



UNCOMMON LEADERSHIP

The academic scepter, or mace, can be traced to the Middle Ages, when two instruments — a royal scepter and a battle mace — were combined to form a single icon of authority, strength, and academic dignity.

While the mace honors the traditions and history of an institution, its use at ceremonial functions symbolizes the institution's continuing commitment to academic excellence.

The Notre Dame mace was designed and created in 1987 by the late Rev. Anthony Lauck, C.S.C., professor emeritus of art, art history, and design. The bronze caput reflects the University seal. Its shaft is made of walnut, and the star and finial display the University colors of blue and gold.

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UNWAVERING COMMITMENT

UNIVERSITY OF NOTRE DAME 2003 ANNUAL REPORT

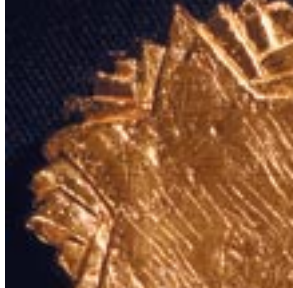


Rev. Edward A. Malloy, C.S.C.
President

The spring 2003 semester saw our

Law School mount a distinguished lecture series, *Legislating Corporate Ethics* — this in the wake of recent corporate scandals, of which Enron and WorldCom were only the most notorious. Such scandals, compounded by the resonant effects of war and violence in the Middle East, by personal scandals in the Church, and by the continuing tensions and psychological

reverberations following September 11, 2001, have shaken American confidence in areas we had thought inviolate: our shared ethical and professional values, our liberties, and our security from foreign enemy invasions.



enrich

scholarship through interdisciplinary collaboration

Appropriately for a university, we are confronting these issues head-on, and it strikes me as particularly fitting that our Law School responded to the series of corporate crises in a visible way. While modern democracies have endeavored to maintain separation of church and state, law is never far from the heart of religion. From biblical times, it has been bedrock to civilized society and to civilized behavior. The finer points may be debated, but the context and prime mover for both religious and secular law is the same — justice, integrity, and compassion — that sense of a “higher law” written in the human heart.

During the course of the semester we brought to campus seven distinguished legal scholars from across the country — from Duke, Columbia, Stanford, Illinois, and Boston universities — to focus on legislative responses to the well-publicized scandals and, in particular, on efforts by Congress and other regulators to prescribe ethical norms for corporate managers and their professional advisors.

Apart from taking a prominent role on an issue of national concern that could influence public policy, such a lecture series serves a more immediate, academic purpose by casting its net toward specific, fine-focused pools of scholarship, sounding the depths of jurisprudence and ethics, and providing opportunities for our students and faculty to engage in discourse with expert scholars and practitioners in areas of current juridical preoccupation. The benefits accrue then in multidirectional ways.

Our Law School of course is not an island. It collaborates and shares faculty with other University entities — with the Joan B. Kroc Institute for International Peace Studies, for example — and with other law schools. At any given time, some 20 percent of our faculty are away on academic leave in order to focus energies on research or to take up visiting appointments at other institutions, which means that we have a commensurate number of visiting faculty here at Notre Dame, a situation that enriches the learning experience of our students and ensures a continuous flow of diverse ideas and perspectives.



These procedures extend to all areas of academic life, across the four colleges and into the research institutes and centers, which thrive on faculty exchange programs, visiting lecture series, and symposia that enlist diverse perspectives from the wide universe of ideas. Our success in any academic discipline is measured by our ability to extend teaching beyond the classroom and to enrich scholarship through interdisciplinary collaboration. The enterprise and the environment flourish when we bring to campus scientists, poets, corporate scholars, jurists, philosophers, theologians, and engineers. Many of these renowned scholars, I am delighted to say, are members of our own faculty; several hold joint appointments, here at Notre Dame and at leading universities abroad. All are deeply engaged in both teaching and research.

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Reviewing the past academic and fiscal year at Notre Dame, one is struck by the variety of activities through which the University advanced its educational mission. The range of these activities is a good indicator of the rich diversity of the Notre Dame experience and of the University's vigorous engagement in the nation's intellectual life. If one bears in mind that all of it is a connected process, that no single achievement happens on its own without the resources and inspiration of others, we may divide the year's accomplishments into three categories — **institutional**, **students**, and **faculty**. This year's report highlights many of these achievements, several of which deserve special mention:





institutional

► The Economist Intelligence Unit, an affiliate of the London-based publication *The Economist*, ranked Notre Dame's MBA program 18th in the world, noting that the Mendoza College of Business "has emerged from comparative obscurity to become one of the hottest business schools in North America."

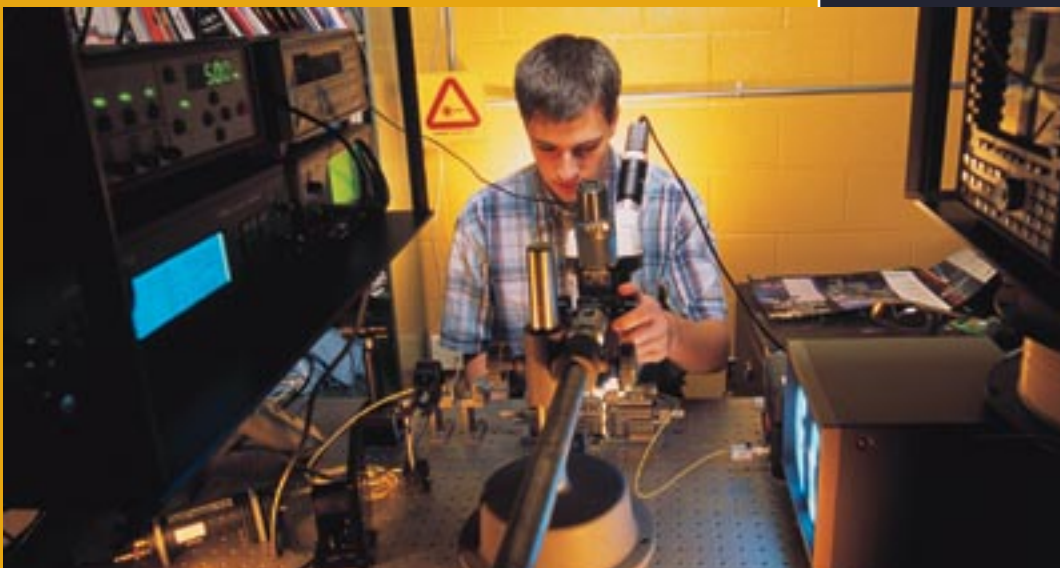
► In the fall of 2002, the University received a *USA Today*/NCAA Academic Achievement Award for graduating 90 percent of its freshman student-athletes who enrolled in 1995. The second annual awards were presented to the 10 institutions with the highest overall graduation rates for scholarship student-athletes who began college in the 1995-96 academic year.

► Among the numerous research grants received during the year (\$70 million in fiscal year 2003), Notre Dame was the recipient of several competitive grants including a \$5-million multi-year award from the Department of Defense's Multidisciplinary University Research Initiative (MURI) program. One of only 16 institutions to receive a MURI grant this year, the Notre Dame-led team is collaborating with faculty at the University of California-Berkeley and Harvard University.

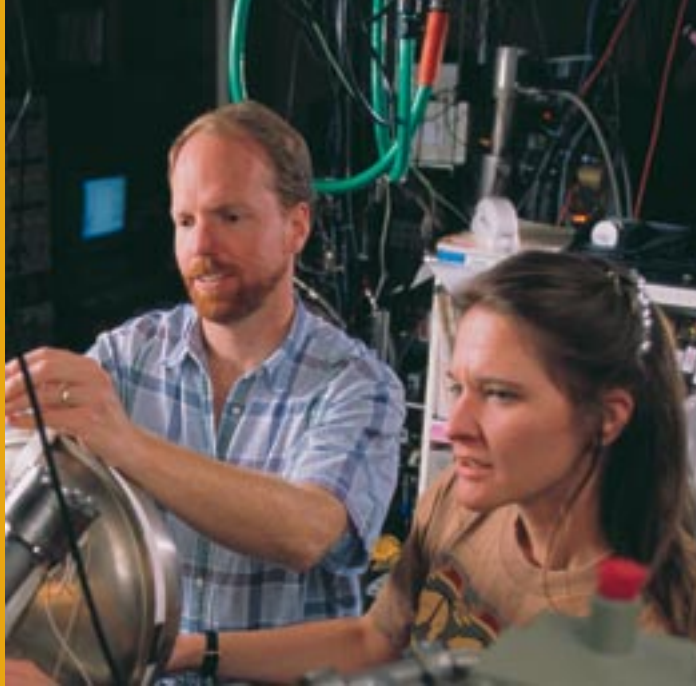
► By mid-year Notre Dame had received more than 12,000 applications for admission for the Class of 2007, a record number. The previous high had been 10,051 applications for the class that entered in August 2000. These numbers perhaps reflect Notre Dame's ranking among the top 10 "dream schools" in a survey released last March by the *Princeton Review*. With foreign studies programs in 17 nations, Notre Dame also has among the highest percentage of students participating in study abroad programs among American research universities.

students

Dane Wheeler



Year after year Notre Dame is blessed with highly talented students. They arrive on campus with energy, motivation, and creative gifts that ensure a lively educational experience and an exceptional vibrancy in the daily give-and-take of intellectual discussion. Especially noteworthy are:



Dennis Jacobs

faculty

► At the beginning of the last academic year, the American Council of Learned Societies awarded five 2002-03 fellowships to Notre Dame faculty members — the most for any college or university in the nation. Founded in 1919, the society is a prestigious federation of national scholarly organizations that advance research in the humanities and social sciences.

► During the year, three faculty members received research fellowships from the National Endowment for the Humanities (NEH), bringing to 16 the number of NEH fellowships awarded to Notre Dame over the past four years, again more than any other university in the nation. Two of our faculty members received Fulbright Scholar Awards from the U.S. Department of State and the J. William Fulbright Foreign Scholarship Board.

► While other faculty members received national awards in physics, mathematics, theology, aerospace and mechanical engineering, history, and sociology, one in particular stands out: Dennis Jacobs, professor of chemistry, who was named U.S. Professor of the Year for research and doctoral universities by the Council for Advancement and Support of Education and the Carnegie Foundation for the Advancement of Teaching.

► Andrew C. Serazin, a senior biology major, was one of 32 students in the country to be named a Rhodes Scholar. The 14th Rhodes Scholar in Notre Dame's history, Serazin was selected from among 981 applicants. He was also the recipient of a 2002-03 Goldwater Scholarship, the premier undergraduate award of its type in the fields of mathematics, the natural sciences, and engineering.

► Dane Wheeler, an electrical engineering major, won the prestigious national Intel Research Award Contest for Undergraduate Students. Wheeler was one of only 20 students nationwide who were invited in 2002 to participate in the contest, and he came away with the \$5,000 first prize at the event. In the fall of 2003, he intends to pursue his doctorate in engineering here at Notre Dame.

► Luke McLaurin, an Italian studies and philosophy major, received one of only 43 Jack Kent Cooke Graduate Scholarships awarded nationally. The scholarships provide up to \$50,000 annually for graduate or professional studies. Recipients were selected from a pool of 842 applicants.

► Jennifer Randazzo was named the Gilder Lehrman History Scholar by the Gilder Lehrman Institute of American History in New York during her junior year. Randazzo was one of 12 students selected from a pool of more than 400 candidates nationwide.



Such lists, by their brief mention, inevitably omit much more than they include and in a sense draw attention away from the achievements of many others who earn awards and honors and distinctions — students who exert their scholarly energies with enough devotion to make the dean’s list, for example, and faculty who ply their intellectual trade both diligently and often in relative obscurity — who altogether comprise a vibrant academic community.

Sometimes, too, such lists understate the largess of our benefactors. The corporate ethics lecture series I mentioned at the outset was made possible by the generosity of two alumni, Robert T. and Therese Darin Palmer. Thus, the notion that all of our achievements are of a piece, that we are connected and in fact do our best work with the support of others and often in collaboration with others, reinforces the idea that education is very much a living and mystical process — living in its human interplay and mystical in its pointed energies toward discovering truth.

These are not merely areas of interest for Notre Dame, they are our home territory, the sense of place that defines us intellectually and morally and situates us historically as a force that is both academic and spiritual.

