginning of year	$ 77,827	$ 95,349
Actual return on plan assets	7,407	(17,546)
Employer contributions	7,785	4,474
Benefit payments	(4,995)	(4,450)
Fair value of plan assets at end of year *(Note 6)*	$ 88,024	$ 77,827

The components of net periodic benefit cost recognized within operating expenses in the consolidated statements of changes in unrestricted net assets are summarized as follows for the years ended June 30:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
Service cost	$ 4,811	$ 4,813	$ 3,689	$ 3,357
Interest cost	8,114	7,521	3,865	3,492
Expected return on plan assets	(7,674)	(8,129)	-	-
Amounts recognized previously as non-operating changes in net assets:				
Amortization of net loss	185	-	1,404	1,629
Amortization of prior service cost/(credit)	435	9	(2,525)	(4,889)
	620	9	(1,121)	(3,260)
	$ 5,871	$ 4,214	$ 6,433	$ 3,589

The amortization of any prior service cost or credit is determined using straight-line amortization over the average remaining service period of employees expected to receive benefits under the respective plans.

(All Amounts in Thousands)

Gains or losses and other changes in the actuarially determined benefit obligations arising in the current period, but not included in net periodic benefit cost, are recognized as non-operating changes in the consolidated statements of changes in unrestricted net assets. These changes are reflected net of a contra-expense adjustment for amounts recognized previously, but included as components of net periodic benefit cost in the current period. Accordingly, the net non-operating increase (decrease) in unrestricted net assets related to pension and other postretirement benefits is summarized as follows for the years ended June 30:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
Net actuarial gain/(loss)	$ (20,763)	$ (22,699)	$ (12,682)	$ 817
Plan amendments	-	(4,856)	-	-
Adjustment for components of net periodic benefit cost recognized previously	620	9	(1,121)	(3,260)
	$ (20,143)	$ (27,546)	$ (13,803)	$ (2,443)

Cumulative amounts recognized as non-operating changes in unrestricted net assets that had not yet been reflected within net periodic benefit cost are summarized as follows at June 30:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
Net loss	$ 48,281	$ 27,703	$ 34,162	$ 22,884
Prior service cost/(credit)	4,428	4,863	(2,387)	(4,912)
	$ 52,709	$ 32,566	$ 31,775	$ 17,972

The University expects to reflect the amortization of the following as components of net periodic benefit cost during the year ending June 30, 2011:

	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS
Net loss	$ 2,937	$ 2,560
Prior service cost/(credit)	$ 435	$ (2,525)

The following weighted-average assumptions were used in measuring the actuarially determined benefit obligation (PBO for pension benefits and APBO for other postretirement benefits) and net periodic benefit cost, respectively, for the years ended June 30:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
Benefit obligation (measured at end of year)				
Discount rate	5.50%	6.50%	5.50%	6.50%
Rate of compensation increase	4.00%	4.00%		
Health care cost trend rate (grading to 5.00% in 2016)			8.00%	8.50%
Net periodic benefit cost (measured at beginning of year)				
Discount rate	6.50%	6.50%	6.50%	6.50%
Expected long-term rate of return on plan assets	8.50%	8.50%		
Rate of compensation increase	4.00%	5.00%		
Health care cost trend rate (grading to 5.00% in 2013)			8.50%	9.00%

(All Amounts in Thousands)

The expected long-term rate of return on pension plan assets is based on the consideration of both historical and forecasted investment performance, given the targeted allocation of the plan's assets to various investment classes.

A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO associated with postretirement medical benefits by approximately $1,651 and $15,608, respectively. A one-percentage-point decrease in the assumed health care cost trend rate would have decreased aggregate service and interest costs and the APBO by approximately $1,302 and $12,553, respectively.

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2010 are as follows:

	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS
2011	$ 5,402	$ 1,652
2012	$ 5,852	$ 1,867
2013	$ 6,370	$ 2,101
2014	$ 6,913	$ 2,401
2015	$ 7,480	$ 2,737

Projected aggregate payments for pension benefits and other postretirement benefits for the five year period ending June 30, 2020 are $47,738 and $18,869, respectively. The University's estimated contributions to the defined benefit pension plan for the year subsequent to June 30, 2010 are $13,600.

