



F U L F I L L I N G T H E P R O M I S E





leadership
vision
faith

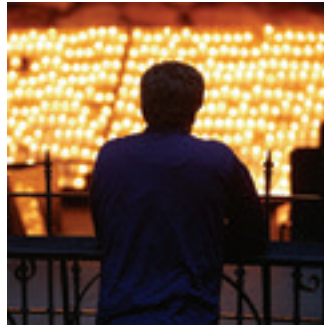
F U L F I L L I N G T H E P R O M I S E

University of Notre Dame
2004 Annual Report

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FROM THE PRESIDENT



Someone once described Notre Dame
as being “the beneficiary of a
long-descending blessing.”

It also helps to plan.

Indeed, strategic planning has been Notre Dame’s way of teasing the future from the present, beginning with the *Report of the Committee on University Priorities* in 1973 and continuing through *Priorities and Commitment for Excellence* in 1982, and the *Colloquy for the Year 2000* in 1993, a document of which I was the final author. Each of these self-studies took a look at where the University was, where it wanted to be, and how it best might get there.

After a faculty-staff process that began three years ago, we now have our latest effort at institutional vision, “Notre Dame 2010: Fulfilling the Promise.” This plan outlines very clearly how Notre Dame intends to fulfill its vision of creating a world-class Catholic institution that will assume a leadership role among the great universities of the world. It will come as no surprise that this document is intended to provide the narrative framework for our next capital campaign.

Notre Dame is a weave of intellectual inquiry informed by Catholic faith and carried out in community. Each of these threads—**academic**, **Catholic**, and **community**—runs through our successive planning reports. These threads provide a foundation for summarizing “Fulfilling the Promise.”

Academic

Undergraduate education continues as the core mission of Notre Dame. We intend to integrate teaching and research better than has any other university, rewarding faculty involvement in the learning process and supporting innovative initiatives. The First Year of Studies Program, a hallmark of the Notre Dame educational experience for more than four decades, continues to challenge students to own their education and to spark their enthusiasm for the tasks of criticism and understanding that lead to the examined life.

If Notre Dame is to achieve first-rank status in contemporary American higher education, it must achieve the same level of excellence in post-baccalaureate education, research, and scholarly publication as it has long enjoyed in undergraduate education. This is not a zero-sum game in which gains in graduate education and research take away from undergraduate education. The two are complementary sides of the same higher

education coin. An institution cannot recruit the best professors—at the junior or senior level—for its undergraduate classrooms without offering them interaction with quality graduate students and support for research interests that keep their teaching on the cutting edge.

On the graduate education side, the goals are to place at least one quarter of our doctoral programs in the top quartile among university programs and to have no programs in the last quartile. In professional education, we want the MBA program and Law School to be ranked in the top 20

in their national peer evaluations; both are currently within hailing distance. In research, we look to improve infrastructure in the sciences, engineering, and the quantitative social sciences; to encourage interdisciplinary, team-conducted investigations; and to increase our externally funded research awards to \$100 million annually, up from the current level of \$73 million.

We are a more international university than ever before with institutes or centers concentrating on areas such as Europe and Latin America, not to mention those dealing with international peace studies, Irish studies, and human rights. The existence of these centers summons us to pursue similar initiatives in Asian and African studies. In the same vein, we have a successful Latino studies program but lack a comparable one in

African-American studies. We have one of the nation's largest study abroad programs, and we shall sustain its academic rigor while considering expansion in Asia, Africa, India, and predominantly Islamic countries.





Catholic

aggressively recruit and nurture the next generation of Catholic intellectuals. We must earn a reputation as a place that welcomes self-identified Catholic academics—teaching in classrooms, studios, and laboratories across this country as well as abroad—who want to be part of an academic community where belief is valued alongside scholarship.

It remains our goal that dedicated and committed Catholics predominate among the faculty. But the spirit of what we seek is achieved only when all who join our ranks, Catholic and non-Catholic alike, foster the broader conversation about what is true and what is good, a conversation that should mark the mission of an institution with religious roots. We mean to enhance Notre Dame as a center of scholarship relating religious belief



The gene for the University’s Catholic character is carried by the faculty. If Notre Dame is to remain what the *New York Times* once called “the intellectual citadel of American Catholicism” it must

and tradition to modern learning. We can leverage our ethical interests in fields as diverse as business and biology in such a way as to create a coherent and visible center of ethical analysis, one that can influence the discussion of national and international issues.

We shall sustain our commitment to attract the best and brightest Catholic students in the land. In doing so, we must look upon residence halls as environments that encourage young men and women to encounter faith’s role in daily living, allowing them to strengthen their relationships with their Creator and mature as believers. Holy Cross priests and religious have traditionally been at the heart of residence hall ministry, joined by members of other religious communities as well as lay persons, and it is crucial that the future of this ministry to our students be reviewed with the care commensurate with its importance.

Community



Students come to Notre Dame not only to learn but also to learn how to live, and the residence hall remains the cornerstone of community life at the University. The residential character of Notre Dame is a principal reason for the unique bond formed among graduates: young women and men leave the University, but the University never leaves them. A recurring challenge that runs through our strategic planning exercises is how to integrate hall life and academic life, how to more clearly articulate the link between the residential and the intellectual experiences of campus life.

The Notre Dame community is also marked by learning turned to service. Fully 85 percent of undergraduates volunteer during their University careers, and some 50 faculty members each semester have service/experiential learning requirements in their courses. The University and the South Bend area are working

together as pioneers in a post-industrial era that calls for leadership, vision, and entrepreneurship. As a premier Catholic education institution, Notre Dame has become the standard-bearer for service learning initiatives in colleges and universities across the country.



Diversity enriches community, and we are in some ways diverse, such as in our national draw for students. Although we are known as a community based on openness, inclusivity, hospitality, and service, we lag behind some of our peer universities in racial and ethnic diversity, despite recent gains. Twenty-one percent of the incoming students in the fall of 2003 represented ethnic minorities, which was a five percent increase from the 2002 incoming class. Our goal for a more diversified campus is closely tied to our continued ability to meet the demonstrated financial need of all admitted applicants.



Notre Dame at a Glance

	2004
STUDENTS	
Undergraduate	8,311
Graduate and professional	3,104
Total fall enrollment	11,415
UNDERGRADUATE ADMISSIONS	
Applications	12,095
Offers of admission	3,524
Enrolled	1,996
Selectivity ratio	29.1%
Matriculation ratio	56.6%
DEGREES CONFERRED	
Baccalaureate	2,052
Master's	940
First professional	176
Doctoral	149
Total degrees conferred	3,317
UNDERGRADUATE TUITION RATE	
	\$27,170
Percent increase over prior year	6.5%



These are but some highlights of a detailed strategic plan that will be more fully shared with Notre Dame alumni, parents, friends, and benefactors as it is translated into concrete development goals.

Notre Dame has come a long way in recent years. By almost any measure—faculty and student quality, financial health, Catholic identity, alumni loyalty, physical plant, national academic rank, international reach, and community relations—it is a better university than it was. But it cannot stand still.



No one knows this better than my colleague in Holy Cross, Rev. John I. Jenkins, C.S.C., who will succeed me as President of Notre Dame next July and who will, I am confident, “Fulfill the Promise.”

—*Rev. Edward A. Malloy, C.S.C.*



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



Undergraduate education remains the core strength and the central mission of the University of Notre Dame.

At the same time Notre Dame is dedicated to advancing as a research university.

Our great challenge is to move forward as a place that successfully combines superior undergraduate education within an environment that also prizes superior research and scholarship, and all done in consonance with our distinct mission as a Catholic university. It is an experiment to be sure. Nowhere else has such a committed effort been undertaken in Catholic higher education. There is no particular historical model that Notre Dame seeks to emulate in this quest, which makes our task both challenging and invigorating.

A Student Body of Uncommon Ability

Notre Dame has always attracted students of uncommon ability and distinctive character. Overall, 84 percent of incoming students in the fall of 2003 ranked in the top 10 percent of their high school classes, with a mean SAT score of 1359. Twenty-one percent represented ethnic minorities, up from 16 percent in 2002.

We continue to fine-tune our enrollment and admissions processes to achieve the kind of student body that can best be served by this place. Our Reilly Scholar Program, now in its second year, is designed to confirm our most academically talented applicants. In the spring of 2004, 64 applicants took part in the second annual Reilly Visitation Weekend. These prospects are a uniquely gifted group: fifteen of the 64 attendees earned a perfect score on either their SAT or ACT exam. These students achieve at consistently superior levels in almost every area of their lives and are being heavily recruited by the best universities in the land. Following the weekend, 35 of the 64 (including seven of those with perfect SAT or ACT scores) chose to enroll at Notre Dame, for a confirmation rate of 55 percent, up from the previous year's confirmation rate of 42 percent.

The extent to which Notre Dame can continue to identify and attract students of this caliber will contribute significantly to our aspirations: talented students push all of us to new levels of excellence.

Academic Engagement of Our First Year of Studies

As we continue to enhance the academic profile of our incoming students, we must offer them the kinds of courses that challenge and stimulate their learning experience. We must also do a better job of trying to integrate their academic experience with that of the rest of their student lives.



Our newly implemented academic convocation is one attempt to try to pull these various pieces together. Initiated with the 2003 incoming class by the First Year of Studies, the program requires all entering first-year students to read, over the summer months, a set of materials on a pre-selected, timely topic. Where appropriate, faculty members are asked to integrate discussion of this topic into their fall semester class discussions. Within the first few weeks of the semester, all first-year students gather in academic convocation for a special presentation on the topic. Our hope is that this experience will help establish patterns of intellectual curiosity and learning that will become a hallmark of students' experience at Notre Dame and challenge them to a form of engagement outside of their individual programs of study.

Another priority of the Provost Office has been to enhance the academic programming for first-year students by offering a superior program of seminars taught by senior faculty members. Developed over the past year, four new seminars are being offered to undergraduates starting fall semester 2004. They include "Science, Ethics, and the Environment," taught by Philosophy Professor Kristin Shrader-Frechette who also is a concurrent member of the Department of Biological Sciences; "School Choice and American Public Policy," led by Political Science Professor Rev. Timothy R. Scully, C.S.C.; "Nanotechnology: Shaping the World Atom by Atom," with Professor Wolfgang Porod, from the Department of Electrical Engineering; and "Globalization and Human Rights," taught by Maura A. Ryan, professor of theology and associate provost. Academic experiences such as these can spark an interest that can change the lives of students and lead to lifelong intellectual or professional passions.