— *Rev. Edward A. Malloy, C.S.C.*





a force

that is both
academic and spiritual

Statistical Highlights

ACADEMIC YEARS ENDED JUNE 30

	1999	2000	2001	2002	2003
STUDENTS					
Undergraduate	7,875	8,014	8,038	8,208	8,261
Graduate and professional	2,426	2,640	2,762	2,846	3,050
Total fall enrollment	10,301	10,654	10,800	11,054	11,311
UNDERGRADUATE ADMISSIONS					
Applications	8,578	10,010	10,051	9,378	9,744
Offers of admission	3,586	3,500	3,442	3,338	3,336
Enrolled	1,940	1,971	1,958	2,036	1,946
Selectivity ratio	41.8%	35.0%	34.2%	35.6%	34.2%
Matriculation ratio	54.1%	56.3%	56.9%	61.0%	58.3%
DEGREES CONFERRED					
Baccalaureate	1,920	2,001	1,954	1,985	2,111
Master's	504	560	701	725	841
First professional	181	182	203	180	188
Doctoral	135	147	132	116	135
Total degrees conferred	2,740	2,890	2,990	3,006	3,275
UNDERGRADUATE TUITION RATE					
	\$20,900	\$22,030	\$23,180	\$24,320	\$25,510
Percent increase over prior year	5.6%	5.4%	5.2%	4.9%	4.9%



Academic leadership is a tricky thing. Most academics do not aspire to administrative leadership, nor define success by administrative achievement. Research and teaching requires monk-like concentration and focus; administration requires multi-tasking and quick decisions. Teachers are rewarded for understanding deeply, avoiding distraction; administrators for moving fast, responding to many people, solving a large set of problems. Research is an exercise in letting a few things monopolize your thought; leading an academic unit requires that no one thing absorbs your concentration. Most scholars attack their work individually; academic leaders must give attention to listening and to delegation.

Yet, gifted leaders are important, even indispensable, for colleges and universities, however difficult they are to find and nurture. Max De Pree has said that the first responsibility of a leader is to define reality. What constitutes success in the academy? It is not really the financial bottom line, although that is important.



Nathan O. Hatch, Ph.D.
Provost

Is it the well-being of the faculty? Is it a culture of innovation and change? Is it a continual striving for excellence? Is it a continual process of evaluation and benchmarking, a striving to identify best practices and performance indicators to better assess our own programs and practices? Given the array of definitions for success, an academic leader must exercise great judgment in setting a course collaboratively and finding ways to move the enterprise forward.

Perhaps the most critical level of leadership within the academy is that of the department chair. This is not a caretaker position, but is critical to the well-being of the department and a college. The

decisions made at the department-chair level can shape a department for a generation or more.



Department chairs are critical positions for at least three reasons: First, higher education has tremendous inertia. “Absent a strong drive for change, most institutions stay more or less the way they are: stable, competitive at their level, but unlikely to move dramatically without significant and unusual impetus” (*The Top American Research Universities, The Center*, University of Florida, 2000). Universities tend to replicate themselves. Perhaps the greatest challenge for leadership, particularly at the department-chair level, is to seek out and hire those who will take the department to the next level of excellence, people better than ourselves.

Second, academic leaders must execute by persuasion, building coalitions from faculty colleagues who are wonderfully diverse, strong-minded, and committed to faculty governance. There are powerful centrifugal forces pulling contemporary academic life toward the periphery, toward pluralism, toward different points of view. Within most academic departments different fields and different methodologies vie for attention. Moving in a coherent direction requires great vision and diplomatic skill.

Third, a good chair must keep open clear channels of communication with other departments and scholars. Attracting and developing faculty requires knowing where the best faculty candidates are trained and what methodologies they are using. Internal demands often make this external focus difficult, but it is essential if a given academic unit is to play a role in the broader world of academic discourse.

I am tremendously grateful for the quality of academic leaders who have agreed to serve Notre Dame. In recent years we have invested a great deal of time recruiting outstanding leaders and in thinking together about the art of academic leadership. What is most rewarding is seeing a talented chair or dean build a culture in which faculty and students prosper and learning becomes infectious. That may be the true measure of success in the academy after all.

— *Nathan O. Hatch*

the language of collaboration



DAYLE SEIDENSPINNER - NÚÑEZ
CHAIR, ROMANCE LANGUAGES AND LITERATURES

I

t's 8:00 p.m., and the night custodian in O'Shaughnessy makes her rounds while **Dayle Seidenspinner-Núñez** plans for her next department council meeting with the faculty of Romance Languages and Literatures. It's a typical workday for Núñez — and, she says, for chairpersons in general. "We're not figureheads. It does require a lot of time; it's very much a working position." She adds, with a smile, "I've been on a first-name basis with the custodian here for a very long time."

Although many of her responsibilities as chair demand this type of solitary focus, Núñez prefers collaboration. It's a style that puts the stamp of success on her leadership. "My tendency is to look for solutions that acknowledge the complexity of a problem," she says. "In a department, the only way you can do that is through dialogue."

But in a department formed around a diverse range of languages and cultures (French, Italian, Portuguese, and Spanish), academic conversation can all too easily become an ivory Tower of Babel. It's a communications challenge faced by many colleges and universities, as Núñez knows: "I've seen departments of Romance languages fall apart because of the political and cultural tensions."

And she almost saw it happen at Notre Dame. "When I came in as chair, the department was considering breaking up. Our subsequent discussions revealed a feeling of lack of self-determination." In response, Núñez restructured the department to give the faculty some "space" — the freedom to exercise their own self-governance.

This change helped to highlight the department's need to balance expressions of identity with a new competence in developing relationships. For many, this meant starting from the ground up. "We used to get together as a department only to discuss very controversial issues, ones that would ultimately tear us apart, like hiring or budget decisions," Núñez says. "We had never had monthly department meetings that would cultivate a common ground, vision, and purpose."

Under Núñez's leadership, the department has moved beyond politics and discontent to build stronger, more productive relationships — both internally and with other University groups. "We're asserting linkages with other departments and institutes, and we have a new Ph.D. in literature."

When asked why Romance Languages has been able to overcome its differences, Núñez responds, "I think the common ground that Notre Dame offers, of clearly defined Catholic values — in the sense of being universal and expressing diversity — provides solutions to those challenges. The sense of community here is something you can't get in a public university."

And she's experienced that difference firsthand. Núñez obtained both her undergraduate and graduate degrees from the University of California-Berkeley and received a Ph.D. with distinction from Stanford. She served as the chair of the Department of Spanish and Portuguese at the University of California-Irvine. "It was very different," she says. "You come across academic politics in any university setting, but when people disagree here [at Notre Dame], they do so against a backdrop of shared values. The degree of civility that pervades relationships and interaction here is very attractive. The ethical bar is set so high, it makes everybody do their best."

Next year is Núñez's last year as chairperson, but she's confident that Romance Languages will continue its success without her. "It's counterproductive to become dependent on a personality," she says. "The mark of a good leader is to contribute to the development of the faculty, which is a benefit of collaboration — cultivating leadership. The measure of successful leadership is how easily you can step out. If they can continue on without you, you've done your job."

the academic voice of faith



JOHN CAVADINI
CHAIR, THEOLOGY



When you send **John Cavadini** an e-mail, don't address him as "Father Cavadini."

Chair of the Theology Department, Cavadini is a lay professor, but many people mistakenly assume that because of his role in the department, he must be a priest. As chairperson, his unique perspective perhaps gives him insight into the relationship between the secular and the religious in matters of departmental and institutional identity. He understands how important theology can be in a nonsecular institution, especially in a world where theology departments

are no longer staples of colleges and universities. He believes that "there's a certain special character to a theology department," and — especially at Notre Dame — a related responsibility.

Cavadini links the special imperative of theology closely to the overall goals of the University, particularly in the way that theology offers the various disciplines a unifying intellectual conversation in an age where the search for truth can fragment into separate conversations which do not share an ultimate goal. He says, "Colleagues trained in the various disciplines employ a variety of methodologies looking for different truths. There is no way to account for the unity of these truths beyond each discipline apart from theology, which claims that if the University is a place where people seek the truth, ultimately they're seeking God."

Theology is the nexus of synergy in the Catholic tradition, and the department's leadership must balance its academic goals with the fulfillment of the Church's needs. Bridging the two worlds — especially in a department that is ranked so highly — takes energy, time, and sensitivity. In meeting these demands, Cavadini is uncompromising.

Notre Dame's Theology Department is a large one, with more than 50 faculty. The department has succeeded in its efforts to recruit stellar faculty because, according to faculty member Lawrence Cunningham, Cavadini promotes Notre Dame not as *a* place to work, but *the* place to work.

And it's also a fertile place to grow. The department's faculty galvanizes students to learn through a wide range of initiatives: one-credit evening courses for undergraduates deepen their knowledge of the Catholic faith; a strong mentoring program benefits doctoral candidates; and numerous conferences create a forum in which other internationally respected theologians join the conversations of Notre Dame's faculty.

In cultivating these efforts, Cavadini's personal vision of leadership emphasizes the faculty as the source of the department's vitality. "It is a great privilege to be surrounded by people one admires." He considers it his job to foster a professional culture that nurtures and honors their accomplishments in scholarship and in teaching.

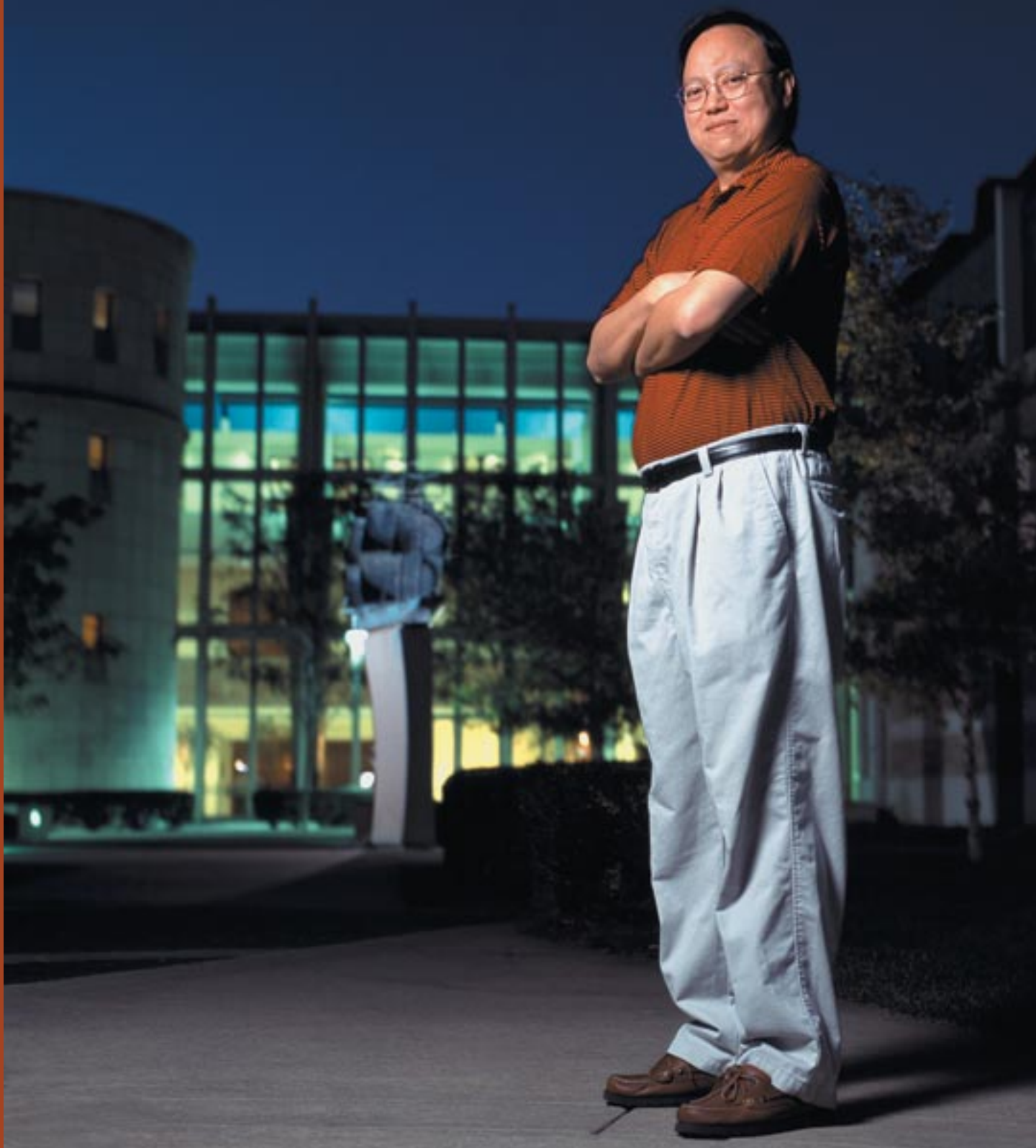
Cavadini also works to fulfill the University's mission in another role — as the director of the Institute for Church Life. He characterizes the institute as like "a function machine in a math textbook: You put the University in, and it comes out in user-friendly forms for non-academic Church leadership." Founded by Rev. Theodore M. Hesburgh, C.S.C., the institute plays a leadership role in the life of the Church by nurturing best practices in parish life and catechetical leadership, organizing conferences, providing scholarships, and even administering a theological distance-learning program. The institute recently took up the call by bishops to solidarity with the African Church on the part of the U.S. Church with an international conference, "In Solidarity with Africa."