DEFINED BENEFIT PENSION PLAN ASSETS

The assets of the defined benefit pension plan are invested in a manner that is intended to preserve the purchasing power of the plan's assets and provide payments to beneficiaries. Thus, a rate of return objective of inflation plus 5.0 percent is targeted.

The investment portfolio of the plan, which is invested with external investment managers, is diversified in a manner that is intended to achieve the return objective and reduce the volatility of returns. The plan relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) over a long-term time horizon.

Actual and targeted allocations of the plan's assets by investment class were as follows at June 30:

	2010	2009	Target
Short-term investments	6.6%	3.1%	0.0%
Public equities	43.9%	46.8%	50.0%
Fixed income securities	19.6%	17.9%	17.5%
Marketable alternatives	14.5%	16.8%	15.0%
Private equity	7.7%	7.2%	7.5%
Real assets	7.7%	8.2%	10.0%
	100.0%	100.0%	100.0%

Asset allocation targets reflect the need for a modestly higher weighting in equity-based investments to achieve the return objective. Decisions regarding allocations among asset classes are made when such actions are expected to produce incremental return, reduce risk, or both. The investment characteristics of an asset class—including expected return, risk, correlation, and its overall role in the portfolio—are analyzed when making such decisions.

Each asset class has a defined role within the overall asset allocation of the plan. These roles are described as follows:

Public equities – Provides access to liquid markets and serves as a long-term hedge against inflation.

Fixed income securities – Provides a stable income stream and greater certainty of nominal cash flow relative to the other asset classes. Given the low correlation to other asset classes, fixed income assets also enhance diversification and serve as a hedge against financial turmoil or periods of deflation.

(All Amounts in Thousands)

Marketable alternatives – Enhances diversification and provides opportunities to benefit from short-term inefficiencies in global capital markets.

Private equity – Provides attractive long-term, risk-adjusted returns by investing in inefficient markets.

Real assets – Provides attractive return prospects, further diversification and a hedge against inflation.

Fair value measurements of plan assets at June 30, 2010 are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term investments	$ -	$ 5,803	$ -	$ 5,803
Public equities:				
U.S.	-	10,099	-	10,099
Non-U.S.	4,032	8,335	-	12,367
Long/short strategies	-	13,101	3,049	16,150
Fixed income securities	17,242	-	-	17,242
Marketable alternatives	-	9,147	3,636	12,783
Private equity	-	-	6,796	6,796
Real assets	1,254	1,098	4,432	6,784
	$ 22,528	$ 47,583	$ 17,913	$ 88,024

Fair value measurements of plan assets at June 30, 2009 are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term investments	$ -	$ 2,379	$ -	$ 2,379
Public equities:				
U.S.	-	8,718	-	8,718
Non-U.S.	3,525	7,759	1,165	12,449
Long/short strategies	-	-	15,287	15,287
Fixed income securities	13,904	-	-	13,904
Marketable alternatives	-	-	13,111	13,111
Private equity	-	-	5,572	5,572
Real assets	1,094	1,060	4,253	6,407
	$ 18,523	$ 19,916	$ 39,388	$ 77,827

(All Amounts in Thousands)

Changes in plan assets for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2010:

	BEGINNING OF THE YEAR	NET ACQUISITIONS/ (DISPOSITIONS)	NET REALIZED/ UNREALIZED GAINS/(LOSSES)[1]	NET TRANSFERS IN OUT) OF LEVEL 3	END OF THE YEAR
Public equities:					
Non-U.S.	$ 1,165	$ (1,107)	$ (4)	$ (54)	$ -
Long/short strategies	15,287	-	863	(13,101)	3,049
Marketable alternatives	13,111	(2,238)	1,910	(9,147)	3,636
Private equity	5,572	406	818	-	6,796
Real assets	4,253	510	(331)	-	4,432
	$ 39,388	$ (2,429)	$ 3,256	$ (22,302)	$ 17,913

[1]*Included in the actual return on plan assets for the year ended June 30, 2010.*

Net transfers out of Level 3 primarily reflect the migration to Level 2 of assets measured at fair value based on NAV per share (or its equivalent) that were eligible for redemption at the reporting date or in the near term. The fair values associated with such assets are classified within Level 2 at June 30, 2010 due to a change in accounting guidance.