Participation in Undergraduate Research Experiences

Teaming a rigorous undergraduate academic curriculum with opportunities to engage in research features prominently in our 10-year strategic plan. We are paying particular attention to how we structure our curriculum, from the first year onward, to assure that all students have opportunities to integrate research projects into their undergraduate experience.

Dennis C. Jacobs, chemistry professor and vice president and associate provost, has created a course in which students collect dust, soil, and water samples from local homes



to identify and reduce the risk of lead poisoning in young children. By performing hands-on research and applying scientific knowledge to real-life issues that affect the health and welfare of children and adults in the community, our students can directly relate their academic experience to civic engagement and social justice.

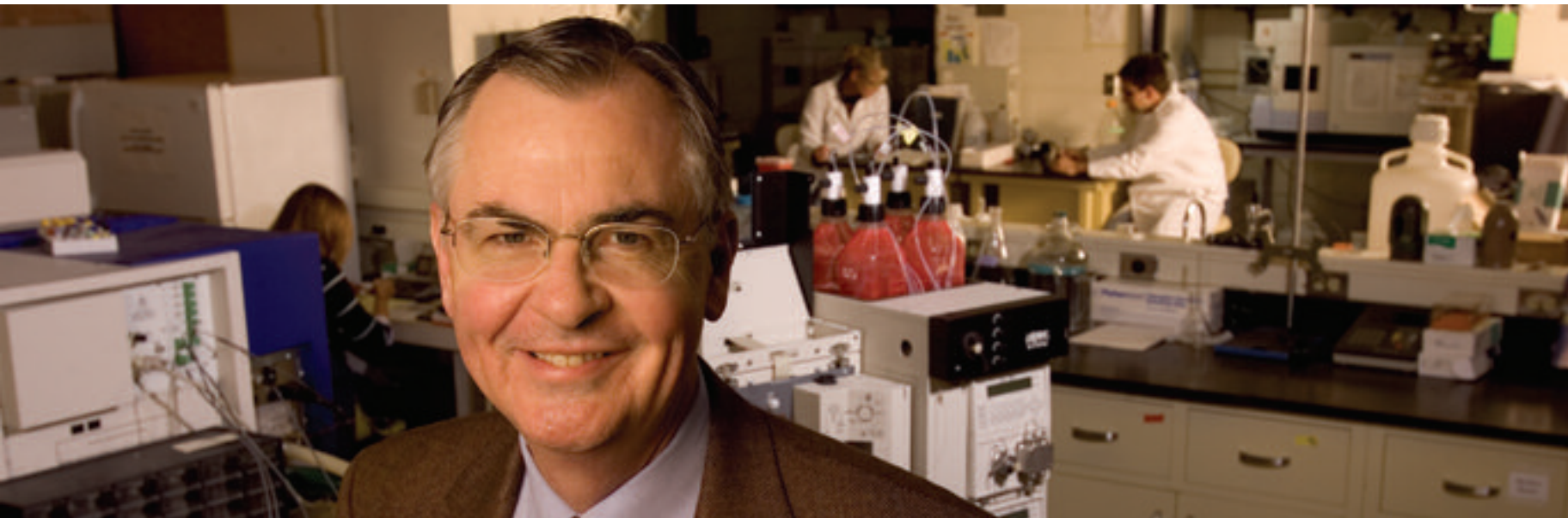


Sociology Professor and Department Chair Daniel J. Myers has long involved undergraduate students in original research projects dealing with issues related to social movements, collective action, and social protest, through the Notre Dame Research Workshop on Race, Ethnicity, Activism, and Protest. The workshop is part of the Research Experiences for Undergraduates, sponsored by the National Science Foundation.

How do such experiences enhance the undergraduate experience? In an important way, engaging in research brings together for the undergraduate the best the University has to offer: compelling classroom instruction from talented faculty members, contact with graduate students who are pursuing specific intellectual questions, and the rigor and individual discipline associated with defined research or capstone projects. Experience suggests that the intellectual life of students is enhanced when they are exposed to multiple learning opportunities. Participation in research helps students to synthesize what they have learned in the classroom and allows them to think and learn in new ways.

As Notre Dame evolves as a Catholic institution of higher education, we want to be regarded as the place where undergraduate students find a superior educational experience, where teaching and research is better integrated than at any other college or university, and where the intellectual, spiritual, and moral aspects of a truly world-class education are fully realized. We will do so only by continuing to move boldly forward with our aspirations, thinking big and realistically at the same time, and always conscious of the trust that has been placed in us to lead and to serve.

—*Nathan O. Hatch*



Nathan O. Hatch, Ph.D.
Provost



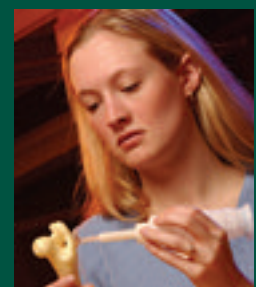
enhancing undergraduate learning

The weave of intellectual inquiry at Notre Dame is strengthened by a commitment to integrating teaching and research in ways that enhance the undergraduate education experience for our students. As the University embarks on its ambitious 10-year strategic plan, the practice of engaging undergraduates in meaningful research enjoys widespread support and implementation across many disciplines on campus—from psychology, economics, and anthropology to the departments of physics, mathematics, and chemical and biomolecular engineering. For both the faculty and the students, it is a win-win situation, with students gaining invaluable practical experience to complement their classroom learning and faculty gaining access to a pool of enthusiastic and talented young people.

No one knows this better than Agnes E. Ostafin, assistant professor of chemical and biomolecular engineering. Ostafin, who is a pioneer in the fledgling discipline of biomolecular engineering, has approximately 15 undergraduate students engaged in research projects at any one time. Although she also employs and directs the research of several graduate students, she is particularly excited about supporting undergraduates in research. “Younger students come in with a lot of enthusiasm, a sense of excitement about what they want to achieve. I like getting these students in their most formative moment, when they have not yet had any bad experiences that can dampen their enthusiasm.”

Ostafin is referring to the inherently risky nature of research: sometimes experiments “work,” yielding the results that support a particular theory, and sometimes they don’t, which can lead to frustration with the process, especially if the research is important for a student’s dissertation. Mark J. McCready, chair of the Department of Chemical and Biomolecular Engineering, echoes Ostafin’s sentiments. “Undergraduates can participate in ‘higher-risk’ research projects. In other words, they don’t have as much at stake as graduate students in pursuing experiments that might not work out. In this way they can actually help gather preliminary data that may lead to research that yields a grant proposal.”

While individual programs and departments benefit from undergraduates’ participation in research, the students themselves also benefit enormously from the experience. The students in Ostafin’s projects are participating in innovative research using cutting-edge technology that has the potential to revolutionize the fields of molecular biology and chemical engineering. John Maddox, a sophomore majoring in chemical engineering, is working with Ostafin and fifth-year graduate student Tyler Schmidt on a targeted drug-delivery system that utilizes calcium phosphate nanoparticles.



“The experience of working in the lab with Ostafin and Tyler has given me so much exposure to how research is actually conducted. Research is harder than most people think. Things take longer than you expect. I am learning to think critically when organizing and running experiments.” Although Maddox does not know if he’ll continue on to pursue a graduate degree, the training he received while working in the lab this summer will prove invaluable. “I am capable of running eight different diagnostic machines. I have the practical lab experience that will give me the edge, either when applying to graduate schools or in the job market.”

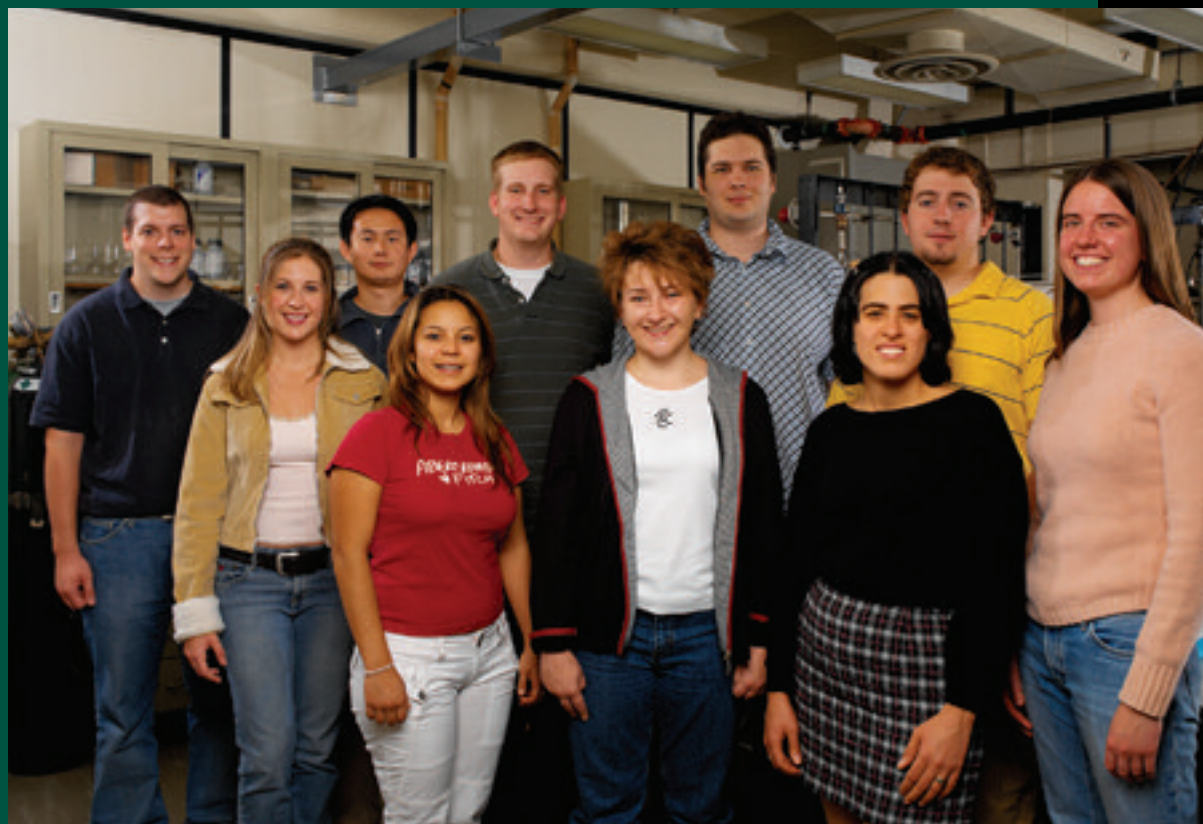
Another chemical engineering student, sophomore Ailis Tweed-Kent, is applying knowledge gained in a new undergraduate course, Molecular Biology for Engineers, to her work in the Tissue Culture Laboratory. Under Ostafin’s supervision, Tweed-Kent is studying osteoblasts, the bone cells responsible for producing calcium. “The work I’m doing here is the first step in the research process,” she says. “By observing the morphology of the cells and using chemical assays, we can gather information on their activity. When we have a basic understanding of how the cells function, then we can move to the next step in the process.” Through this experience, Tweed-Kent is learning what biomolecular engineering is truly about and how theory can be applied in practice to provide solutions for real-world problems.