Despite the heavy workload generated by these responsibilities, Cavadini's colleagues consider him to be "very generous with his time." He is asked to serve on many University committees because of his reliability. As is the case with other chairs, he has traded dedication to his own research for the opportunity to support and encourage the work of others.

Cavadini believes that the contribution his department makes to the University is a microcosm of the distinctive identity that reflects the challenges and opportunities of building a Catholic university.

In a society that often seems to have lost a taste for the richness of the Wisdom tradition of "faith seeking understanding," an academic voice of faith like Cavadini's and his colleagues' bears a distinct witness in higher education, and ultimately, in the world.

market value and market values



ROGER HUANG
CHAIR, FINANCE



ften associated with greed and the bottom line, “the market” seems an unlikely partner for inspiration or high ideals. But to **Roger Huang**, chair of the Department of Finance, the study of markets fits into a Catholic system very well. “Finance teaches people about markets, which are nothing more than the collective decisions of individuals. In order to make the market function, individuals must have certain values. The market system has to be composed of people who make it fair and efficient. Hopefully the students who graduate from the Mendoza College of Business would be infused with Catholic values, and they’ll be shaping the market with those values.”

Named the Kenneth R. Meyer Chair in Global Investment Management and chair of the Department of Finance in 2000, Huang came to Notre Dame from Vanderbilt University, where he had accumulated a long list of teaching awards. Reflecting his own values in the mirror of the market he hopes to shape, Huang’s decision to come to Notre Dame was not simply the result of what *he* wanted to do. First, he asked himself, “Do *they* need *me* here?”

Huang’s fundamental personal mission to “give back” is consonant with Catholic ideas about service in leadership. He believes, firmly, that work for the common good requires good business sense. “As Catholics, we run hospitals and homeless shelters and all those sorts of things. To sustain these operations requires a lot of business acumen. I have benefited from these activities myself personally, and I ended up in a position where I could give back to the Church.”

Huang’s stewardship of the department began with this concept of offering service. “I thought I could make some contributions, and the best way to make this a top-notch finance department here would be to volunteer as a department chairperson.”

For Huang, the primary role of a chair is to bring out success in others. “As a chairperson, you don’t get blocks of time to do your own research. You take more pride in the success of other people getting their work done and in seeing your colleagues succeed, because you are able to assist them with administrative responsibilities allowing more time for their own research.”

Faculty in Huang’s department say that he respects each of them, values their time, and has helped to advance the department’s external reputation during his tenure. And although polls indicate that only half of all American workers believe their executives have high integrity, members of the Department of Finance are squarely behind their chairperson.

Despite his personal humility, Huang’s academic background is anything but humble. He earned a bachelor of science in industrial management from Purdue and both his master’s and doctoral degrees in finance from The Wharton School. In addition to his work at Vanderbilt, he has held visiting appointments at many universities, including the Australian National University, Cornell University, the Chinese University of Hong Kong, Hong Kong University, the London School of Economics, and Massachusetts Institute of Technology.

To Huang, Notre Dame’s integration of Catholic values with excellence differentiates it from these other universities. “Some people say that we are a religious school and have more heart — and therefore should not be as hung up on being excellent. Personally, I don’t buy that. Catholicism is not an excuse for mediocrity. We can always measure how we are doing by comparing ourselves to the market standards, and to move away from the market is to become irrelevant to society. It is perfectly consistent with Catholic values to use the market as a benchmark.”

And with that statement, the relationship between market value and market values — in a Notre Dame context — becomes easier to understand.



JANUARY



FEBRUARY



MARCH



APRIL

UNIVERSITY NEWS

- ▶ In anticipation of the opening in 2004 of the Marie P. DeBartolo Center for the Performing Arts, a new advisory council is established. Members include film directors Sydney Pollack and Martin Scorsese and actresses Catherine Hicks and Susan St. James.
- ▶ The Mendoza College of Business receives its highest rankings ever in the influential surveys conducted by *BusinessWeek* and *U.S. News & World Report*.
- ▶ In response to the sexual abuse scandal afflicting the Catholic Church, Notre Dame takes a leadership role through the sponsorship of a conference on campus titled "Restoring Trust: Perspectives After Dallas."
- ▶ Students, faculty, and staff gather at the library reflecting pool for a Mass in commemoration of the first anniversary of the September 11, 2001, terrorist attacks on the United States.
- ▶ The Board of Trustees realigns the University financial management, separating the responsibilities of the vice president for finance and chief investment officer into two officer positions. Scott Malpass becomes vice president and chief investment officer, and John Sejdinaj is elected vice president for finance.
- ▶ The Hallmark Channel begins a weekly live telecast of the 10 a.m. Sunday Mass in the Basilica of the Sacred Heart.
- ▶ J. Roberto Gutiérrez, a television executive from San Antonio, Texas, is elected vice president for public affairs and communication.
- ▶ The undergraduate accountancy program remains fourth nationally and the graduate program moves up to fifth in an annual survey of academic quality conducted by the industry newsletter, *Public Accounting Report*.
- ▶ Notre Dame has the highest percentage of students participating in study abroad programs in 2002 among American research universities, according to a report by the Institute of International Education.
- ▶ The Eck Notre Dame Visitors' Center celebrates its 1 millionth visitor in just its third year of operation.

- ▶ "The Shirt" project, an annual tradition that unites Fighting Irish football fans, is a record-setting success, netting more than \$300,000 for student organizations and assistance programs through the sale of some 130,000 kelly green shirts.
- ▶ The School of Architecture presents its inaugural Richard H. Driehaus Prize for Classical Architecture to world-renowned practitioner, theorist, and teacher Léon Krier.
- ▶ The 30th anniversary of coeducation on campus is marked at Commencement with a special presentation and tribute to women.
- ▶ A *Princeton Review* survey of college applicants ranks Notre Dame eighth in a listing of "dream schools," along with Stanford, New York University, Harvard, Princeton, Yale, Duke, Columbia, Brown, and MIT.
- ▶ A new book, titled *Educating Citizens: Preparing America's Undergraduates for Lives of Moral and Civic Responsibility*, cites Notre Dame as one of 12 universities that demonstrate a deep commitment to social concerns in their educational programs.
- ▶ The University's 158th Commencement exercises feature Sen. Richard Lugar of Indiana as the principal speaker and Peter and Margaret O'Brien Steinfelds as recipients of the Laetare Medal.
- ▶ Sen. John McCain of Arizona is the guest on a live broadcast on campus of the MSNBC television program *Hardball with Chris Matthews*.
- ▶ The Center for Social Concerns celebrates its 20th anniversary.
- ▶ The General Electric Company selects Lee Svete, director of the Career Center, and his staff as the inaugural recipients of its GE Partnership Award.
- ▶ Rev. Peter A. Jarret, C.S.C., is appointed counselor to Notre Dame's president, Rev. Edward A. Malloy, C.S.C.

FACULTY

- ▶ Nathan Hatch, provost, appoints Michael Lykoudis chair of the School of Architecture.
- ▶ Chemist Dennis Jacobs is named the U.S. Professor of the Year for research and doctoral universities by the Council for Advancement and Support of Education and the Carnegie Foundation for the Advancement of Teaching.
- ▶ Astronomer Terrence Rettig, professor of physics, and doctoral candidate Sean Brittain announce findings that may shed new light on how gas giant planets, such as Jupiter and Saturn, are formed.
- ▶ Political scientist George Lopez and colleague David Cortright publish a new book titled *Sanctions and the Search for Security: Challenges to UN Action*.
- ▶ A study by finance chair Roger Huang shows that, contrary to conventional wisdom, the expanded use of electronic communications networks to bypass NASDAQ market makers does not result in market fragmentation.
- ▶ Rowman & Littlefield Publishers releases *Border of Death, Valley of Life: An Immigrant Journey of Heart and Spirit* by Rev. Daniel G. Groody, C.S.C., assistant professor of theology and associate director of the Institute for Latino Studies.
- ▶ Researchers in the Center for Environmental Science and Technology receive a grant from the American Chemical Society to support their continuing study of roadside contamination by catalytic converters.
- ▶ Sociologist Daniel Myers examines the challenges facing American cities in a new book titled *Toward a More Perfect Union: The Governance of Metropolitan America*.
- ▶ Susan Blum in anthropology and Lionel Jensen in East Asian languages and literatures explore contemporary Chinese culture in a book titled *China off Center: Mapping the Margins of the Middle Kingdom*.
- ▶ Sociologist David Yamane is the editor of *Goodbye Father: The Celibate Male Priesthood and the Future of the Catholic Church*, a book written by the late Richard Schoenherr that examines the shortage of priests and the question of male, celibate exclusivity in eligibility for the priesthood.
- ▶ Biologist David Lodge and former Notre Dame doctoral student Cynthia Kollar collaborate on a study published in the journal *Science* that suggests a method of identifying invasive species that are likely to become nuisances if introduced into the Great Lakes.
- ▶ Kristin Shrader-Frechette, a pioneering leader in the fields of quantitative risk assessment and environmental ethics, publishes a new book titled *Environmental Justice: Creating Equity, Reclaiming Democracy*.
- ▶ Crislyn D'Souza-Schorey, assistant professor of biological sciences, leads a research team that publishes a study providing new insight into the initial events that lead cancer cells to detach and migrate to other parts of the body.
- ▶ Elliot D. Rosen and colleagues in Notre Dame's W.M. Keck Center for Transgene Research develop a novel cellular transplantation technique that may alleviate immune responses complicating treatments for hemophiliacs.
- ▶ *Design of Aircraft*, a new book by Thomas C. Corke, the Clark Equipment Professor of Engineering, demonstrates how theoretical aspects of airplane aerodynamics, aircraft structures, stability and control, propulsion, and compressible flows can be applied to produce new conceptual aircraft designs.
- ▶ Chemistry professor Richard Taylor and doctoral candidate Yue Chen report in the *Journal of the American Chemical Society* on findings that may assist in the design of new anti-cancer agents.
- ▶ Palgrave Macmillan publishes a new book by anthropologist Victoria Sanford titled *Buried Secrets: Truth and Human Rights in Guatemala*.
- ▶ After spending 18 months leading the Treasury Department's worldwide hunt for financiers of terrorism, Jimmy Gurulé, professor of law, returns to his position at Notre Dame.



MAY



JUNE



JULY



AUGUST

FACULTY

- ▶ James Seida, assistant professor of accountancy, is called on by the Senate Finance Committee to provide testimony on an investigative report into Enron Corporation's use of tax dollars.
- ▶ In conjunction with the 200th anniversary of the expedition by Captains Meriwether Lewis and William Clark, historian Thomas Slaughter publishes a new book on their exploration of the American West. Titled *Exploring Lewis and Clark: Reflections on Men and Wilderness*, the book goes beyond the traditional narratives of the journey to examine the perspectives, prejudices, and motivations of the explorers.
- ▶ Astrophysicist Peter Garnavich is part of a team of scientists that closely monitored the nearest and brightest gamma-ray burst on record and detected the supernova that appears to have caused it — the first direct evidence linking these two types of explosions.
- ▶ Historian Doris Bergen publishes *War and Genocide: A Concise History of the Holocaust*.
- ▶ English professor and chair Chris R. Vanden Bossche edits a collection of essays by Thomas Carlyle, the renowned 19th-century essayist and social critic.
- ▶ Patrick Murphy, the C.R. Smith Director of the Institute for Ethical Business Worldwide, is appointed to a three-year fellowship with the Ethics Resource Center in Washington, D.C.
- ▶ Duke University Press publishes *Beyond the Color Line and the Iron Curtain: Reading Encounters Between Black and Red, 1922-63*, a book by Kate Baldwin, assistant professor of English, that examines the influence of the Soviet Union on the work of four major African-American authors.
- ▶ Political scientist and law professor Donald Kommers testifies before the Senate on the reconstruction of constitutional government in Germany and its pertinence to contemporary Iraq.
- ▶ Historian John McGreevy receives critical acclaim nationwide for his new book, *Catholicism and American Freedom: A History*.