Changes in plan assets for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2009:

	BEGINNING OF THE YEAR	NET ACQUISITIONS/ (DISPOSITIONS)	NET REALIZED/ UNREALIZED GAINS/(LOSSES)[1]	NET TRANSFERS IN/(OUT) OF LEVEL 3	END OF THE YEAR
Public equities:					
Non-U.S.	$ 1,317	$ -	$ (152)	$ -	$ 1,165
Long/short strategies	18,651	(1,500)	(1,864)	-	15,287
Marketable alternatives	15,027	649	(2,565)	-	13,111
Private equity	6,343	801	(1,572)	-	5,572
Real assets	6,757	869	(3,373)	-	4,253
	$ 48,095	$ 819	$ (9,526)	$ -	$ 39,388

[1]*Included in the actual return on plan assets for the year ended June 30, 2009.*

The plan is committed under contracts with certain investment managers to periodically advance additional funding as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. Total commitments of $9,177 and $10,699 were uncalled at June 30, 2010 and 2009, respectively.

(All Amounts in Thousands)

NOTE 14. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are summarized as follows at June 30:

	2010	2009
Expendable funds restricted for:		
Operating purposes	$ 129,537	$ 119,322
Investment in land, buildings and equipment	48,189	158,633
Split-interest agreements *(Note 17)*	15,947	13,034
Endowment funds *(Note 16):*		
Accumulated appreciation and earnings on donor-restricted endowment	1,760,644	1,616,462
Term endowment and other funds	312,377	249,210
	2,073,021	1,865,672
	$ 2,266,694	$ 2,156,661

As described in *Note 4*, temporarily restricted net assets include contributions receivable of $82,418 and $76,816 at June 30, 2010 and 2009, respectively.

Net assets released from restrictions for operations are summarized below for the years ended June 30:

	2010	2009
Purpose restrictions satisfied:		
Scholarships and fellowships awarded	$ 59,024	$ 55,086
Expenditures for operating purposes	91,505	82,942
Term restrictions satisfied:		
Matured split-interest agreements made available for operations	58	-
	$ 150,587	$ 138,028

Non-operating net assets released from restrictions reflect expenditures for land, buildings and equipment of $125,198 and $65,279 for the years ended June 30, 2010 and 2009, respectively.

NOTE 15. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at June 30:

	2010	2009
Endowment funds *(Note 16)*	$ 1,271,582	$ 1,200,504
Student loan funds	6,755	6,342
Split-interest agreements *(Note 17)*	11,537	10,447
Beneficial interests in perpetual trusts	4,143	3,923
	$ 1,294,017	$ 1,221,216

As reflected in *Notes 4* and *16*, permanently restricted endowment funds include $99,187 and $117,771 in contributions receivable at June 30, 2010 and 2009, respectively.

(All Amounts in Thousands)

NOTE 16. ENDOWMENT

The University's endowment consists of individual funds established for a variety of purposes. Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported in accordance with any donor-imposed restrictions.

Endowment and funds functioning as endowment at June 30, 2010 are summarized below:

	UNRESTRICTED	TEMPORARILY RESTRICTED (NOTE 14)	PERMANENTLY RESTRICTED (NOTE 15)	TOTAL
Funds established to support:				
Scholarships and fellowships	$ 323,971	$ 744,405	$ 478,905	$ 1,547,281
Faculty chairs	86,837	589,602	224,610	901,049
Academic programs	137,788	274,787	195,480	608,055
General operations	837,620	46,454	8,665	892,739
Other	609,866	411,116	264,735	1,285,717
	1,996,082	2,066,364	1,172,395	5,234,841
Contributions receivable *(Note 4)*	-	6,657	99,187	105,844
	$ 1,996,082	$ 2,073,021	$ 1,271,582	$ 5,340,685