Ostafin encourages her undergraduate students to publish papers and present at conferences, just as she does with her graduate students. Tweed-Kent will be presenting her research at the Midwest Tissue Engineering Conference in the spring of 2005. “These opportunities are good for the students,” says Ostafin. “It helps build up their self-confidence and reinforce the importance of their efforts.” Ostafin says sending undergraduates to conferences reflects positively on the University as well. “Colleagues at other schools note what we’re doing here. Other students at Notre Dame also notice, and it helps us attract and retain high-quality students.” In the end, says Ostafin, the quality of the students will be one of the factors that define the caliber of our programs.



As the University charts a course that will combine its traditional strength in undergraduate education with a renewed focus on research and graduate studies, our faculty and students will each play a role in creating a learning environment that supports and nurtures the integration of teaching and research. Ostafin and her students represent a small sampling of this process at work at Notre Dame.

Agnes E. Ostafin, assistant professor of chemical and biomolecular engineering, directs a number of undergraduate and graduate students in the Nanoscale Bioengineering Laboratory. Members of her research group include (front row, from left to right) Kathleen Moran, Claudia Gonzalez, Ostafin, Darcy LaClair, and Ailis Tweed-Kent and (back row, from left to right) Phillip Wingert, Fei Liu, John Maddox, Tyler Schmidt, and Matthew Webber.





realizing a dream

“May the fruits of our work here praise Him who dreamed of us and, in dreaming, made us real.”

— John A. Haynes, Judd and Mary Lou Leighton Director for the Performing Arts,
Executive Director, Marie P. DeBartolo Center for the Performing Arts, and Fellow of the Nanovic Institute for European Studies.



FAST FACTS

Project cost—\$62 million

177 rooms

384 doors

84 shades of paint

2,551 pipes in the organ

Concert and organ hall roofs are one foot thick

Highest point—theatre fly tower at six stories

Contains 14,000 cubic yards of concrete

Range of adjustable sound persistence in the theatres—0 to 4.5 seconds

Possibilities—endless

Begun in 2001 and substantially completed by the summer of 2004, the **Marie P. DeBartolo Center for the Performing Arts** is, as Executive Director John A. Haynes says, “truly a dream come true.” An awe-inspiring 150,000-square-foot structure, the building is a stunning manifestation of the dreams of its benefactors, the members of the University community who worked tirelessly to achieve its completion, and even the members of the surrounding community, who will also benefit from its presence on campus.

Unique in its design, construction, and purpose, the center was conceived not only as a performance venue but also as a teaching facility. Sprawling across the entire lower level are classrooms, editing studios, a rehearsal hall, a costume shop, a makeup studio, a recording studio, a lighting lab, a creative computing lab, dressing rooms,

and a student lounge. In addition, it offers not one, but five performing spaces, designed to nurture both art and artists. Says Haynes, “The benefit for Notre Dame’s students and faculty will be dramatic and immediate. Each of the spaces allows our academic departments to teach and present the arts in ways that have simply not been possible in the past.”

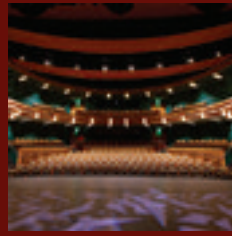


John A. Haynes

PERFORMANCE SPACES



Judd and Mary Lou Leighton Concert Hall
Seats 900 and will be used primarily for musical presentations but can be adjusted to accommodate speakers.



Patricia George Decio Mainstage Theatre
Seats 350 and will be a home for undergraduate theatre and Summer Shakespeare but can also be used for lectures, dance, and amplified music ensembles.



Regis Philbin Studio Theatre
Otherwise known as the "Black Box," holds 100 guests and will be used principally by the undergraduate theatre program.



Michael Browning Family Cinema
Complete with THX sound and popcorn, the cinema seats 200.



Chris and Anne Reyes Organ and Choral Hall
Designed to seat 100, it will serve Notre Dame's program of sacred music. The dominant feature in this chapel-like space is the grand Fritts Organ, handcrafted over a period of almost two years.

The completion of the center also fulfills a dream of the University's outgoing president, Rev. Edward A. Malloy, C.S.C. Says Malloy, "At an earlier time in our history, we were limited in the courses we could offer, in the number of majors we could sustain, and in the range and quality of the on-campus performances that we could sponsor. The multiple venues of the Performing Arts Center will allow us to attract a wide array of first-rate individuals and groups across all the modes of performance so we might indeed become a campus in touch with the most beautiful, the most inspiring, and the most creative forms of human expression."

The unique design of the facility will allow for unprecedented collaboration among diverse groups, both on and off campus. This collaboration among different disciplines



in the academy and different forms of the performing arts is possible not only because the facility exists, but also because there is a commitment on campus to using it that way. An example of the interdisciplinary possibilities of the theatre

is Tom Stoppard's play *Arcadia*, which will be produced in the spring of 2005. The play incorporates themes that focus on science, nature, and art. *The Arcadia Project* will be a coproduction of the Department of Film, Television, and Theatre; First Year of Studies; the DeBartolo Center for the Performing Arts; and the John A. Kaneb Center for Teaching and Learning. According to Alexander J. Hahn, professor of mathematics and director of the Kaneb Center, the play offers a forum that will "bring scholars from different academic realms together both from within and outside our campus."

As a teaching facility, the center is second to none. From its beautifully designed performance spaces to its state-of-the-art classrooms and rehearsal halls, the facility offers unparalleled opportunities for faculty and students to collaborate on and produce original work. Students who study and pursue careers in the performing arts now have the ability to create and "test" their works in a physical environment that supports their aspirations. "The entire facility is essentially a laboratory for the creative output of our students and faculty," says Haynes. "That creative output—performances by faculty and students, costume, set, lighting design, the development of film, and the use of technology to create new modalities of performance—can all be considered original work."

In short, while the DeBartolo Center for the Performing Arts will provide a truly stunning venue for the Notre Dame and surrounding communities to enjoy world-class performers, it is perfectly suited for its primary role of supporting undergraduate education in the performing arts.





sharing a vision

“We see a future in which the benefits of a world-class Catholic research institution are fully integrated in the community.” University President Rev. Edward A. Malloy, C.S.C., made that prediction in early 2004 as Notre Dame released a major study of its economic contributions to its neighbors in the city of South Bend. Significant accomplishments in community relations during the 2003-04 academic year brought Malloy’s promise closer to fulfillment by drawing “town and gown” closer together as partners in a shared vision.

This shared vision has been a hallmark of Malloy’s administration. Throughout his tenure, the University has invested its intellectual capital in initiatives alongside government officials, leaders in the private and nonprofit sectors, and grass-roots organizations to bring about positive community developments. In 2002, he hired J. Roberto Gutiérrez as vice president for public affairs and communication, directing him to strengthen Notre Dame’s collaborative engagement with its surrounding neighborhoods. “Neither individuals nor communities should ever have to go it alone, especially when we have so much to gain from caring about and contributing to each other’s greater good,” says Gutiérrez.

During the past year, this collaborative approach paid off. More than 200 meetings with government officials and local residents paved the way for final approval in June 2004 of the University’s roadway plan—closing the section of Juniper Road that bisects the campus, constructing a new road to the east, and straightening Edison Road. These roadway alterations are critical to Notre Dame’s master building plan, which will allow the University to expand its physical plant without expanding beyond its current “footprint” and encroaching on its neighbors.

The path to agreement spanned three years and involved a number of Notre Dame officials. The community became especially well acquainted, however, with University Architect Douglas Marsh and with Jacquelyn Rucker, director of the Office of Community Relations. Rucker, a Notre Dame graduate who grew up in South Bend, was hired in April 2003 and immediately began talking and working with a wide spectrum of community leaders on the roadway issues as well as on numerous other issues that concern community members.





Rucker's office, and some of Notre Dame's many ongoing relationships with segments of South Bend's population, got a new home base in October 2003 when Malloy and Mayor Stephen Luecke presided over the opening of Notre Dame Downtown. The facility on Michigan Street also hosts two other University ventures: the South Bend Downtown Design Center, run by the School of Architecture, and the Crossroads Gallery, an art gallery run by the Snite Museum, the Institute for Latino Studies, and the Department of Art, Art History, and Design.

"Having an office in the heart of downtown sends a message that Notre Dame is interested in the South Bend community," says Rucker. "That's been a real plus." Notre Dame Downtown quickly became a bustling part of life for many local residents, including senior citizens who come to take classes in the computer lab or to hear lectures by University faculty members. At any given time, the facility can also be a meeting place for South Bend school kids, architecture students, representatives of the economic development arm of the mayor's office, and many others.

Notre Dame Downtown complements other community-based initiatives that have enjoyed the sponsorship of the University, including South Bend's Center for the Homeless and the Robinson Community Learning Center (RCLC). The RCLC, established by Notre Dame in 2001 to serve the families of the Northeast Neighborhood, experienced substantial growth under the direction of Jay Caponigro. A grant of nearly \$400,000 from the U.S. Department of Housing and Urban Development in October 2003 allowed the RCLC to establish several programs, including a youth mentoring initiative to provide violence prevention training, an educational tutoring program, lead poisoning prevention program, and a job training initiative.

"We've developed our program ideas from people's interests, focusing on educational ways to help personal development," says Caponigro. He points out that the educators gain a lot from the experience, too. More than 300 Notre Dame students volunteer to assist in the center's many activities, including tutoring. "It's the classic win-win situation that communities benefit from—our students and our neighbors drawing out the best from each other, surfacing the problems and enabling the solutions," Caponigro says.

This vision of a shared future has gained breadth, depth, and clarity through many of the community-relations accomplishments of 2003-04, gathering proponents as well as beneficiaries. As Notre Dame strengthens its relations with the surrounding community, it will continue to fulfill its providential mission as a great Catholic university, embracing "a sense of human solidarity and concern for the common good that will bear fruit as learning becomes service to justice." (*Mission Statement of the University of Notre Dame*)





DEVELOPMENT UPDATE

Notre Dame ascended to new fund-raising heights during fiscal 2004, raising \$173.7 million and surpassing the previous record of \$142.2 million in 2001.