- ▶ The American Council of Learned Societies awards fellowships to Notre Dame faculty members W. Martin Bloomer, Li Guo, Jessica Chalmers, Sotirios Barber, and David Aune. The University receives more fellowships than any other school in the nation.
- ▶ Ahsan Kareem, the Robert M. Moran Professor of Civil Engineering and Geological Sciences, receives the Jack E. Cermak Medal for outstanding contributions to research and practice in wind engineering.
- ▶ Rev. Virgilio Elizondo, visiting professor for the Institute for Latino Studies and theology, receives a Hispanic Heritage Award.
- ▶ The American Cancer Society provides biologist Edward Hinchcliffe with a \$700,000 Research Scholar Award for his work on the centrosome.
- ▶ Notre Dame's president, Rev. Edward A. Malloy, C.S.C., receives his 14th and 15th honorary degrees from Gannon University and St. Leo University, respectively.
- ▶ An article by *Notre Dame Magazine* editor Kerry Temple titled "The Cairn Builder" is selected as one of the outstanding essays of the year in a collection published by Houghton Mifflin Company.
- ▶ Kathleen Biddick in history and Robert C. Nelson in aerospace and mechanical engineering receive Fulbright Scholar grants for 2002-03.
- ▶ Physicist Michael C. Wiescher is awarded the Hans A. Bethe Prize by the American Physical Society for outstanding work in theory, experiment, or observation in the areas of astrophysics, nuclear physics, or closely related fields.
- ▶ Three faculty members — Donald Crafton, John Duffy, and Meredith Gill — receive research fellowships from the National Endowment for the Humanities (NEH) for 2003, bringing to 16 the number of NEH fellowships awarded to Notre Dame the past four years, more than to any other university in the nation.

HONORS

- ▶ *Reconfiguring Modernity: Concepts of Nature in Japanese Political Ideology*, by historian Julia Adeney Thomas, is honored as the best book on Asian history for 2002 by the American Historical Association.
- ▶ *Ireland's Others: Gender and Ethnicity in Irish Popular Culture*, a book written by Elizabeth Butler Cullingford and published by Notre Dame Press, is awarded the Robert Rhodes Prize for Books on Literature by the American Conference for Irish Studies.
- ▶ Boldizsár Jankó, assistant professor of physics, is awarded an Alfred P. Sloan Research Fellowship, presented to young scientists who show outstanding promise of making fundamental contributions to new knowledge in the fields of chemistry, physics, mathematics, computer science, economics, and neuroscience.
- ▶ Blake Leyerle and Randall C. Zachman, both associate professors of theology, are named Henry Luce III Fellows in Theology for 2003-04 by the Luce Foundation and the Association of Theological Schools in the United States and Canada.
- ▶ Guillermo A. O'Donnell, the Helen Kellogg Professor of Political Science, receives the Kalman Silvert Award for lifetime contribution to the study of Latin America by the Latin American Studies Association.
- ▶ Carolyn Y. Woo, the Martin J. Gillen Dean and the Ray and Milann Siegfried Professor of Management in the Mendoza College of Business, is the principal speaker and receives an honorary degree at the University of Saint Francis commencement exercises.
- ▶ Philosopher Philip Quinn is elected to the American Academy of Arts and Sciences, the nation's leading learned society.
- ▶ Kathleen Collins, assistant professor of political science, is among 13 scholars from American universities and research institutions named a 2003 Carnegie Scholar by the Carnegie Corporation of New York.
- ▶ Meredith Gill in art history and Susan Youens in music are among 41 fellows chosen by the National Humanities Center for the 2003-04 academic year.
- ▶ Robert E. Norton, professor and chair of German and Russian languages and literatures, is awarded the Jacques Barzun Prize in Cultural History by the American Philosophical Society for his recent book *Secret Germany*. The prize is awarded annually to an author whose book exhibits distinguished work in American or European cultural history.
- ▶ The American Institute of Aeronautics and Astronautics presents the Aerodynamics Award to Thomas J. Mueller, the Roth-Gibson Professor of Aerospace and Mechanical Engineering, for meritorious achievement in the field of applied aerodynamics.
- ▶ The Research Corporation of Tucson, Arizona, selects physicist Michael Hildreth as one of 12 Cottrell Scholars. The award is made to further the teaching and research of junior faculty members in astronomy, chemistry, and physics.
- ▶ Westminster Theological Seminary presents an honorary degree to historian George Marsden.
- ▶ Martin Haenggi in electrical engineering is one of just 24 young faculty members nationwide to receive a research enhancement award from Oak Ridge Associated Universities.

2002-03

University Highlights



SEPTEMBER



OCTOBER



NOVEMBER



DECEMBER

STUDENTS

- ▶ Andrew C. Serazin of Elyria, Ohio, is one of 32 students in the United States named a Rhodes Scholar. A biology major, he will continue his malaria research at Oxford.
- ▶ Five Notre Dame students — Trevor Smith, Patricia Elias, Christopher German, Virginia Kelly, and Ryan Suarez — are among 49 undergraduates from 25 colleges and universities taking part in the Earth Semester class at the Biosphere 2 Center in Arizona.
- ▶ Notre Dame's Graduate Student Union is named the 2002 Graduate/Professional Student Organization of the Year by the National Association of Graduate-Professional Students.
- ▶ Some 210 students participate in Urban Plunge, spending two days over winter break learning about injustice and poverty in urban areas of the United States.
- ▶ MBA students Kathryn Huang and Megan Vanaelstyn receive the \$5,000 Arthur Page Prize in Corporate Communications for their original study "Wyeth Pharmaceuticals: Premarin, Prempro and Hormone Replacement Therapy."
- ▶ More than 200 students spend spring break immersed in the social problems of the nation, participating in service-learning projects in Appalachia, Washington, Florida, New York City, California, and Toronto, Canada.
- ▶ Mary Murphy, a junior from Lakewood, Ohio, receives the Richard J. Wood Student Community Commitment Award from Indiana Campus Compact.
- ▶ Ryan Kenny, a senior from Billings, Montana, is presented the Marshall Award, a national honor given annually to the outstanding ARMY ROTC cadet at each university where ROTC is offered.
- ▶ The Indiana Collegiate Press Association for the third consecutive year names *Scholastic* and *The Juggler* as the top student-produced publications in the state.
- ▶ Amanda Rothery from Pittsburgh, Pennsylvania, and Scott Schaeffer of Arlington Heights, Illinois, are selected undergraduate fellows by the Foundation for the Defense of Democracies.
- ▶ Dane Wheeler, an electrical engineering major from Osceola, Indiana, wins the prestigious national Intel Research Award Contest. His work involves the creation of transparent, all-optical communications technology that enables switchers and routers to operate at the speed of incoming optical information, thereby eliminating current bottlenecks created by electronic switches.
- ▶ Senior Luke McLaurin receives a Jack Kent Cooke Scholarship for postgraduate work in Italian studies.
- ▶ The Gilder Lehrman Institute of American History names junior Jennifer Randazzo a Gilder Lehrman History Scholar, one of just 12 from a pool of more than 400 candidates nationwide.

ATHLETICS

- ▶ Notre Dame receives a 2002 *USA Today*/NCAA Academic Achievement Award for graduating 90 percent of its freshmen student-athletes who enrolled in 1995. The award is announced in conjunction with the release of the "2002 NCAA Graduation Rate Report," in which Notre Dame's 85 percent rate for all student-athletes ranks fourth in the nation among Division I-A schools.
- ▶ The combined men's and women's fencing team wins the NCAA national championship, the sixth in the program's history.
- ▶ Under first-year coach Tyrone Willingham, the Fighting Irish football team starts the season 8-0. They earn a berth in the Gator Bowl and finish at 10-3.
- ▶ The men's basketball team qualifies for the NCAA tournament for a third straight year and advances to the Sweet 16 for the first time since 1987.
- ▶ The women's cross-country team finishes third in the NCAA championship, the team's best finish ever.
- ▶ Volleyball coach Debbie Brown and former Irish football player Ken MacAfee receive the NCAA's Silver Anniversary Award, presented annually to six former student-athletes who have distinguished themselves since completing their college athletic careers 25 years ago.
- ▶ Irish teams win eight Big East Conference championships in 2002-03 and capture both the men's and women's Commissioner's Trophies for the eighth and seventh consecutive years, respectively.
- ▶ Notre Dame finishes 13th in the NACDA Director's Cup, the third straight year the Irish have ranked in the top 15 of the national all-sports competition.
- ▶ Four student-athletes earn Academic All-America honors, giving Notre Dame 147 in the 42 years the awards have been presented, the second highest total in the country.
- ▶ Senior soccer star Vanessa Pruzinsky compiles a perfect four-year grade point average of 4.0 in chemical engineering and receives the Top Gun Award from the Office of Academic Services for Student-Athletes.
- ▶ John Heisler, associate athletics director for media relations, broadcast properties, and contest scheduling, is inducted into the College Sports Information Directors of America Hall of Fame.

DEVELOPMENT

- ▶ With a \$5 million gift, philanthropist Joan Kroc establishes a scholarship fund within the Joan B. Kroc Institute for International Peace Studies in the name of Notre Dame's President Emeritus, Rev. Theodore M. Hesburgh, C.S.C.
- ▶ A \$3 million gift from prominent South Bend, Indiana, civic leader and philanthropist Judd Leighton establishes a new endowed directorship for DeBartolo Center for the Performing Arts.
- ▶ The Goizueta Foundation of Atlanta awards a \$1.86 million grant to separately establish a new leadership program within the Alliance for Catholic Education and to create a new scholarship fund for Latino students.
- ▶ A grant of more than \$800,000 from the Lilly Endowment, Inc., goes to an ecumenical project sponsored by the University's Institute for Church Life. Another Lilly grant, for more than \$900,000, creates a project designed to facilitate Catholic bishops' efforts to sustain excellence in their ministries by providing opportunities for spiritual and intellectual growth, and encouragement of pastoral imagination and energy.
- ▶ The Lumina Foundation for Education provides two grants totaling more than \$150,000, one in support of a statewide initiative titled the "President's Fund for Student Success in the First and Second Years of College" and another in support of an Alliance for Catholic Education program titled "Fast Forward Enrichment and Mentoring."
- ▶ Daniel G. Reagan is promoted from assistant vice president for University Relations and executive director of development to associate vice president and executive director for principal gifts and campaign administration.

For the sixth consecutive year, Notre Dame has raised more than \$100 million, placing the University among the top 20 private universities in terms of total dollars raised. During fiscal 2003 fund-raising programs garnered \$113.9 million. This total represents a 10 percent decrease from the previous year, in what again proved to be a difficult economic environment.

A more hopeful indicator of support, however, was Notre Dame's participation statistics. Overall, the University received contributions from 59,516 donors. This proved to be a significant increase over fiscal 2002, as 5,785 additional donors came forward representing an increase of 10.8 percent over a year ago. The overall participation rate for all Notre Dame graduates was 47 percent, up by 2.2 percent, while the undergraduate alumni participation rate stood at 50.9 percent — up over last year as well by 2.2 percent, keeping the University among the best in the country in alumni participation.

Each year's total receipts are a combination of outright gifts — that is, gifts made that are not attached to an existing pledge — and pledge payments, or gifts that are a part of an expected multi-year payment program. Critical to the growth of a university's development program is the creation of new pledges and, consequently, an increase in total pledge payments. Said differently, an increased volume of pledges will net increased annual results.