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted funds	$ (9,815)	$ 2,066,364	$ 1,172,395	$ 3,228,944
University-designated funds	2,005,897	-	-	2,005,897
	1,996,082	2,066,364	1,172,395	5,234,841
Contributions receivable *(Note 4)*	-	6,657	99,187	105,844
	$ 1,996,082	$ 2,073,021	$ 1,271,582	$ 5,340,685

Endowment and funds functioning as endowment at June 30, 2009 are summarized below:

	UNRESTRICTED	TEMPORARILY RESTRICTED (NOTE 14)	PERMANENTLY RESTRICTED (NOTE 15)	TOTAL
Funds established to support:				
Scholarships and fellowships	$ 298,389	$ 665,830	$ 448,779	$ 1,412,998
Faculty chairs	79,428	546,376	211,664	837,468
Academic programs	122,200	250,813	187,435	560,448
General operations	780,011	26,603	1,832	808,446
Other	574,538	368,381	233,023	1,175,942
	1,854,566	1,858,003	1,082,733	4,795,302
Contributions receivable *(Note 4)*	-	7,669	117,771	125,440
	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted funds	$ (23,697)	$ 1,858,003	$ 1,082,733	$ 2,917,039
University-designated funds	1,878,263	-	-	1,878,263
	1,854,566	1,858,003	1,082,733	4,795,302
Contributions receivable *(Note 4)*	-	7,669	117,771	125,440
	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742

(All Amounts in Thousands)

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by donor stipulations when the timing of contributions coincides with unfavorable market fluctuations. Unrealized depreciation of this nature amounted to $9,815 and $23,697 at June 30, 2010 and 2009, respectively, as reflected in the preceding tables.

Endowment and funds functioning as endowment are invested primarily in the NDEP, described in *Note 6*. However, certain funds are invested outside of the NDEP in accordance with donor requirements and other considerations.

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2010:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Beginning of the year	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742
Contributions	430	30,824	71,647	102,901
Investment return:				
Investment income	11,157	16,748	822	28,727
Net gain on investments	210,328	286,758	72	497,158
Accumulated investment return distributed *(Note 6)*	(82,012)	(141,277)	-	(223,289)
Other changes, net	1,613	14,296	(1,463)	14,446
	$ 1,996,082	$ 2,073,021	$ 1,271,582	$ 5,340,685

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2009:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Beginning of the year	$ 2,451,064	$ 2,756,715	$ 1,144,076	$ 6,351,855
Contributions	113	16,387	53,311	69,811
Investment return:				
Investment income	8,448	11,842	413	20,703
Net gain/(loss) on investments	(537,011)	(782,688)	20	(1,319,679)
Accumulated investment return distributed *(Note 6)*	(74,473)	(132,841)	-	(207,314)
Other changes, net	6,425	(3,743)	2,684	5,366
	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742

The University has adopted an endowment spending policy that attempts to meet three objectives: (1) provide a predictable, stable stream of earnings to fund participants; (2) ensure the purchasing power of this revenue stream does not decline over time; and (3) ensure the purchasing power of the endowment assets does not decline over time. Under this policy, as approved by the Board of Trustees, investment income, as well as a prudent portion of appreciation, may be appropriated to support the operational needs of fund participants.

(All Amounts in Thousands)

Accumulated investment return distributed (i.e. appropriated) under the University's endowment spending policy to meet operational needs is summarized below by the purposes associated with applicable funds for the years ended June 30:

	UNRESTRICTED	TEMPORARILY RESTRICTED	2010 TOTAL	2009 TOTAL
Scholarships and fellowships	$ 16,349	$ 59,476	$ 75,825	$ 71,072
Faculty chairs	4,563	39,735	44,298	41,127
Academic programs	672	22,772	23,444	21,716
Libraries	321	6,693	7,014	6,619
Other endowed programs	14,145	9,778	23,923	24,549
General operations	45,962	2,823	48,785	42,231
	$ 82,012	$ 141,277	$ 223,289	$ 207,314