This remarkable achievement was driven by the largest gift in the University's history—a \$50 million gift from the estate of Joan B. Kroc in support of Notre Dame's Kroc Institute for International Peace Studies. This estate gift highlights the growing role and impact of planned giving on the ability of the University to fund programs and facilities that secure its place as a world-class educational institution.

Another important indicator of support is Notre Dame's participation statistics. Overall, the University received support from 59,668 donors, slightly more than in 2003. The overall participation rate for Notre Dame undergraduate alumni was 50.4 percent. This level of participation continues to rank Notre Dame among the very best in the country.

While overall donor participation remains strong, new pledge commitments declined from \$46.4 million in 2003 to \$24.1 million in 2004 reflecting the challenge of maintaining fund-raising momentum outside of a campaign period. The University will continue to focus on strengthening its relationship with young alumni and first-time donors with a view toward encouraging a pattern of lifelong giving.

A significant achievement of 2004 was the successful launch of the President's Circle—a new annual giving society at the \$25,000 level established to increase unrestricted giving and provide the President the ability to fund strategic and emerging priorities. In 2004, 63 benefactors enrolled as members contributing a total of \$1.6 million. This new source of revenue helped increase unrestricted giving from \$19.3 million in 2003 to \$20.3 million in 2004. This growth continues to reflect the strength of Notre Dame's Annual Fund which raised \$23.8 million in 2004 compared to \$22.6 million in 2003, an increase of 5.3 percent.

Planned giving, corporate relations, foundation relations, and Law School advancement rounded out other sources of fund-raising revenue. This past year \$79.8 million in cash receipts was received through a variety of planned giving instruments, including bequests, trusts, retirement plan assets, and life insurance. Giving from corporations and foundations remained strong at \$35.4 million. Finally, development efforts to raise contributions for the Notre Dame Law School surpassed last year's record of \$9.2 million by raising \$9.6 million in 2004.

In summary, Notre Dame experienced another strong year of fund raising, most notably in total cash receipts, planned giving, and unrestricted giving. As the University strives to accomplish its 10-year strategic goals, it is deeply blessed by a loyal, generous, and caring constituency committed to its rich tradition, unique mission, and bold vision for the future.

Paying Tribute to a Guiding Force in University Fiscal Affairs

Rev. Edmund P. Joyce, C.S.C. (1917-2004)



When **Rev. Edmund P. Joyce, C.S.C.**, took over the executive vice presidency of Notre Dame in 1952, it was akin to joining a family business. When he stepped down 35 years later, it was like leaving a transnational corporation.

In one of the most remarkable collaborative efforts in the history of American higher education, Father Joyce was the administrative partner of Rev. Theodore M. Hesburgh, C.S.C., during an era of unprecedented growth and progress at the University. He died at 87 on May 2 in Holy Cross House where he was convalescing after a stroke suffered in September 2002. He was buried from the Basilica of the Sacred Heart and laid to rest in the Holy Cross Community Cemetery, alongside other members of the University's founding religious community whose lives grew Notre Dame.

Joyce was a 1937 honors accounting graduate of Notre Dame who worked as a C.P.A. for five years before entering the Congregation of Holy Cross. Spotted early on as a talented young priest, he was asked by Father Hesburgh to be his number-two man when Hesburgh assumed the presidency in 1952. Hesburgh was a charismatic leader, representing Notre Dame nationally and internationally. Joyce was a much less

visible but nonetheless powerful campus figure, serving as acting president in Hesburgh's absences and stewarding the crucial areas of finance, facilities, and athletics.

"Ted has the books; Ned has the tickets," was the shorthand way of distinguishing their complementary roles. It also foreshadowed the fact that the campus library would come to be named after the President Emeritus and the athletic-convocation center after Joyce.

When he took over the executive vice presidency, Notre Dame had a budget of \$10.2 million and an endowment of \$8.5 million. When he retired in 1987, the budget was \$192.5 million and the endowment \$374.7 million. He balanced Notre Dame's budget in all but one fiscal year while constructing 40 buildings and setting the University on a modern fund-raising course. In athletics, he served as a national spokesman for academic integrity in intercollegiate sports and made sure that Notre Dame's graduation rate for athletes was among the highest in the country.

Vice presidents came and went, but Father Joyce was a constant campus presence, an anchor for the executive echelon. He was a formidable presence at budget meetings and one for whom debt was not an option. He was a friend to many of the institution's benefactors, and when lay governance was established in 1967, the faces of the new Board of Trustees were all familiar to him. As the University expanded and became a much more complex institution of higher learning, his judgment retained the highest respect among fellow Trustees as well as colleagues.

He was a meticulous planner and one who approached decision-making with great care and deliberation. If it was a homily at a dedication Mass, one could be sure that the words had been carefully honed for clarity. If it was an argument against annexation before the South Bend Common Council, one would know that all the facts had been methodically marshaled. No one came better prepared than the priest peering over his half-glasses.

Socially, Joyce shared with Hesburgh the ability to dominate a room, moving among its occupants with ease. In relaxed conversation, the young priest who read philosophy, politics, and economics at Oxford was more evident than the university administrator with a C.P.A.

On the national scene, he was a major figure in intercollegiate athletics, both in the National Collegiate Athletic Association and in the College Football Association. His was a voice that commanded attention in both organizations, where he stressed academic integrity long before that issue was constantly in the national spotlight. He was a lifelong believer in the compound noun “student-athlete,” and he had the classroom performance of Notre Dame athletes closely monitored. Joyce was also proud that athletics shared the same budget controls as other University entities and was one of the few collegiate sports operations that not only made money but also contributed its surplus to academics.

In brief, Edmund P. Joyce was the consummate “Notre Dame man.”



In his eulogy, Father Hesburgh said, “Little did I know that our association would go on for 35 years ... He was always faithful and hardworking and wonderful. He was a friend in the best sense of that word—that we care well for one another. Without him, both the University and I would have been much diminished.”

Welcoming a New Era of Fiscal Management

John F. Affleck-Graves

In April 2004 the University’s Trustees filled the vacant post of executive vice president with its fifth—and first lay—occupant, Notre Dame Professor of Finance **John F. Affleck-Graves**, who had been serving as vice president and associate provost. His work was well-known to members of the University’s governing body through reviews of Notre Dame’s academic programs he wrote in 2002 and 2003.

The appointment was effective immediately and came with the endorsement not only of the President of the University, Rev. Edward A. Malloy, but also of the Holy Cross priest selected by the Trustees to succeed him next July, Rev. John I. Jenkins. Affleck-Graves and Father Jenkins have already been colleagues, working together in the Provost’s Office (and running together in marathons). “John Affleck-Graves is deeply committed to Notre Dame’s Catholic mission and identity,” commented Father Malloy. “We conducted a nationwide search and came up with a world-class leader on our doorstep.”

The new executive vice president is a native of South Africa and a naturalized U.S. citizen. He has won numerous teaching awards and is the author of more than 50 refereed

publications in the areas of initial public offerings, valuation and asset pricing models, and shareholder value-added methodology.



From 1975 to 1986, Affleck-Graves taught at his *alma mater*, the University of Cape Town, where he received bachelor’s, master’s, and doctoral degrees, the last in mathematical statistics. He joined the Notre Dame faculty in 1986 and will continue to teach in the Mendoza College of Business while serving in the University’s number-three position. He will administer an annual operating budget approaching \$700 million and an endowment of \$3.1 billion. The physical development of the campus will come under him, as well as human resources, which involves some 4,000 full-time employees.

Speaking of those employees, he praised the number of dedicated people “committed to the Notre Dame mission and to a sense of service that makes this a special place.” He described his challenge as having Notre Dame operate very efficiently on the business side “while keeping the small campus and family feeling” long associated with the University. As for Father Joyce, he said simply, “He set the standard for what an executive vice president should be.”

FINANCIAL REVIEW

Completion of the new strategic plan has brought tremendous institutional excitement to Notre Dame.

As accomplishments of the past are relished and an even brighter future is anticipated, we now begin the work of implementing a challenging agenda.

Operationally and financially, Notre Dame is soundly positioned to tackle the tasks that will follow. The visionary and bold emphasis of my predecessor, Rev. Timothy R. Scully, C.S.C., on thoughtful campus planning, heightened operational efficiency, and an entrepreneurial-like creativity in addressing the future will serve our thought processes well.

The groundwork for financial success goes back quite a way. The legendary Rev. Edmund P. Joyce, C.S.C., as much as anyone set the tone for the balanced budgets, low levels of debt, and endowment growth, which serve as guiding principles for financial decisions today.

Building on the foundation laid by dedicated leaders of the past, I am mindful of the University's ongoing responsibility to be a careful steward of the resources entrusted to it. Let me summarize several key stewardship issues addressed in the past fiscal year that will continue to receive prominent attention.



Governance

The University operates in a business environment increasingly focused on accountability at all levels within an organization. The Sarbanes-Oxley Act, though not binding on higher education institutions, has resulted in a re-thinking of corporate governance and board responsibilities at colleges and universities across the country.

Notre Dame has chosen to implement a number of Sarbanes-Oxley provisions, including sub-certification of financial results, adoption of an audit committee charter, and audit committee approval for non-audit work performed by external auditors. Additionally, through involvement with the Accounting Principles Council of the National Association of College and University Business Officers, our knowledgeable staff is making a contribution toward sound practices in the higher education community.

Budgeting and Financial Planning

One of the key challenges in both the short- and long-term is to remain competitive with peer institutions in terms of salaries, benefits, and support while maintaining a balanced budget. In the face of substantial increases in pension, employee health care, and retiree health benefit costs, the University completed yet another fiscal year within its operating budget. Thanks to careful planning and financial discipline across academic and administrative departments, Notre Dame repeatedly ranks in the top five among *U.S. News & World Report's* leading private universities in terms of operating margin.



Nevertheless, revenue sources must be diversified if we are to effectively manage the increased cost base that will follow from implementation of the strategic plan as well as external factors such as health care costs. Notre Dame traditionally has been a tuition dependent institution, and in recent years also has come to rely heavily on endowment



spending and other sources of investment income.

Donations through the Annual Fund and giving societies, such as the Sorin Society and President's Circle, provide indispensable unrestricted funds for a multitude of purposes across campus and will be even more vital in the future. Research grants and contracts totaled \$68 million in fiscal 2004 and have increased at an average annual rate of nearly 19 percent since fiscal 2000. The University will pursue further growth in this area, but must do so

strategically in the context of the additional infrastructure required to support an expanding research enterprise. Additionally, clear identification of the sources of funding for capital projects will be required before construction commences.

Capital Planning

The generosity of our loyal and generous constituents can be seen in the latest capital improvements on campus. The Marie P. DeBartolo Center for the Performing Arts, completed during the year, is a state-of-the-art performance and teaching facility. Featuring five outstanding performance venues in addition to classrooms, studios, and workspaces, the facility will immediately elevate Notre Dame's position as a center for learning and experiencing the performing arts.