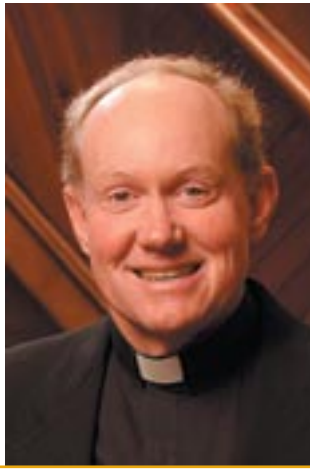
In fiscal 2003 Notre Dame received \$46.6 million in new pledges valued at \$25,000 and above. This was a \$9.2 million increase over the previous year, or a jump of 24.6 percent. Of these pledges, 102 were \$100,000 or greater, 26 more than fiscal 2002. Hopeful signs to be sure, but conversely the University experienced a \$20 million decrease in contributions made through gifts of stock — obviously, a strong indicator of the shifting markets and individual losses experienced by most benefactors to the University.

Another bright spot for the University in such a challenging year was the Notre Dame Annual Fund. Largely responsible for the participation of most Notre Dame alumni, the Annual Fund also drives unrestricted giving to Notre Dame — a precious “commodity” to the overall financial health of any university. In fiscal 2003 Notre Dame received \$19.3 million in unrestricted gifts, up \$1.9 million from the previous year. Driven by continued growth of the Sorin Society and a successfully completed challenge offered by the Lilly Endowment, the Notre Dame Annual Fund raised a total of \$22.6 million, of which \$19.3 million was unrestricted.

Other sources of fund-raising revenue were from the corporate relations program, foundation relations program, planned giving, and law school advancement — each of these areas responsible for a specific type of giving to the University. In the case of corporate relations, a total of \$14.6 million was received, improving on the previous year's total of \$12.9 million. Given the corporate economic climate, this is a solid number. Foundation relations, which seeks gifts and grants from private, family, and community foundations, posted a record revenue total of \$26.7 million. This represents an increase of some \$2 million over fiscal 2002 and a slightly better result over its previous best of \$26.4 million in fiscal 2001. Planned giving raised just under \$20 million, down from its record year of \$33 million in fiscal 2002. Finally, law school advancement — the University's development effort to raise contributions for the Notre Dame Law School — raised a record \$9.2 million, an increase of \$4.5 million over the previous year.

Despite the volatile economic climate of the past couple of years, the University continues to be blessed by a generous and caring constituency. The charitable support that Notre Dame enjoys is a direct reflection of the commitment of its alumni, parents, and friends, including many corporations and private foundations. As the University aspires to greater heights, it will take the continued involvement and growth of all of these important groups to achieve further greatness.





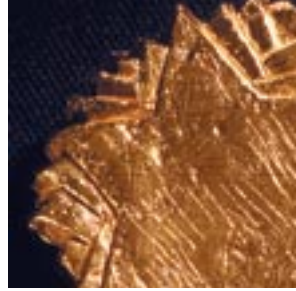
Rev. Timothy R. Scully, C.S.C.
Executive Vice President

The leadership team for Notre Dame's financial and core business operations has talked a lot during the past fiscal year about "stewardship." The word "stewardship" is a mouthful! Webster's says it is "the careful and responsible management of something entrusted to one's care." We think of it fundamentally as a fiduciary responsibility, as the University has been entrusted with financial and other assets provided through the generosity of our loyal and generous donors, the hard-earned tuition dollars of our students and their families, and the carefully awarded grant funding provided by governmental and private sources.

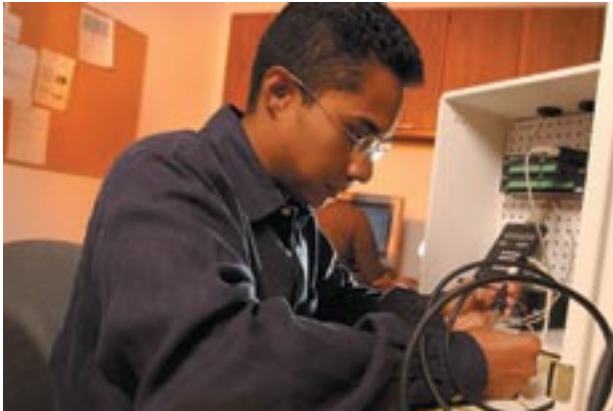
Stewardship has sort of a timeless aspect. We appreciate the legacy of our predecessors as we make decisions today and chart a responsible course for the future. Indeed, Notre Dame has been favored with sound business management over the course of many years. The fiscal acumen of these leaders helped build the solid financial foundation from which the University has been able to grow even as we have dealt over the past few years with the most challenging fiscal environment in a generation.

A telling indicator of the ongoing strength of this foundation, particularly because it is determined by an independent third party with expertise in such matters, is the "Aaa" rating from Moody's Investors Service that the University has enjoyed since it first entered the credit markets over a decade ago.





Being among the few, select institutions in this highest rating category is quite an honor, considering the company Notre Dame keeps — the other large, private institutions in this category are Columbia, Dartmouth, Harvard, MIT, Princeton, Rice, Stanford, and Yale.



Meeting the criteria for this rating does not happen automatically.

It requires, among many other things, a healthy balance sheet, well-controlled use of debt, and auxiliary enterprise support, all of which are carefully monitored with increasing levels of sophistication. Moody's has affirmed Notre Dame's strength in these areas. Maintaining this designation in difficult times often requires difficult decisions. While the economic climate appeared to be improving at the end of the fiscal year, macroeconomic

forces are expected to continue to exert pressures on endowment spending, donor contributions, capital activity, and student financial need into the foreseeable future.

Here again, the timeless aspect of stewardship comes into play. In areas like endowment spending, we speak of intergenerational equity, meaning that the University must meet the needs of today's students, faculty, and staff while also preserving the purchasing power of the endowment for the future. Given the declines in the capital markets of the previous two fiscal years and the downward adjustments institutional investors are making to expected returns going forward, endowment spending was held flat in the budget approved for fiscal 2004, and future increases are likely to be modest at least in the near term.

Fortunately, due to its sound financial base and careful planning, the University was not required to employ some of the drastic measures that some peers unfortunately had to — program cuts, layoffs, wage freezes, or substantial tuition increases. However, certain major construction activities were suspended until adequate donor funding is secured.



Fiscal 2003 Results

The University's overall financial position remained strong in fiscal 2003, aided by a rebound in financial markets. The total investment portfolio of \$3.1 billion at June 30, 2003, reflected a return on the unitized investment pool of approximately 2.4 percent during the year. The University's overall asset base at June 30, 2003, was \$3.97 billion, just slightly less than the \$3.98 billion reported at June 30, 2002. Total net assets at June 30, 2003, were \$3.44 billion, a decrease of approximately \$25 million from June 30, 2002, or less than 1 percent.

During fiscal 2003, unrestricted net assets from operations increased \$18.9 million. Operating revenues increased by 9.4 percent, or \$42.5 million over fiscal 2002, with grants and contracts providing \$10.7 million of the increase, or 21.3 percent more than the prior year, and sales and services of auxiliary enterprises increasing \$10.8 million, or 9.1 percent. Operating expenses increased by 3.1 percent, or \$16.5 million over fiscal 2002.

Temporarily restricted net assets declined by \$33.9 million primarily due to net assets released from donor restrictions of (\$117.3) million. The release of restrictions on net assets provides critical resources for the University's current and future operations. Temporarily restricted contributions of \$45.1 million were received in fiscal 2003, an increase of approximately \$4.0 million from 2002. Permanently restricted net assets increased by \$19.5 million as a result of contributions received for endowment. Capital spending in fiscal 2003 totaled \$69.4 million compared to \$52.6 million the prior year. The University continued to maintain the highest available long-term debt rating, a key indicator of an institution's financial strength and stability.

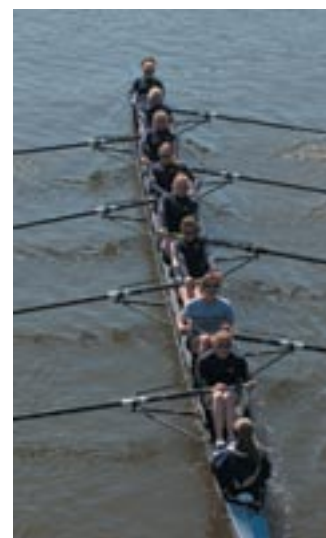


We continued to work hard at cost reduction overall and are pleased with the success of recent initiatives. For example, e-procurement and other improvements in purchasing processes are beginning to produce annual savings. Efforts like these will position the University to hold tuition increases as low as possible, while concurrently understanding the critical role played by tuition revenues in meeting the costs of running

an outstanding university. A number of those costs, in areas like health care and information technology, typically increase at a rate much higher than the general consumer inflation rate.

To assure affordability for a diverse student body, the University's financial aid packages continued their trend of dramatic improvement and today are among the most competitive in higher education. Roughly \$48 million in undergraduate scholarships were awarded by the University in fiscal 2003, compared to \$42 million the prior year, and the University remains committed to minimizing the loan component of aid packages. Notre Dame ranked sixth best among 18 selective private institutions in terms of loan and work requirements for incoming freshmen in 2003.

Financial prudence, of course, is a crucial but not exclusive measure of stewardship. For example, we have thoroughly vetted long-term building plans across many departments to ensure that the very special and renowned campus aesthetic is enjoyed by future generations of students. Another example is grooming leadership for the future. Midway through the year, the functions of the Vice President for Finance and Chief Investment Officer were divided. The time was right to allow Scott Malpass to return to the investment function full time after six years wearing both hats (see the Endowment Review that follows), and as our benchmarking of respected peers indicated, to have separate officer-level leadership devoted to other financial functions. The new position of Vice President for Finance was filled by John Sejdinaj, who was hired by Scott from the banking profession in 1994 and worked closely with Scott since that time, primarily directing daily budgetary and planning matters. Both are passionate about Notre Dame's mission.



Yes, "stewardship" is a mouthful and an immense responsibility. But Notre Dame is a tradition-laden University where the past informs the present, and together they guide the future. With our dedicated leadership and the ongoing blessings of Our Lady, we are confident that the Notre Dame of tomorrow is in a position to fulfill its unique destiny as the world's leading Catholic university.

— *Rev. Timothy R. Scully, C.S.C.*



Summary of Financial Results

[I N T H O U S A N D S]

	Years ended June 30	
	2003	2002
Assets	\$ 3,973,195	\$ 3,975,168
Net assets	\$ 3,436,922	\$ 3,461,754
Decrease in net assets	\$ (24,832)	\$ (371,448)
Operating revenues and other additions	\$ 571,323	\$ 532,305
Operating expenses	\$ 552,463	\$ 535,951
Increase/(Decrease) in unrestricted net assets from operations	\$ 18,860	\$ (3,646)
Market value of endowment and funds functioning as endowment	\$ 2,609,005	\$ 2,605,522
Bonds and notes payable	\$ 252,819	\$ 255,176
Tuition and fees, net of scholarships and fellowships	\$ 186,514	\$ 176,023
Contributions	\$ 89,045	\$ 102,089
Total investment return	\$ 61,710	\$ (300,953)
Sales and services of auxiliary enterprises	\$ 129,050	\$ 118,294
Capital expenditures	\$ 69,375	\$ 52,580





Scott C. Malpass, M.B.A.
Vice President and Chief Investment Officer

The market value of the Notre Dame Endowment at June 30,

2003, net of spending and distributions, increased slightly to \$2.609 billion from \$2.606 billion at the end of the prior fiscal year. Notwithstanding the tumultuous markets of the last three years, the value of the Endowment more than tripled over the previous decade. The nation's finest institutions of higher learning have the largest endowments, and the Notre Dame Endowment ranks 19th in American higher education.

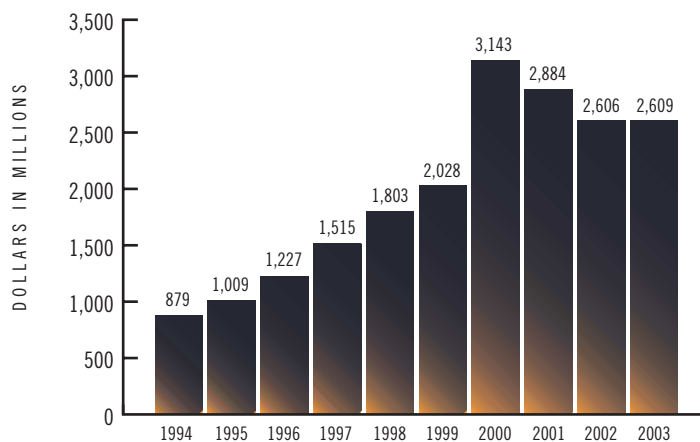
It is the largest endowment at a Catholic institution, significant as the University pursues a leadership role among the top universities in accord with its Catholic character and corresponding distinctive mission.