NOTE 17. SPLIT-INTEREST AGREEMENTS

The University's split-interest agreements consist principally of irrevocable charitable remainder trusts and charitable gift annuities for which the University serves as trustee. Split-interest agreement net assets consisted of the following at June 30:

	UNRESTRICTED	TEMPORARILY RESTRICTED (NOTE 14)	PERMANENTLY RESTRICTED (NOTE 15)	2010 TOTAL	2009 TOTAL
Charitable trust assets, held in:					
NDEP *(Note 6)*	$ -	$ 39,376	$ 35,166	$ 74,542	$ 64,652
Other investments *(Note 6)*	-	6,263	3,175	9,438	6,583
	-	45,639	38,341	83,980	71,235
Less obligations[1] associated with:					
Charitable trusts	-	29,081	25,191	54,272	45,693
Charitable gift annuities	1,532	611	1,613	3,756	3,918
	1,532	29,692	26,804	58,028	49,611
	$ (1,532)	$ 15,947	$ 11,537	$ 25,952	$ 21,624

[1]*Represents the present value of estimated future payments to beneficiaries.*

Assets contributed pursuant to the University's charitable gift annuity program are not held in trust, and based on the nature of the agreements, are designated as funds functioning as endowment. The aggregate fair value of these assets was $10,610 and $9,059 at June 30, 2010 and 2009, respectively.

(All Amounts in Thousands)

Changes in split-interest agreement net assets are summarized below for the years ended June 30:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2010 TOTAL	2009 TOTAL
Contributions:					
Assets received	$ 90	$ 7,332	$ 2,556	$ 9,978	$ 13,034
Discounts recognized[1]	(58)	(5,131)	(1,770)	(6,959)	(9,432)
	32	2,201	786	3,019	3,602
Change in value of agreements:					
Investment return, net	-	4,448	3,968	8,416	(18,194)
Payments to beneficiaries	(250)	(2,619)	(2,478)	(5,347)	(7,742)
Actuarial adjustments and other changes in obligations	383	(1,131)	(710)	(1,458)	19,107
	133	698	780	1,611	(6,829)
Net assets released from restrictions *(Note 14)*	-	(58)	-	(58)	-
Transfers and other changes, net	160	72	(476)	(244)	(1,934)
	$ 325	$ 2,913	$ 1,090	$ 4,328	$ (5,161)

[1] Represents the present value of estimated future payments to beneficiaries.

NOTE 18. GRANTS AND CONTRACTS

The University recognized operating revenues based on direct expenditures and related indirect costs funded by grants and contracts as follows for the years ended June 30:

	DIRECT	INDIRECT	2010 TOTAL	2009 TOTAL
Provided for:				
Research	$ 60,828	$ 15,198	$ 76,026	$ 71,128
Other sponsored programs	9,546	99	9,645	6,102
	$ 70,374	$ 15,297	$ 85,671	$ 77,230

	DIRECT	INDIRECT	2010 TOTAL	2009 TOTAL
Provided by:				
Federal agencies	$ 54,375	$ 14,415	$ 68,790	$ 62,148
State and local agencies	464	32	496	330
Private organizations	15,535	850	16,385	14,752
	$ 70,374	$ 15,297	$ 85,671	$ 77,230

Funding for federally sponsored research and other programs is received from the U.S. government, as well as from other universities and private organizations that subcontract sponsored research to the University. The University's primary sources of federal research support are the Department of Health and Human Services and the National Science Foundation.

The University also administers certain federally sponsored programs, primarily related to student financial aid, for which it recognizes neither revenues nor expenses. Receipts and disbursements for such programs totaled $11,976 and $8,901 for the years ended June 30, 2010 and 2009, respectively.

NOTE 19. CONTINGENCIES

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

All funds expended in conjunction with government grants and contracts are subject to audit by government agencies. In the opinion of management, any liability resulting from these audits will not have a material effect on the University's financial position.

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