Construction commenced on the Jordan Hall of Science, a 200,000-square-foot facility scheduled for completion in the summer of 2006. It contains a four-story concourse with laboratory space for undergraduate students studying in the departments of chemistry and biochemistry, biology, and physics. Jordan Hall also will house two 250-seat lecture halls, a 150-seat multi-visualization room, teaching labs, an observatory, herbarium and greenhouse, and departmental offices for the Preprofessional Studies Program.

Other projects under construction include the Guglielmino Athletics Complex and a facility to house our campus security and post office functions. All are important components of a strategic facilities plan that was several years in the making and reflects the long-term aspirations of the University.

Financial Aid

Notre Dame remains committed to providing access for all qualified students, regardless of their ability to pay. To this end, the University acknowledges the fundamental responsibility to admit students on a need-blind basis and then to develop fair and attractive financial-aid plans for those who require assistance. A combination of loans, campus jobs, and scholarships awarded by outside organizations are included with University scholarships to provide financial aid "packages" that meet each student's annual need.

Fiscal 2004 Results

The University maintained its strong financial position during fiscal 2004. Total investments grew to \$3.7 billion at June 30, 2004, as a result of a 20 percent return on the unitized investment pool. The University's overall asset base grew to \$4.61 billion compared to \$3.97 billion reported at June 30, 2003. Total net assets of \$4.05 billion reflect an increase of \$609.8 million from June 30, 2003, or 17.7 percent.

During fiscal 2004, unrestricted net assets increased \$325.5 million due primarily to net gains on investments of \$284.8 million. Operating revenues remained relatively flat while operating expenses increased 5.9 percent, or \$32.3 million over fiscal 2003.

Temporarily restricted net assets increased by \$210.9 million due to net gains on investments of \$266.6 million and temporarily restricted contributions of \$45.8 million offset by the release of restrictions on net assets of (\$126.9) million. Permanently restricted net assets increased by \$73.3 million as a result of contributions received for endowment. Capital spending in fiscal 2004 totaled \$54.1 million compared to \$69.4 million in fiscal 2003.

The University continued to maintain the highest available long-term debt rating, a key indicator of an institution's financial strength and stability.

In fiscal year 2004, the average package administered in this manner was more than \$19,000, helping to assist 80 percent of the undergraduates receiving financial aid. The University contribution was \$54 million, an increase of nearly 12 percent from the prior year. This very competitive policy of meeting the full demonstrated financial need of all undergraduate students plays an integral role in supporting the University's enrollment goals for quality and diversity.



Project Renovare

Renovare—Latin for *renewal*—is the name given to the complete restructuring of the University's information technology environment. This broad endeavor, begun in 2002 and scheduled to run through 2006, is divided into five core functional areas: finance, student/faculty systems, human resources/payroll, development, and ancillaries.



Project Renovare comes at a cost of approximately \$45 million. This was not a matter of choice, as many of our systems were outdated and we were facing replacement of our aging mainframes. But in the end, Renovare will streamline business processes, better integrate systems, and significantly improve data access for students, faculty, and staff. On-time and on-budget, we owe a debt of gratitude to University employees from a multitude of departments who have collaborated to make this massive and complex undertaking a success.

Conclusion

Notre Dame has benefited from the wise leadership and fiscal discipline of the four previous executive vice presidents. As the University community strives to fulfill the promise laid out in the newest strategic plan, we also will strive to perpetuate their legacy of exceptional business acumen and sound financial stewardship.

—John F. Affleck-Graves



John F. Affleck-Graves, Ph.D.
Executive Vice President

Summary of Financial Results

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

	YEARS ENDED JUNE 30	
	2004	2003
Assets	\$ 4,611,574	\$ 3,973,195
Net assets	\$ 4,046,685	\$ 3,436,922
Increase/(Decrease) in net assets	\$ 609,763	\$ (24,832)
Operating revenues and other additions	\$ 578,707	\$ 571,323
Operating expenses	\$ 584,763	\$ 552,463
Increase/(Decrease) in unrestricted net assets from operations	\$ (6,056)	\$ 18,860
Market value of endowment and funds functioning as endowment	\$ 3,123,454	\$ 2,609,005
Bonds and notes payable	\$ 283,555	\$ 252,819
Tuition and fees, net of scholarships and fellowships	\$ 195,071	\$ 186,514
Contributions	\$ 149,559	\$ 89,045
Total investment return	\$ 601,918	\$ 61,710
Sales and services of auxiliary enterprises	\$ 130,404	\$ 129,050
Capital expenditures	\$ 54,111	\$ 69,375

Statistical Highlights

ACADEMIC YEARS ENDED JUNE 30

	2004	2003	2002	2001	2000
STUDENTS					
Undergraduate	8,311	8,261	8,208	8,038	8,014
Graduate and professional	3,104	3,050	2,846	2,762	2,640
Total fall enrollment	11,415	11,311	11,054	10,800	10,654
UNDERGRADUATE ADMISSIONS					
Applications	12,095	9,744	9,378	10,051	10,010
Offers of admission	3,524	3,336	3,338	3,442	3,500
Enrolled	1,996	1,946	2,036	1,958	1,971
Selectivity ratio	29.1%	34.2%	35.6%	34.2%	35.0%
Matriculation ratio	56.6%	58.3%	61.0%	56.9%	56.3%
DEGREES CONFERRED					
Baccalaureate	2,052	2,111	1,985	1,954	2,001
Master's	940	841	725	701	560
First professional	176	188	180	203	182
Doctoral	149	135	116	132	147
Total degrees conferred	3,317	3,275	3,006	2,990	2,890
UNDERGRADUATE TUITION RATE					
Percent increase over prior year	\$27,170	\$25,510	\$24,320	\$23,180	\$22,030
	6.5%	4.9%	4.9%	5.2%	5.4%

ENDOWMENT REVIEW

The vision for Notre Dame's future described in this Annual Report is quite ambitious, as it should be.

The University's current standing as the premier Catholic institution of higher learning provides a tremendous springboard, and, as always, success will require hard work and the commitment of a variety of skills and resources.

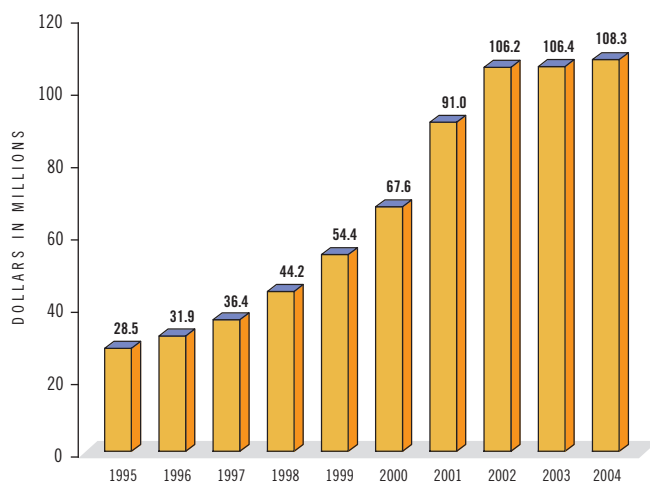
Financial resources of course are crucial. Over recent years, the Notre Dame Endowment has provided an important supplement to tuition and other operating revenues. With Endowment spending in excess of \$108 million, fiscal 2004 marked the third consecutive year that the Endowment contributed more than \$100 million to the

University's needs, dramatically up from \$29 million just a decade earlier. Endowment spending in the last fiscal year provided funding for roughly one-sixth of the University's total expenditures.

The continuing availability of these resources is dependent on generous benefactions and the growth of donor gifts through a vibrant investment management program. With investment performance for the year that ranks among the highest in the country relative to institutional investors generally, as well as within the higher education community, fiscal 2004 saw the Endowment cross the \$3 billion threshold.

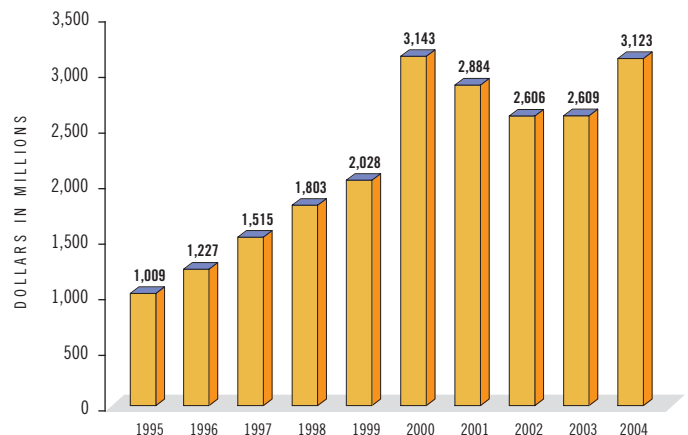
For the year, the return on the Endowment pool was 20.02 percent, net of all investment management charges, compared to 16.81 percent for the University's Strategic Policy Portfolio (SPP). The SPP is an internal benchmark consisting of a weighted average of various indices representative of the Endowment portfolio. Indicative of comparative performance of large institutional investors as a group, the Trust Universe Comparison Service (TUCS) Large Fund Median return of institutional investors larger than \$1 billion was 16.22 percent.

Endowment Spending Growth 1995-2004
Fiscal years ending June 30



Universities with the finest reputations comparatively tend to be those with the largest endowments. The Notre Dame Endowment ranks 19th in American higher education and notably is the largest at a Catholic institution. The market value of the Notre Dame Endowment at June 30, 2004, net of spending and distributions, increased to \$3.123 billion from \$2.609 billion at the end of the prior fiscal year.

Endowment Market Value 1995-2004
Fiscal years ending June 30





Every major asset class outperformed its benchmark for the fiscal year. Traditional public equities regained their luster in the first two quarters and ended the year as the highest performing asset class with a 28 percent return, underscoring the importance of a disciplined investment approach grounded in fundamental principles of diversification and not attempting to time the markets.