Net of all investment management charges, the Endowment pool return was 2.4 percent for the fiscal year. The University's Strategic Policy Portfolio, an internal benchmark consisting of a weighted average of various indices representative of the Endowment portfolio, was down (2.6) percent for the year. Indicative of continuing turbulence in global

equity markets, performance of broad market indices like the S&P 500 and MSCI EAFE index for international equities was 0.26 percent and (6.5) percent, respectively.

Endowment Market Value 1994-2003

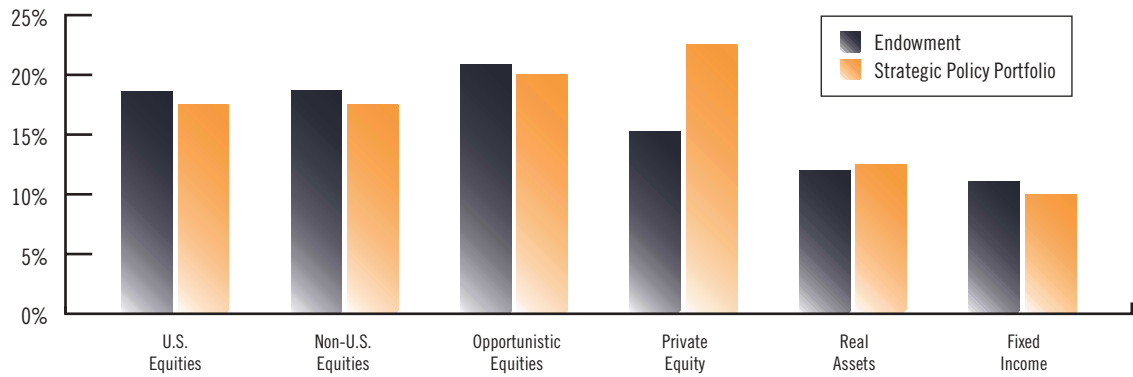
Fiscal Years Ending June 30





Endowment Asset Allocation

June 30, 2003



Domestic and global fixed income, opportunistic equities (various hedge strategies), and real assets were solidly performing asset classes during the year and made significant positive contributions to the overall portfolio return. Public U.S. and international equities, comprising 37.3 percent of the portfolio at year end, rebounded strongly in the June quarter, posting a 20.5 percent return for that period.

Private equity (venture capital and buyouts) also showed signs of a turnaround in the fourth quarter. While venture funds were particularly affected by the market downturn of the past three years, private equity was the top-performing asset class over the past five years and plays a key role in our Endowment management strategy. The carrying amount for these funds is lagged by one quarter while the investment managers value underlying portfolio holdings, and the solid performance of this asset class in the June quarter will be reflected in the reported return for fiscal 2004.

The difficult markets of recent years have reinforced the University's commitment to certain fundamental investment principles. We continue to enhance diversification among asset classes and sub-classes and to pursue new strategies, while maintaining an emphasis on equity interests for long-term growth. We do not attempt to time markets, but seek to add value by identifying market dislocations and inefficiencies — for example, very favorable returns generated during the past year from allocations to distressed securities. Last but certainly not least, the University's internal professional staff employs rigorous manager selection and monitoring processes with a focus on risk management, all with oversight by the Investment Committee of the Board of Trustees.

Endowments are the ultimate long-term investors, and a successful investment management program needs a steady hand to guide it through market cycles and individual market disruptions. The Investment Committee provides such guidance, and I am privileged to note the leadership of the two dedicated Committee chairs I have enjoyed serving in my 15 years as Chief Investment Officer. Robert K. Wilmoth and current Chair John W. Jordan II have tirelessly shared their knowledge of financial markets and overall business wisdom for the benefit of Notre Dame, dialoging extensively with the Investment Office staff and counseling me on countless matters of importance.

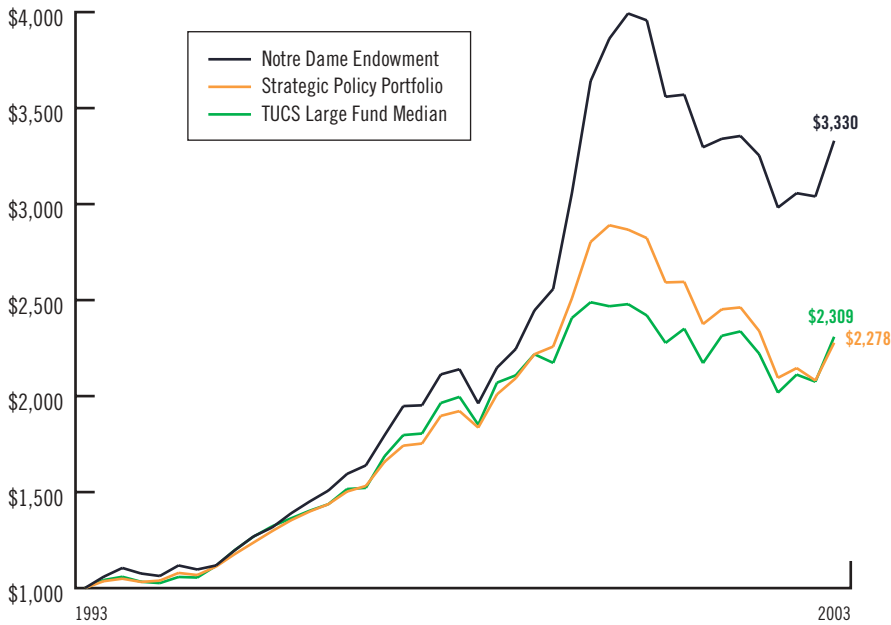


Real Assets

Two asset classes were reconstituted in the past year, with inflation hedge being combined with real estate to form a new real assets class. Components in addition to real estate include energy, inflation-indexed bonds, and commodities. Real assets provide a hedge against inflation, bear a low correlation with financial asset returns to provide diversification, and offer opportunities to add value with leading managers who are able to exploit pricing inefficiencies among these types of assets. Timber and other commodity-related strategies are under consideration for the coming year.

Endowment Investment Performance Profile

Change in Value of \$1,000 Invested July 1, 1993-June 30, 2003*



*A comparison of change in value of a hypothetical \$1,000 investment (assuming no spending distributions).

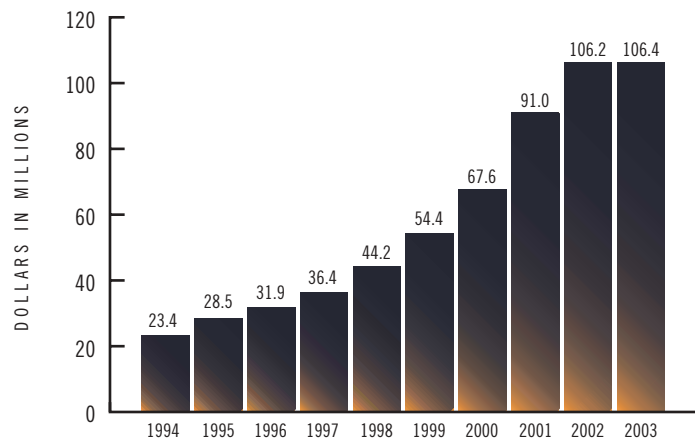
Under this extraordinary leadership, long-term investment results are among the best in higher education. For the five- and ten-year periods ended June 30, 2003, the Endowment pool's annualized returns were 9.2 percent and 12.8 percent, respectively. As shown in the accompanying chart, long-term performance has substantially exceeded returns of the University's Strategic Policy Portfolio and the Trust Universe Comparison Service Large Fund Median of institutional investors larger than \$1 billion.

For the year the Endowment distributed more than \$106 million for the benefit of some 3,600 endowed accounts. The ability to provide a world-class education of course depends on excellence in a number of areas, from students and faculty to programs and libraries, all of which are supported by Endowment spending. In spite of the moderation of the past two years necessitated by financial market conditions, the Endowment spending rate grew 18 percent annually over the past five years and 14 percent over the past ten years, contributing vitally to the mission of the University.

Financial aid remains the largest portion of the Endowment. We are gratified that the University has the ability to meet the full demonstrated financial need of all its students and with the role the Endowment plays in enhancing the learning and research experience of these students — for example, the number of endowed faculty positions now approaches 200.

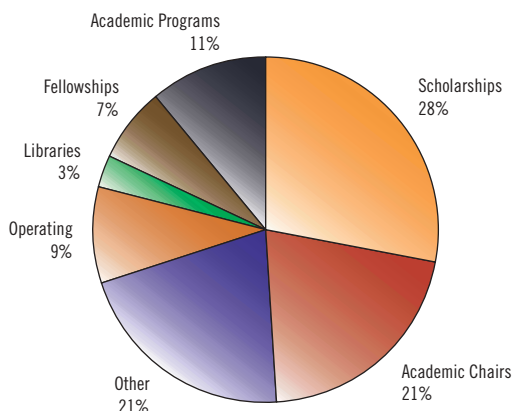
Endowment Spending Growth 1994-2003

Fiscal Years Ending June 30



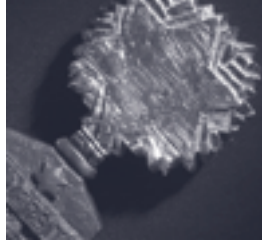
Endowment Purposes

Fiscal Year 2003



Notre Dame has always spoken with tremendous pride and gratitude about the loyalty of its alumni and other benefactors. With their continuing generosity and the University's unwavering commitment to prudent investing and spending policies, the Notre Dame Endowment will continue its crucial contributions to the life of the University.

— Scott C. Malpass

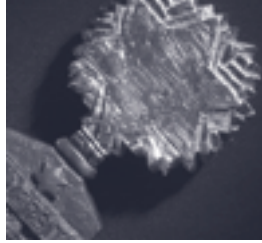


STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS)

	AS OF JUNE 30	
	2003	2002
Assets		
Cash and cash equivalents	\$ 40,053	\$ 54,503
Accounts receivable, net	20,515	21,761
Deferred charges and other assets	13,961	11,213
Contributions receivable, net	72,776	84,026
Notes receivable, principally for student loans, net	31,859	33,130
Investments	3,100,747	3,105,806
Land, buildings and equipment, net of accumulated depreciation	693,284	664,729
	Total assets	\$ 3,973,195
	\$ 3,973,195	\$ 3,975,168
Liabilities		
Accounts payable	\$ 20,084	\$ 18,467
Deferred revenue	41,932	33,723
Deposits and other liabilities	75,308	77,680
Amounts payable under split-interest agreements	21,242	20,526
Bonds and notes payable	252,819	255,176
Pension and other accrued retirement benefits	98,293	82,117
Government advances for student loans	26,595	25,725
	Total liabilities	536,273
	536,273	513,414
Net Assets		
Unrestricted		
Undesignated	68,758	89,521
Designated for specific purposes	182,833	218,713
Invested in land, buildings and equipment	440,465	422,671
Funds functioning as endowment	1,042,912	1,014,473
	Total unrestricted	1,734,968
Temporarily restricted	978,535	1,012,480
Permanently restricted	723,419	703,896
	Total net assets	3,436,922
	3,436,922	3,461,754
	Total liabilities and net assets	\$ 3,973,195
	\$ 3,973,195	\$ 3,975,168

See accompanying notes to financial statements.

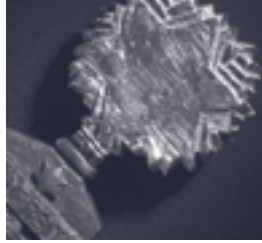


STATEMENTS OF CHANGES IN UNRESTRICTED NET ASSETS

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2003	2002
Operating Revenues and Other Additions		
Tuition and fees	\$ 277,191	\$ 255,731
Less: Tuition scholarships and fellowships	(90,677)	(79,708)
Net tuition and fees	186,514	176,023
Grants and contracts	60,732	50,066
Contributions	19,256	17,322
Investment return distributed	79,053	70,596
Sales and services of auxiliary enterprises	129,050	118,294
Other sources	22,144	21,913
Total operating revenues	496,749	454,214
Net assets released from restrictions for operations	74,574	78,091
Total operating revenues and other additions	571,323	532,305
Operating Expenses		
Instruction	205,360	194,310
Research	51,438	42,553
Public service	18,323	21,283
Academic support	38,520	36,930
Student activities and services	24,159	25,009
General administration and support	94,566	89,768
Auxiliary enterprises	120,097	126,098
Total operating expenses	552,463	535,951
Increase/(Decrease) in unrestricted net assets from operations	18,860	(3,646)
Non-Operating Changes in Unrestricted Net Assets		
Contributions	5,609	4,646
Investment return:		
Investment income	18,914	16,345
Net gain/(loss) on investments	3,539	(168,956)
Less: Investment return distributed	(79,053)	(70,596)
	(56,600)	(223,207)
Net loss on other financial instruments	(8,059)	(948)
Net assets released from restrictions for investment and physical facilities	42,756	34,295
Minimum pension liability adjustment	(12,976)	—
Decrease in unrestricted net assets from non-operating activities	(29,270)	(185,214)
Decrease in unrestricted net assets	\$ (10,410)	\$ (188,860)

See accompanying notes to financial statements.

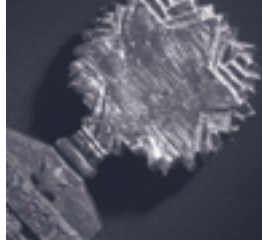


STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2003	2002
Unrestricted Net Assets		
Operating revenues and other additions	\$ 571,323	\$ 532,305
Operating expenses	(552,463)	(535,951)
Increase/(Decrease) in unrestricted net assets from operations	18,860	(3,646)
Decrease in unrestricted net assets from non-operating activities	(29,270)	(185,214)
Decrease in unrestricted net assets	(10,410)	(188,860)
Temporarily Restricted Net Assets		
Contributions	45,108	41,125
Investment income	20,317	20,308
Net gain/(loss) on investments	18,858	(168,585)
Change in value of split-interest obligations	(898)	(483)
Net assets released from restrictions	(117,330)	(112,386)
Decrease in temporarily restricted net assets	(33,945)	(220,021)
Permanently Restricted Net Assets		
Contributions	19,072	38,996
Investment income	926	1,112
Net loss on investments	(844)	(1,177)
Change in value of split-interest obligations	369	(1,498)
Increase in permanently restricted net assets	19,523	37,433
Decrease in net assets	(24,832)	(371,448)
Net assets at beginning of year	3,461,754	3,833,202
Net assets at end of year	\$ 3,436,922	\$ 3,461,754

See accompanying notes to financial statements.

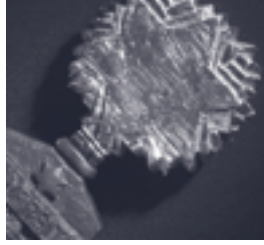


STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2003	2002
Cash Flows from Operating Activities		
Decrease in net assets	\$ (24,832)	\$ (371,448)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	32,136	32,191
Adjustment to carrying value of buildings and equipment	8,684	10,339
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	(1,502)	2,096
Contributions receivable	11,250	5,723
Accounts payable, deferred revenue, deposits and other liabilities	7,454	3,065
Amounts payable under split-interest agreements	716	(3,261)
Pension and other accrued retirement benefits	16,176	(4,541)
Contributions for investments and physical facilities	(62,656)	(70,948)
Investment income restricted for reinvestment	(926)	(1,112)
Net (gain)/loss on investments	(21,553)	338,718
Other, net	7,702	19,615
Net cash used by operating activities	(27,351)	(39,563)
Cash Flows from Investing Activities		
Sales (Purchases) of investments, net	18,910	(30,265)
Purchases of land, buildings and equipment	(69,375)	(52,580)
Student loans granted	(5,277)	(4,978)
Student loans repaid	6,334	3,991
Other changes in notes receivable	214	39
Net cash used by investing activities	(49,194)	(83,793)
Cash Flows from Financing Activities		
Contributions received restricted for:		
Investments	57,781	67,742
Physical facilities	4,875	3,206
Investment income restricted for reinvestment	926	1,112
Proceeds from bonds issued	—	65,000
Repayment of bonds and notes	(2,357)	(12,176)
Government advances for student loans	870	888
Net cash provided by financing activities	62,095	125,772
Net change in cash and cash equivalents	(14,450)	2,416
Cash and cash equivalents at beginning of year	54,503	52,087
Cash and cash equivalents at end of year	\$ 40,053	\$ 54,503

See accompanying notes to financial statements.



NOTES TO 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 financial statements include the assets and operations of certain other entities, which are owned and operated by 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 financial statements have been prepared on the accrual basis of accounting and in accordance with the reporting principles of not-for-profit accounting as defined by Statement of Financial Accounting Standards (SFAS) 116 “Accounting for Contributions Received and Contributions Made,” and SFAS 117 “Financial Statements of Not-for-Profit Organizations.” SFAS 116 requires unconditional promises to give be recorded as receivables and revenue within the appropriate net asset category. SFAS 117 establishes standards for general-purpose external financial statements of not-for-profit organizations, including a statement of financial position, a statement of changes in net assets and a statement of cash flows.

The accompanying financial statements have been prepared to focus on the University as a whole and to 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. Such assets are available for any purpose consistent with the University’s mission.

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. Such assets normally fund specific expenditures of an operating or capital nature.

Permanently Restricted Net Assets — Net assets subject to a donor-imposed restriction requiring they be maintained permanently by the University. Such assets are normally restricted to long-term investment with income earned and appreciation available for specific or general University purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in net assets consistent with the restrictions placed on their use by either the donor or by law. Expirations of temporary restrictions on net assets, that is, the donor-imposed purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as net assets released from restrictions and reclassified from temporarily restricted net assets to unrestricted net assets.

Revenues associated with research and other contracts and grants are recognized when related costs are incurred. Indirect cost recovery by the University on U.S. government contracts and grants is based upon a predetermined negotiated rate and is recorded as unrestricted revenue.

The University’s measure of operations as presented in the statements of changes in unrestricted net assets includes income from tuition and fees, grants and contracts, unrestricted contributions, investment return distributed according to the University’s spending plan and revenues from auxiliary enterprises and other sources. Other operations-related additions include net assets released from restrictions based upon their use in support of operations. Operating expenses are reported by functional categories, after allocating costs for operations and maintenance of plant, interest on indebtedness and depreciation expense.

Non-operating activity presented in the statements of changes in unrestricted net assets includes unrestricted contributions from bequests designated by the University for endowment and acquisition of physical facilities and equipment, investment return in excess of or less than the amount distributed under the spending plan, any gains or losses on other financial instruments, net assets released from restrictions designated for investment and physical facilities, and other activities considered to be more of an unusual or non-recurring nature.

Certain amounts in the 2002 financial statements and footnotes have been reclassified to conform with the presentation of the measure of operations.

CONTRIBUTIONS

Contributions include unconditional promises to give that are recognized as revenues — either temporarily restricted or permanently restricted — in the period such commitments are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions to be received in future years are discounted at a U.S. Treasury rate commensurate with the payment plan. Amortization of the discount 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 the University's collection experience.

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 halls, dining halls, intercollegiate athletics and college stores. Auxiliary enterprise revenues and fully costed 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.

INVESTMENTS

Valuation

Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for certain investments, principally limited partnerships and similar interests, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by the external investment managers as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The value of forward foreign currency exchange contracts is estimated using available market quotations obtained from banks and foreign exchange dealers. The change in market value of all foreign currency exchange contracts is recorded as unrealized gain or loss on investments. The fair value of these contracts is reported on a net-by-counterparty basis in the statements of financial position where management believes a legal right of offset exists under an enforceable netting agreement.

Open futures and options contracts are primarily valued at the closing exchange quotations on the last business day of the year. The fair value of certain options contracts for which market quotations are not readily available are based upon valuations provided by counterparties, which represent the estimated amount the counterparties would receive or pay to terminate the contract at the reporting date. Brokerage commissions on open positions are accrued as a liability of the University in full upon the initiation of such open positions. Upon entering into futures contracts, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contracts are traded. New contracts and changes in margin requirements resulting from changes in the fair value of the instruments are funded each business day.

Off-Balance Sheet Risk

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward, futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the statements of financial position and is not represented by the contract or notional amounts of the instruments.

The University bears risks upon entering into foreign currency exchange contracts from the potential inability of counterparties to meet the terms of their contracts; these risks are generally limited to the amount of unrealized gain, if any, at date of default. The University's risks may also arise from the unanticipated movements in the value of any foreign currency relative to the U.S. dollar. To reduce the impact of changing foreign currency exchange rates on the U.S. dollar value of its international equity holdings, the University utilizes a dynamic currency overlay strategy. While operating within specified risk parameters, the currency overlay manager is expected to outperform a specified hedged benchmark by actively managing individual currency risks utilizing forward foreign currency exchange contracts.

Endowment

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 do not decline over time. Under this policy as approved by the Board of Trustees, investment income, as well as a prudent portion of realized and unrealized gains, may be expended for the operational needs of fund participants.

OTHER FINANCIAL INSTRUMENTS

The University uses interest rate swap agreements to manage interest rate risk on its variable rate debt. The fair value of interest rate swap agreements is based on valuations provided by the counterparty banks and represents the estimated amount that counterparties would receive or pay to terminate the swap agreement at the reporting date. The estimated fair value of these instruments is reported in the statements of financial position. Any gains or losses resulting from changes in the fair values of the instruments or periodic net cash settlements with counterparties are recognized currently 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.

The University has applied the provisions of AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," when accounting for costs related to the development of software for internal use.

SPLIT-INTEREST AGREEMENTS

The University's split-interest agreements consist principally of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the actuarial value, accretion of the discount and other changes affecting the estimates of future benefits.

USE OF ESTIMATES

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

TAX STATUS

The University is a qualified tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

RECLASSIFICATIONS

Certain amounts in the 2002 financial statements and footnotes have been reclassified to conform with the 2003 presentation.

NOTE 2.

ACCOUNTS AND NOTES RECEIVABLE

At June 30, 2003, accounts and notes receivable are stated net of allowances of \$1,489,000 and \$1,178,000, respectively. At June 30, 2002, these allowances were \$1,484,000 and \$1,158,000, respectively.

Notes receivable are principally amounts due from students under U.S. government sponsored loan programs, which are subject to significant restrictions. As it is not practicable to determine the fair value of such amounts, notes receivable are recorded at face value.

**NOTE 3.
CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows at June 30 (in thousands):

	<u>2003</u>		<u>2002</u>	
Unconditional promises expected to be collected in:				
Less than one year	\$	23,791	\$	31,181
One year to five years		48,880		61,824
More than five years		30,436		17,366
		<u>103,107</u>		<u>110,371</u>
Less:				
Unamortized discount		17,192		17,217
Allowance for uncollectible amounts		13,139		9,128
		<u>30,331</u>		<u>26,345</u>
	\$	<u>72,776</u>	\$	<u>84,026</u>

Contributions receivable are distributed between net asset classifications as follows at June 30 (in thousands):

	<u>2003</u>		<u>2002</u>	
Temporarily restricted	\$	37,155	\$	34,037
Permanently restricted		35,621		49,989
	\$	<u>72,776</u>	\$	<u>84,026</u>

**NOTE 4.
INVESTMENTS**

Investments are summarized as follows at June 30 (in thousands):

	<u>2003</u>		<u>2002</u>	
	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>
Short-term investments	\$ 259,870	\$ 261,611	\$ 174,684	\$ 189,069
Fixed income securities	339,677	364,339	401,667	414,216
Equity securities	1,198,266	1,254,050	1,394,359	1,325,033
Limited partnerships and similar interests	1,180,853	1,148,712	1,064,590	1,105,801
Other investments	69,604	72,035	69,528	71,687
	<u>\$ 3,048,270</u>	<u>\$ 3,100,747</u>	<u>\$ 3,104,828</u>	<u>\$ 3,105,806</u>

Investments totaling \$2.95 billion at June 30, 2003 and \$2.91 billion at June 30, 2002, are pooled on a market value basis with each participating fund owning units in the pool. Additions or withdrawals are based on the market value of the pooled investments. The value per unit was \$1,552 and \$1,540 at June 30, 2003, and 2002, respectively. Certain other investments are held in specific instruments to comply with donor requirements.