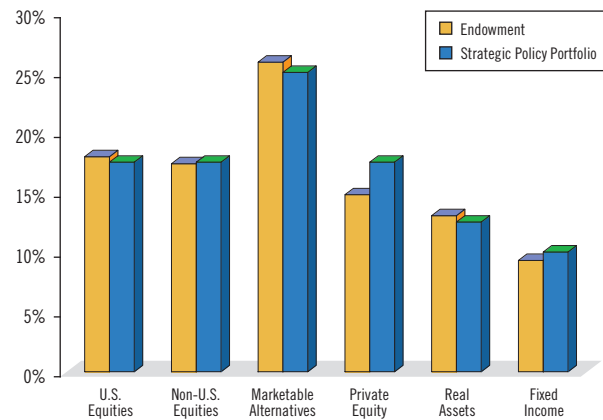
Other equity interests similarly performed well. Private equity returned over 20 percent, with positive results in venture capital and buyout funds providing healthy returns. The real assets class continued its trend of positive contributions to the portfolio, fueled by the energy sector and commodities. The private energy portfolio, steadily built over the past decade, returned nearly 45 percent for the year and more than 27 percent annualized for the five years ended June 30, 2004.

Strategically, we remain committed to less efficient areas of the capital markets and continue to seek niche opportunities across the full spectrum of strategies. For example, long-standing allocations to domestic and international private equity, real estate, and energy recently were complemented with the development of a timber portfolio.

The second half of the fiscal year was marked by an increase in the target allocation to marketable alternatives to 25 percent of the portfolio. Such strategies are intended to reduce portfolio correlation to the traditional stock and bond markets and enhance risk-adjusted returns. By the end of the fiscal year, the higher target allocation had been reached as the University was successful in establishing relationships with world-class hedge fund managers, particularly equity long/short and multi-strategy managers.

While fiscal 2004 was a rewarding year, endowments are long-term investors and performance sustained over time is needed to help fund the University's aspirations. For the five- and 10-year periods ended June 30, 2004, the Endowment pool's annualized returns were 10.32 percent and 14.15 percent, respectively, significantly outperforming the SPP returns of 3.79 percent and 9.90 percent, and the TUCS Large Fund Median returns of 3.85 percent and 10.16 percent.

Endowment Asset Allocation
June 30, 2004

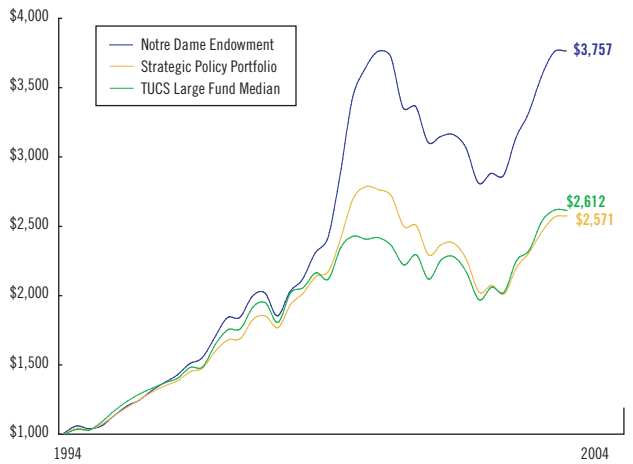


Searching for the Next Google™

Notre Dame has worked diligently over the course of many years to forge and maintain strong relationships with many of the nation's foremost venture capital firms. Through these investments, the University has participated in the creation of many exciting businesses, with Google™ being the latest high-profile example. The venture capital portfolio has returned an annualized 114 percent per year for the last five years, and an annualized 30 percent since inception of the program in 1980. In addition to generating exceptional investment returns, the venture capital program provides capital for the development of important new technologies and job creation.

Endowment Investment Performance Profile

Change in value of \$1,000 invested July 1, 1994 to June 30, 2004*



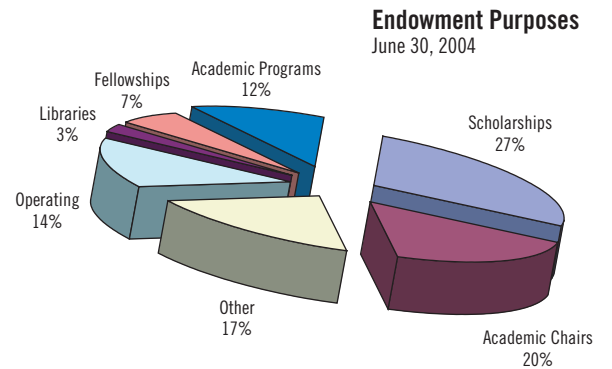
*A comparison of change in value of a hypothetical \$1,000 investment (assuming no spending distributions).

As demonstrated in the accompanying chart, which shows relative growth in value of a \$1,000 endowment donation made 10 years ago, the long-term investment performance of the Notre Dame Endowment compared to these benchmarks has considerably enlarged donor gifts. In total, the University's investment management program added nearly \$1.2 billion to the market value of the Endowment over the 10 years ended June 30, 2004, compared to what the market value would have been had actual investment returns equaled the returns on the SPP or the TUCS Large Fund Median over that period.

Yes, Notre Dame's vision is bold, but its students, faculty, staff, alumni, and other benefactors expect nothing less. Bringing our collective dreams to reality will require an even higher level of endowed support—for academic programs, faculty positions, libraries, and financial aid. As much as ever, we will rely on the financial and other contributions of these loyal members of the Notre Dame family. In turn, they will continue to receive the University's unwavering commitment to the finest possible stewardship of invested assets.

—Scott C. Malpass

Yes, Notre Dame's vision is bold, but



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



STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS)

	AS OF JUNE 30	
	2004	2003
Assets		
Cash and cash equivalents	\$ 75,976	\$ 40,053
Accounts receivable, net	22,162	20,515
Deferred charges and other assets	17,071	13,961
Contributions receivable, net	60,303	72,776
Notes receivable, principally for student loans, net	31,926	31,859
Investments	3,701,554	3,100,747
Land, buildings and equipment, net of accumulated depreciation	702,582	693,284
Total assets	\$ 4,611,574	\$ 3,973,195
Liabilities		
Accounts payable	\$ 16,985	\$ 20,084
Deferred revenue	43,158	41,932
Deposits and other liabilities	60,476	75,308
Amounts payable under split-interest agreements	25,905	21,242
Bonds and notes payable	283,555	252,819
Pension and other postretirement benefits	107,738	98,293
Government advances for student loans	27,072	26,595
Total liabilities	564,889	536,273
Net Assets		
Unrestricted		
Undesignated	120,846	68,758
Designated for specific purposes	122,542	182,833
Invested in land, buildings and equipment	434,073	440,465
Funds functioning as endowment	1,383,030	1,042,912
Total unrestricted	2,060,491	1,734,968
Temporarily restricted	1,189,426	978,535
Permanently restricted	796,768	723,419
Total net assets	4,046,685	3,436,922
Total liabilities and net assets	\$ 4,611,574	\$ 3,973,195

See accompanying notes to financial statements.



STATEMENTS OF CHANGES IN UNRESTRICTED NET ASSETS

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2004	2003
Operating Revenues and Other Additions		
Tuition and fees	\$ 295,401	\$ 277,191
Less: Tuition scholarships and fellowships	(100,330)	(90,677)
Net tuition and fees	195,071	186,514
Grants and contracts	68,190	60,732
Contributions	20,301	19,256
Investment return distributed	65,734	79,053
Sales and services of auxiliary enterprises	130,404	129,050
Other sources	22,483	22,144
Total operating revenues	502,183	496,749
Net assets released from restrictions for operations	76,524	74,574
Total operating revenues and other additions	578,707	571,323
Operating Expenses		
Instruction	216,487	205,360
Research	54,891	51,438
Public service	18,329	18,323
Academic support	37,718	38,520
Student activities and services	27,178	24,159
General administration and support	113,116	94,566
Auxiliary enterprises	117,044	120,097
Total operating expenses	584,763	552,463
Increase/(Decrease) in unrestricted net assets from operations	(6,056)	18,860
Non-Operating Changes in Unrestricted Net Assets		
Contributions	13,036	5,609
Investment return:		
Investment income	24,715	18,914
Net gain on investments	284,829	3,539
Less: Investment return distributed	(65,734)	(79,053)
	243,810	(56,600)
Net gain/(loss) on other financial instruments	7,848	(8,059)
Net assets released from restrictions for investment and physical facilities	50,329	42,756
Change in additional pension liability	6,106	(12,976)
Other non-operating changes	10,450	—
Increase/(Decrease) in unrestricted net assets from non-operating activities	331,579	(29,270)
Increase/(Decrease) in unrestricted net assets	\$ 325,523	\$ (10,410)

See accompanying notes to financial statements.



STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2004	2003
Unrestricted Net Assets		
Operating revenues and other additions	\$ 578,707	\$ 571,323
Operating expenses	(584,763)	(552,463)
	Increase/(Decrease) in unrestricted net assets from operations	18,860
	Increase/(Decrease) in unrestricted net assets from non-operating activities	(29,270)
	Increase/(Decrease) in unrestricted net assets	(10,410)
Temporarily Restricted Net Assets		
Contributions	45,785	45,108
Investment income	24,060	20,317
Net gain on investments	266,628	18,858
Change in value of split-interest obligations	1,271	(898)
Net assets released from restrictions	(126,853)	(117,330)
	Increase/(Decrease) in temporarily restricted net assets	(33,945)
Permanently Restricted Net Assets		
Contributions	70,437	19,072
Investment income	1,102	926
Net gain/(loss) on investments	584	(844)
Change in value of split-interest obligations	1,226	369
	Increase in permanently restricted net assets	19,523
	Increase/(Decrease) in net assets	(24,832)
	Net assets at beginning of year	3,461,754
	Net assets at end of year	\$ 3,436,922

See accompanying notes to financial statements.



STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2004	2003
Cash Flows from Operating Activities		
Increase/(Decrease) in net assets	\$ 609,763	\$ (24,832)
Adjustments to reconcile increase/(decrease) in net assets to net cash used by operating activities:		
Depreciation	33,674	32,136
Adjustment to carrying value of buildings and equipment	11,139	8,684
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	(4,757)	(1,502)
Contributions receivable	12,473	11,250
Accounts payable, deferred revenue, deposits and other liabilities	(16,705)	7,454
Amounts payable under split-interest agreements	4,663	716
Pension and other postretirement benefits	9,445	16,176
Contributions for investments and physical facilities	(123,458)	(62,656)
Investment income restricted for reinvestment	(1,102)	(926)
Net gain on investments	(552,041)	(21,553)
Other, net	(1,177)	7,702
Net cash used by operating activities	(18,083)	(27,351)
Cash Flows from Investing Activities		
Sales/(Purchases) of investments, net	(47,589)	18,910
Purchases of land, buildings and equipment	(54,111)	(69,375)
Student loans granted	(6,906)	(5,277)
Student loans repaid	6,606	6,334
Other changes in notes receivable	233	214
Net cash used by investing activities	(101,767)	(49,194)
Cash Flows from Financing Activities		
Contributions received restricted for:		
Investments	109,178	57,781
Physical facilities	14,280	4,875
Investment income restricted for reinvestment	1,102	926
Proceeds from bonds issued	65,000	—
Repayment of bonds and notes	(34,264)	(2,357)
Government advances for student loans	477	870
Net cash provided by financing activities	155,773	62,095
Net change in cash and cash equivalents	35,923	(14,450)
Cash and cash equivalents at beginning of year	40,053	54,503
Cash and cash equivalents at end of year	\$ 75,976	\$ 40,053

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 donor-imposed restrictions 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.