The University is obligated under certain investment contracts to periodically advance additional funding up to contractual levels. At June 30, 2003 such amounts approximated \$521 million.

INVESTMENT RETURN

Investment return for the years ended June 30, 2003, and 2002, is comprised of the following (in thousands):

	<u>2003</u>		<u>2002</u>	
Investment income, net	\$	40,157	\$	37,765
Realized gain/(loss)		(23,941)		(53,918)
Unrealized gain/(loss)		45,494		(284,800)
Total investment return	\$	<u>61,710</u>	\$	<u>(300,953)</u>

Investment income is reported net of related expenses, primarily investment advisory fees, of \$13,100,000 and \$14,318,000 for the years ended June 30, 2003, and 2002, respectively.

NOTE 5.
LAND, BUILDINGS AND EQUIPMENT

The following is a summary of land, buildings and equipment at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Land and land improvements	\$ 50,986	\$ 50,787
Buildings	636,861	633,133
Equipment	176,094	180,595
Construction in progress	82,105	29,581
	<u>946,046</u>	<u>894,096</u>
Less accumulated depreciation	252,762	229,367
	<u>\$ 693,284</u>	<u>\$ 664,729</u>

Depreciation expense was \$32,136,000 and \$32,191,000 for the years ended June 30, 2003, and 2002, respectively. The University has commitments to expend approximately \$101.1 million to complete various construction projects as of June 30, 2003.

NOTE 6.
BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
St. Joseph County, Indiana		
Educational Facilities Revenue Bonds:		
Series 2002, bearing interest at a variable rate (0.90 percent currently) through 2037	\$ 65,000	\$ 65,000
Series 1998, bearing interest at a variable rate (0.85 percent currently) through 2033	43,000	43,000
Series 1997, bearing interest at 4.375 percent to 5.25 percent through 2027	29,650	30,295
Series 1996, bearing interest at 5.5 percent to 6.5 percent through 2026	30,000	30,000
Indiana Educational Facilities Authority Revenue Bonds:		
Series 1997, bearing interest at 4.375 percent to 5.25 percent through 2025	22,985	23,060
Series 1995, bearing interest at a variable rate (0.80 percent currently) through 2025	26,500	26,500
Series 1994, bearing interest at 5.6 percent to 6.65 percent through 2019	27,990	28,990
Series 1992, bearing interest at 5.5 percent to 6 percent through 2023	5,400	5,925
Notre Dame du Lac Dormitory Refunding and Construction Bonds bearing interest at 3 percent through 2018	1,430	1,500
Mortgage notes payable, bearing interest at 3 percent through 2019	864	906
	<u>\$ 252,819</u>	<u>\$ 255,176</u>

The aggregate scheduled maturities of the bonds and notes payable for each of the five fiscal years subsequent to June 30, 2003, are as follows (in thousands): \$2,049 in 2004; \$2,205 in 2005; \$2,246 in 2006; \$2,513 in 2007; and \$2,584 in 2008.

The mortgage notes and Dormitory Refunding and Construction Bonds are collateralized by the facilities to which they relate. The Indiana and St. Joseph County Educational Facilities Authority Revenue Bonds represent general obligations of the University and are not collateralized by the related facilities.

The fair value of the University's bond and note obligations approximates the aggregate carrying value at June 30, 2003 and 2002.

The University utilizes interest rate swaps to manage interest rate risk on certain variable rate debt. Under the terms of swap arrangements currently in effect, the University pays fixed rates, ranging from 3.37 percent to 4.04 percent, and receives variable rates, ranging from 67 percent to 70 percent of the London Interbank Offer Rate (LIBOR), on total notional amounts of \$51,500,000. The estimated fair value of interest rate swaps was a net unrealized loss position of \$8,060,000 and \$948,000 at June 30, 2003 and 2002, respectively.

Total interest costs incurred and paid were \$8,330,000 and \$8,331,000, respectively, for the year ended June 30, 2003. Interest costs incurred and paid were \$10,880,000 and \$8,629,000, respectively, for the year ended June 30, 2002.

The University maintains an unsecured line of credit in the amount of \$50 million with a major commercial bank to be used for working capital purposes. On June 27, 2003 the line of credit agreement was amended, extending the termination date to May 31, 2004. The available line of credit was entirely unused at June 30, 2003, and 2002.

NOTE 7. RETIREMENT PROGRAMS

The University offers retirement and postretirement benefits to its employees. The retirement benefits include both a defined contribution plan and a defined benefit plan.

Faculty and certain administrative employees who have completed one year of full-time service at the University are eligible to participate in the defined contribution plan. Participating staff in the defined contribution plan have the option of directing their contributions and the University's contributions on their behalf to Teachers Insurance and Annuity Association, Fidelity Investments or the Vanguard Group. Participating staff are immediately vested in the plan. The University's share of the cost of these benefits was \$14,195,000 and \$13,251,000 for the years ended June 30, 2003, and 2002, respectively.

Retirement benefits are provided for other employees under a defined benefit, trustee retirement plan administered by the University. This plan provides benefits for certain administrative and staff employees who have completed at least five years of service at a minimum of 1,000 hours of service each year. The defined benefit plan is funded by annual contributions made by the University to the Employee's Retirement Fund. The University's contributions meet ERISA minimum requirements. The plan assets and their related actuarially determined benefit obligation are included in investments and pension and other accrued retirement benefits, respectively, on the statements of financial position as of June 30, 2003, and 2002.

The postretirement benefits offered by the University consist principally of medical and life insurance for retirees and their spouses. Employees are eligible for the postretirement benefits if they retire after attaining specified age and service requirements while employed by the University. The plan is funded as claims are paid. The University determines the amortization of any prior service cost relating to the projected benefit obligation and accumulated postretirement benefit obligation (APBO) using a straight-line amortization of the cost over the average remaining service period of employees expected to receive the benefits under the respective plan.

At June 30, 2003, the accumulated benefit obligation with respect to the University's defined benefit plan exceeded the fair value of plan assets by more than the actuarially determined unrecognized prior service cost. As such, the University recognized a minimum pension liability adjustment of \$12,976,000 in the year ended June 30, 2003.

The following tables set forth the funded status of the defined benefit plan and postretirement benefits as well as the components of net periodic benefit cost and the weighted-average assumptions at June 30 (in thousands):

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	2003	2002	2003	2002
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 76,112	\$ 69,011	\$ 32,926	\$ 25,001
Service cost	3,636	3,207	1,821	1,256
Interest cost	5,492	5,003	2,381	1,829
Plan amendments	—	—	(1,508)	—
Actuarial (gain)/loss	13,790	1,987	7,410	5,690
Benefit payments	(3,337)	(3,096)	(1,194)	(850)
Benefit obligation at end of year	95,693	76,112	41,836	32,926
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	56,554	65,542	—	—
Actual return on plan assets	(1,347)	(5,892)	—	—
Employer contributions	2,858	—	1,194	850
Benefit payments	(3,337)	(3,096)	(1,194)	(850)
Fair value of plan assets at end of year	54,728	56,554	—	—
Funded status	(40,965)	(19,558)	(41,836)	(32,926)
Unrecognized net loss	33,937	13,708	13,077	5,872
Unrecognized prior service costs	475	567	—	—
Unrecognized net transition obligation	—	—	4,723	6,774
Accrued benefit cost	(6,553)	(5,283)	(24,036)	(20,280)
Minimum pension liability adjustment	(12,976)	—	—	—
Total liability	\$ (19,529)	\$ (5,283)	\$ (24,036)	\$ (20,280)
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost	\$ 3,636	\$ 3,207	\$ 1,821	\$ 1,256
Interest cost	5,492	5,003	2,381	1,829
Expected return on plan assets	(5,182)	(6,300)	—	—
Amortization of:				
Unrecognized net (gain)/loss	91	(7)	204	—
Unrecognized prior service cost	92	92	—	—
Unrecognized net (asset)/obligation	—	(398)	544	616
Net periodic benefit cost	\$ 4,129	\$ 1,597	\$ 4,950	\$ 3,701
WEIGHTED-AVERAGE ASSUMPTIONS				
Discount rate	6.25%	7.25%	6.25%	7.25%
Expected return on plan assets	8.50%	8.50%		
Rate of compensation increase	5.00%	5.00%		

The assumed health care cost trend rate used in measuring the APBO was 10.0 percent at June 30, 2002, and 9.5 percent at June 30, 2003, grading down to 5 percent in 2012. A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO by approximately \$820,000 and \$6,894,000, respectively. Likewise, 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 \$682,000 and \$5,929,000, respectively.

**NOTE 8.
RESTRICTED NET ASSETS AND ENDOWMENT**

Temporarily restricted net assets consist of the following at June 30 (in thousands):

	2003	2002
Contributions and earnings for operating purposes	\$ 54,502	\$ 46,972
Contributions for the acquisition of buildings and equipment	60,433	56,829
Split-interest agreements	9,059	9,937
Funds functioning as endowment	854,541	898,742
	<u>\$ 978,535</u>	<u>\$ 1,012,480</u>

Permanently restricted net assets consist of the following at June 30 (in thousands):

	2003	2002
Endowment funds	\$ 711,552	\$ 692,307
Student loan funds	4,163	4,089
Split-interest agreements	7,704	7,500
	<u>\$ 723,419</u>	<u>\$ 703,896</u>

The fair value of endowment and funds functioning as endowment is summarized as follows at June 30 (in thousands):

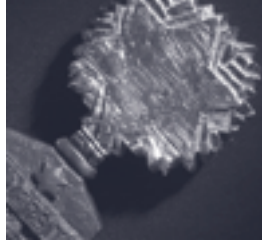
	2003	2002
Unrestricted	\$ 1,042,912	\$ 1,014,473
Temporarily restricted	854,541	898,742
Permanently restricted	711,552	692,307
	<u>\$ 2,609,005</u>	<u>\$ 2,605,522</u>

As a result of market declines, the fair market value of certain donor-restricted endowments is less than the level required by donor stipulations or law by \$12,357,000 at June 30, 2003, and \$15,055,000 at June 30, 2002. These unrealized losses have been recorded as non-operating reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the level required by donor stipulations or law increases temporarily restricted net assets.

**NOTE 9.
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.



REPORT OF INDEPENDENT AUDITORS

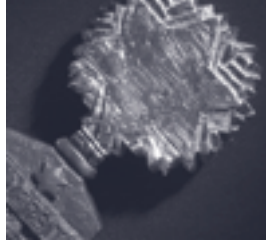
Board of Trustees
University of Notre Dame du Lac
Notre Dame, Indiana

In our opinion, the accompanying statements of financial position and the related 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, 2003 and 2002, 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, which 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.

As discussed in Note 1 to the financial statements, in 2003 the University incorporated a measure of operations in its statements of changes in unrestricted net assets.

PricewaterhouseCoopers LLP

Chicago, Illinois
October 10, 2003



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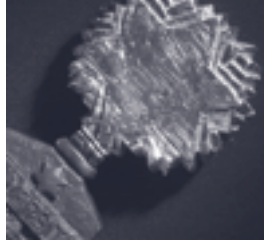
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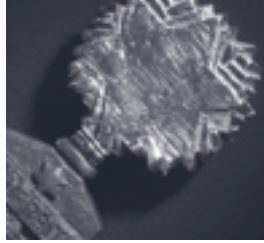
* June 30, 2003



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* June 30, 2003

The University prides itself on being an environment of teaching and learning which fosters the development in its students of those disciplined habits of mind, body and spirit which characterize educated, skilled and free human beings. In addition, the University seeks to cultivate in its students not only an appreciation for the great achievements of human beings but also a disciplined sensibility to the poverty, injustice and oppression that burden the lives of so many. The aim is to create a sense of human solidarity and concern for the common good that will bear fruit as learning becomes service to justice.

Notre Dame also has a responsibility to advance knowledge in a search for truth through original inquiry and publication. This responsibility engages the faculty and students in all areas of the University, but particularly in graduate and professional education and research. The University is committed to constructive and critical engagement with the whole of human culture.

— *excerpted from the
University of Notre Dame
Mission Statement*





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NOTRE DAME