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 alternative investments, such as venture capital and other private equity 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 these alternative 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 utilizes derivative instruments in a limited manner, primarily interest rate swap agreements, to manage interest rate risk associated with its debt portfolio. These instruments are reported in the statements of financial position at fair value, which is based on valuations provided by counterparty banks and represents the estimated amount that counterparties would receive or pay to terminate the instrument at the reporting date. Any gains or losses resulting from changes in the fair value of these 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 2003 financial statements and footnotes have been reclassified to conform with the 2004 presentation.

NOTE 2.

ACCOUNTS AND NOTES RECEIVABLE

At June 30, 2004, accounts and notes receivable are stated net of allowances of \$1,630,000 and \$1,204,000, respectively. At June 30, 2003, these allowances were \$1,489,000 and \$1,178,000, 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>2004</u>		<u>2003</u>	
Unconditional promises expected to be collected in:				
Less than one year	\$	28,082	\$	23,791
One year to five years		41,551		48,880
More than five years		25,726		30,436
		<u>95,359</u>		<u>103,107</u>
Less:				
Unamortized discount		15,715		17,192
Allowance for uncollectible amounts		19,341		13,139
		<u>35,056</u>		<u>30,331</u>
	\$	<u>60,303</u>	\$	<u>72,776</u>

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

	<u>2004</u>		<u>2003</u>	
Temporarily restricted	\$	33,144	\$	37,155
Permanently restricted		27,159		35,621
	\$	<u>60,303</u>	\$	<u>72,776</u>

**NOTE 4.
INVESTMENTS**

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

	<u>2004</u>		<u>2003</u>	
	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>
Short-term investments	\$ 229,212	\$ 230,730	\$ 259,870	\$ 261,611
Equity securities	1,091,641	1,327,393	1,199,253	1,255,279
Debt securities	361,922	375,420	339,677	364,339
Real estate	95,090	129,742	90,295	122,547
Other investments	1,584,404	1,638,269	1,159,175	1,096,971
	<u>\$ 3,362,269</u>	<u>\$ 3,701,554</u>	<u>\$ 3,048,270</u>	<u>\$ 3,100,747</u>

Other investments include alternative investment strategies, such as private equity and marketable alternatives.

Investments totaling \$3.51 billion at June 30, 2004 and \$2.95 billion at June 30, 2003, 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 \$1,835 and \$1,552 at June 30, 2004, and 2003, 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, 2004 such amounts approximated \$612 million.

INVESTMENT RETURN

Investment return for the years ended June 30, 2004, and 2003, is comprised of the following (in thousands):

	<u>2004</u>		<u>2003</u>	
Investment income, net	\$	49,877	\$	40,157
Realized gain/(loss)		267,620		(23,941)
Unrealized gain		284,421		45,494
	\$	<u>601,918</u>	\$	<u>61,710</u>

Investment income is reported net of related expenses, primarily investment advisory fees, of \$14,563,000 and \$13,100,000 for the years ended June 30, 2004, and 2003, respectively.

**NOTE 5.
LAND, BUILDINGS AND EQUIPMENT**

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

	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 51,647	\$ 50,986
Buildings	720,659	636,861
Equipment	180,273	176,094
Construction in progress	24,377	82,105
	<u>976,956</u>	<u>946,046</u>
Less accumulated depreciation	274,374	252,762
	<u>\$ 702,582</u>	<u>\$ 693,284</u>

Depreciation expense was \$33,674,000 and \$32,136,000 for the years ended June 30, 2004, and 2003, respectively. The University has commitments to expend approximately \$81 million to complete various construction projects as of June 30, 2004.

**NOTE 6.
BONDS AND NOTES PAYABLE**

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

	<u>2004</u>	<u>2003</u>
St. Joseph County, Indiana		
Educational Facilities Revenue Bonds:		
Series 2003, bearing interest at 2.50 percent through 2007, variable thereafter through 2038	\$ 65,000	\$ —
Series 2002, bearing interest at a variable rate (1.0 percent currently) through 2037	65,000	65,000
Series 1998, bearing interest at a variable rate (0.92 percent currently) through 2033	43,000	43,000
Series 1997, bearing interest at 4.4 percent to 5.25 percent through 2027	28,975	29,650
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 4.4 percent to 5.25 percent through 2025	22,910	22,985
Series 1995, bearing interest at a variable rate (1.0 percent currently) through 2025	26,500	26,500
Series 1994, bearing interest at 5.6 percent to 6.65 percent through 2019	—	27,990
Series 1992, bearing interest at 5.5 percent to 6 percent through 2023	—	5,400
Notre Dame du Lac Dormitory Refunding and Construction Bonds bearing interest at 3 percent through 2018	1,350	1,430
Mortgage notes payable, bearing interest at 3 percent through 2019	820	864
	<u>\$ 283,555</u>	<u>\$ 252,819</u>

The aggregate scheduled maturities of the bonds and notes payable for each of the five fiscal years subsequent to June 30, 2004, are as follows (in thousands): \$905 in 2005; \$946 in 2006; \$988 in 2007; \$1,034 in 2008; and \$1,076 in 2009.

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. Proceeds of approximately \$15,000,000 from the Series 2003 St. Joseph County Educational Facilities Authority Revenue Bonds were unexpended as of June 30, 2004.

The fair value of the University's bond and note obligations approximates the aggregate carrying value at June 30, 2004 and 2003.

The University utilizes interest rate swaps as a strategy for managing interest rate risk associated with certain bond issues. Under the terms of swap arrangements that seek to effectively fix the variable rates associated with certain issues, the University pays fixed rates ranging from 3.37 percent to 4.177 percent and receives variable rates ranging from 67 percent to 70 percent of the London Interbank Offer Rate (LIBOR) on total notional amounts of \$86,700,000. A separate swap arrangement seeks to convert the fixed rate on the Series 2003 bonds to a variable rate through 2007. Under the terms of this swap, the University pays a variable rate equal to the Bond Market Association (BMA) Municipal Swap Index and receives a fixed rate of 2.35 percent on a notional amount of \$65,000,000. The estimated fair value of interest rate swaps was a net unrealized loss position of \$2,818,000 and \$8,060,000 at June 30, 2004 and 2003, respectively. The University paid periodic net settlements of \$1,440,000 and \$947,000 to counterparties pursuant to interest rate swaps during the years ended June 30, 2004 and 2003, respectively.

Total interest costs incurred and paid by the University were \$7,950,000 and \$8,130,000, respectively, for the year ended June 30, 2004. Interest costs incurred and paid were \$8,330,000 and \$8,331,000, respectively, for the year ended June 30, 2003.

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 December 1, 2003 the line of credit agreement was amended, extending the termination date to November 29, 2004. The available line of credit was entirely unused at June 30, 2004, and 2003.

NOTE 7.

PENSION AND OTHER RETIREMENT PLANS

DEFINED CONTRIBUTION RETIREMENT SAVINGS 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 retirement savings plan. Staff members participating in the 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 \$15,200,000 and \$14,195,000 for the years ended June 30, 2004, and 2003, respectively.

DEFINED BENEFIT PENSION PLAN

Retirement benefits are provided for other employees under a defined benefit, trusteed pension 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 University funds the plan with annual contributions that meet ERISA minimum requirements. The plan assets and their related actuarially determined benefit obligation are included in investments and pension and other postretirement benefits, respectively, on the statements of financial position as of June 30, 2004, and 2003.

At June 30, 2004 and 2003, the accumulated benefit obligation with respect to the 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 \$6,870,000 and \$12,976,000 at June 30, 2004 and 2003, respectively. The decrease or increase in the required minimum pension liability adjustment is reflected as a non-operating gain or loss in the statements of changes in unrestricted net assets.

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

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

	2004	2003
CHANGE IN BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	\$ 95,693	\$ 76,112
Service cost	4,626	3,636
Interest cost	5,889	5,492
Actuarial loss	333	13,790
Benefit payments	(3,629)	(3,337)
Projected benefit obligation at end of year	102,912	95,693
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	54,728	56,554
Actual return on plan assets	8,161	(1,347)
Employer contributions	4,553	2,858
Benefit payments	(3,629)	(3,337)
Fair value of plan assets at end of year	63,813	54,728
Funded status	(39,099)	(40,965)
Unrecognized net loss	29,235	33,937
Unrecognized prior service costs	384	475
Accrued benefit cost	(9,480)	(6,553)
Minimum pension liability adjustment	(6,870)	(12,976)
Total liability	\$ (16,350)	\$ (19,529)
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	\$ 4,626	\$ 3,636
Interest cost	5,889	5,492
Expected return on plan assets	(4,774)	(5,182)
Amortization of:		
Unrecognized net loss	1,648	91
Unrecognized prior service cost	92	92
Net periodic benefit cost	\$ 7,481	\$ 4,129
Accumulated benefit obligation at end of year	\$ 80,547	\$ 74,820
WEIGHTED-AVERAGE ASSUMPTIONS		
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	8.50%	8.50%
Rate of compensation increase	5.00%	5.00%

The projected benefit payments under the plan for each of the five fiscal years subsequent to June 30, 2004 are as follows (in thousands): \$3,858 in 2005; \$3,918 in 2006; \$4,101 in 2007; \$4,385 in 2008; and \$4,702 in 2009. Projected aggregate benefit payments under the plan for the five-year period ended June 30, 2014 are \$29,833,000. The University's estimated contributions to the plan for the year subsequent to June 30, 2004 are \$4,993,000.

The assets of the defined benefit pension plan are invested in a manner that is intended to achieve a rate of return of 8.5 percent, which is the plan's assumed long-term rate of return. In order to preserve the purchasing power of the plan and provide payments to beneficiaries, a rate of return objective of inflation plus 5.0 percent is targeted.

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

Third-party managers invest the plan's assets.

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

	2004	2003	Target
Short-term investments	1%	6%	0%
Equity securities	53%	52%	55%
Debt securities	23%	23%	25%
Other assets	23%	19%	20%
	100%	100%	100%

Other assets include alternative investment strategies, such as private equity and marketable alternatives.

NOTE 8.
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The postretirement benefit plans offered by the University provide medical insurance benefits for retirees and their spouses. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. The plans are funded as claims are paid.

During the year ended June 30, 2004, the University changed certain features of its postretirement benefit plans and amended eligibility requirements for participation in these plans. The combined effect of these amendments on the accumulated postretirement benefit obligation (APBO) was a decrease of \$17,491,000.

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

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

	2004	2003
CHANGE IN BENEFIT OBLIGATION		
Accumulated postretirement benefit obligation at beginning of year	\$ 41,836	\$ 32,926
Service cost	2,379	1,821
Interest cost	2,299	2,381
Plan amendments	(17,491)	(1,508)
Actuarial loss	4,075	7,410
Benefit payments	(1,114)	(1,194)
Accumulated postretirement benefit obligation at end of year	<u>31,984</u>	<u>41,836</u>
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Employer contributions	1,114	1,194
Benefit payments	(1,114)	(1,194)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	(31,984)	(41,836)
Unrecognized net loss	16,231	13,077
Unrecognized prior service costs	(11,822)	—
Unrecognized net transition obligation	—	4,723
Accrued benefit cost	<u>\$ (27,575)</u>	<u>\$ (24,036)</u>
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	\$ 2,379	\$ 1,821
Interest cost	2,299	2,381
Expected return on plan assets	—	—
Amortization of:		
Unrecognized net loss	236	204
Unrecognized prior service cost	(1,182)	—
Unrecognized net obligation	921	544
Net periodic benefit cost	<u>\$ 4,653</u>	<u>\$ 4,950</u>
WEIGHTED-AVERAGE ASSUMPTIONS		
Discount rate	6.25%	6.25%
Health care cost trend rate (grading to 5.00% in 2012)	9.00%	9.50%

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 \$717,000 and \$4,759,000, 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 \$600,000 and \$4,144,000, respectively.

The projected postretirement benefit payments for each of the five fiscal years subsequent to June 30, 2004 are as follows (in thousands): \$727 in 2005; \$827 in 2006; \$934 in 2007; \$1,055 in 2008; and \$1,167 in 2009. Projected aggregate postretirement benefit payments for the five-year period ended June 30, 2014 are \$7,804,000.

**NOTE 9.
RESTRICTED NET ASSETS AND ENDOWMENT**

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

	2004	2003
Contributions and earnings for operating purposes	\$ 53,547	\$ 54,502
Contributions for the acquisition of buildings and equipment	166,682	60,433
Split-interest agreements	11,999	9,059
Funds functioning as endowment	957,198	854,541
	<u>\$ 1,189,426</u>	<u>\$ 978,535</u>

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

	2004	2003
Endowment funds	\$ 783,226	\$ 711,552
Student loan funds	4,701	4,163
Split-interest agreements	8,841	7,704
	<u>\$ 796,768</u>	<u>\$ 723,419</u>

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

	2004	2003
Unrestricted	\$ 1,383,030	\$ 1,042,912
Temporarily restricted	957,198	854,541
Permanently restricted	783,226	711,552
	<u>\$ 3,123,454</u>	<u>\$ 2,609,005</u>

The aggregate amount of deficiencies for all donor-restricted endowment funds for which the fair value of the assets is less than the level required by donor stipulations was \$1,900,000 at June 30, 2004, and \$12,357,000 at June 30, 2003. 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 10.
NON-OPERATING CHANGES IN UNRESTRICTED NET ASSETS**

The University received a \$10,450,000 favorable settlement of litigation during the year ended June 30, 2004, which is reflected as a non-operating change in the statements of changes in unrestricted net assets.

**NOTE 11.
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, 2004 and 2003, 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.

PricewaterhouseCoopers LLP

Chicago, Illinois
October 7, 2004



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Assistant Controller, Payment Services

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Director of Financial Aid

Kevin P. Cannon, M.S.
Director of Student Accounts

Linda M. Kroll, C.P.A.
Director of University Budgeting

Philip J. Iapalucci Jr., C.P.A., M.B.A.
Director of Audit and Advisory Services

* June 30, 2004



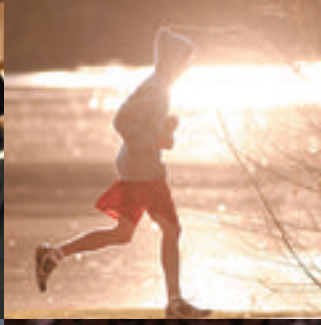
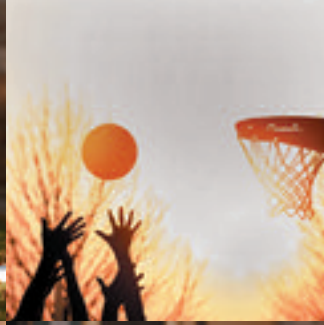
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* June 30, 2004



FULFILLING THE PROMISE:

a year in review

The University of Notre Dame is proud of its history and Catholic tradition, as well as the way its faculty, staff, and students fulfill the promise today. Here are a few of the highlights from the 2003-04 academic year. To view a full listing of the Notre Dame community's most recent achievements and honors, visit The Office of Public Affairs and Communication Web site at <http://opac.nd.edu>.

University News

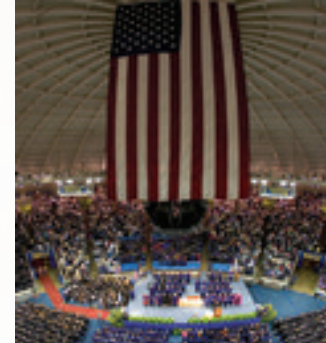
- ▶ The Board of Trustees elected a new president. Rev. John I. Jenkins, C.S.C., a philosopher and a vice president in the Provost's Office, was elected at the spring Trustees' meeting to succeed Rev. Edward A. Malloy, C.S.C., in July 2005.
- ▶ Among the many notable speakers on campus this year were those with distinct international messages: Bishop Desmond Tutu, Nigerian President Olusegun Obasanjo, and Sinn Fein President Gerry Adams.



- ▶ As another indicator of Notre Dame's growing international reputation, the University was rated third among major research schools for the percentage of students participating in study abroad programs.
- ▶ Notre Dame is rated among the nation's top 20 research universities by *U.S. News & World Report*, and the *Princeton Review* names Notre Dame one of the top 10 "dream schools" in the country. *Hispanic Magazine* ranks the university ninth in a survey of the top colleges for Latinos. Among other ratings: *The Wall Street Journal* puts the MBA Program in the top five nationally for producing graduates with high ethical standards; *U.S. News* and *BusinessWeek* rate the MBA Program in the top 30 overall; Notre Dame Law School is ranked 20th by *U.S. News*; *Entrepreneur* magazine and *U.S. News* rate the Gigot Center for Entrepreneurial Studies in the top 25 nationally; and the School of Architecture is ranked ninth by the National Architectural Accrediting Board.

Faculty

- ▶ Following the capture of Saddam Hussein, Notre Dame Law School professor Jimmy Gurulé was among a handful of U.S. experts called upon to train Iraqi judges who will comprise a tribunal to determine legal charges against the deposed president and other members of Iraq's overthrown Ba'athist government.
- ▶ President Bush appointed Nicole Stelle Garnett, associate professor of law, to the National Prison Rape Reduction Commission.
- ▶ Theologian Mary R. D'Angelo received a research fellowship from the National Endowment for the Humanities (NEH), bringing to 17 the number of NEH fellowships awarded Notre Dame in the past five years, more than for any other research university in the nation.
- ▶ The American Institute of Aeronautics and Astronautics named Thomas J. Mueller, the Roth-Gibson Professor of Aerospace Engineering, a fellow in aerospace sciences.
- ▶ Physicists Albert-László Barabási and Stefan G. Frauendorf were elected fellows of the American Physical Society.
- ▶ The Andrew W. Mellon Foundation awards a \$181,000 grant to historian Julia Adeney Thomas to fund her book-length study titled *Photography and Democracy: Between History and Sex in Occupied Japan*.
- ▶ The information technology publication *Computerworld* named Gordon Wishon, chief information officer, a 2004 Premier 100 IT Leader.
- ▶ Stuart Greene, associate professor of English and the O'Malley Director of the Writing Program, was appointed director of the Commission on Composition for the National Council of Teachers of English for 2003 to 2006.
- ▶ The National Endowment for the Arts awarded one of 11 literature fellowships for translation to Howard Goldblatt, research professor in the Department of East Asian Languages and Literatures.



Honors

- ▶ Historian George Marsden received three national honors—the Bancroft Prize, Merle Curti Award, and Annibel Jenkins Prize—for his book *Jonathan Edwards: A Life* and was one of five finalists for the National Book Critics Circle Award for biography.
 - ▶ Physicist Ikaros Bigi was the co-recipient of the American Physical Society's J.J. Sakurai Prize for outstanding achievement in particle theory.
 - ▶ Political scientist David Campbell was among 20 scholars chosen to be a 2004-05 National Academy of Education/Spencer Postdoctoral Fellow.
 - ▶ English professor Maura Nolan was among 40 fellows chosen by the National Humanities Center to spend a full academic year on leave to pursue research. She will work on a book titled *English Fortune: The Early History of a Literary Idea*.
 - ▶ The Council for the Advancement and Support of Education presented eight awards to Notre Dame—four to *Notre Dame* magazine, two to the Alumni Association, and two to Public Affairs and Communication.
- ## Research/Scholarship/Creativity
- ▶ Led by engineering professor Peter C. Burns, researchers from Notre Dame offered new insights into conditions that might develop at radioactive repositories such as the one planned for the Yucca Mountains in Nevada.
 - ▶ Astrophysicist Peter Garnavich and colleagues from the Harvard-Smithsonian Center for Astrophysics studied sky photographs from the early 20th century to help explain the behavior of a "winking star," offering new clues to how planets are formed.
 - ▶ The National Science Foundation awarded \$10 million to Notre Dame, Michigan State University, and the University of Chicago to establish the Joint Institute for Nuclear Astrophysics. Michael Wiescher, a Notre Dame nuclear astrophysicist, is the first director.
 - ▶ Mark W. Roche, the I.A. O'Shaughnessy Dean of the College of Arts and Letters and Rev. Edmund P. Joyce, C.S.C., Professor of German Languages and Literatures, published a new book titled *The Intellectual Appeal of Catholicism and the Idea of a Catholic University*.

▶ Astrophysicist David Bennett was a member of an international team of astronomers that discovered the most distant planet to orbit an ordinary star in the Milky Way. The discovery was the first made by a technique known as gravitational microlensing.

▶ A study by researchers at Notre Dame raised important questions about the safety of herbal dietary supplements such as St. John's Wort, cayenne, goldenseal root, and echinacea. The study found that the supplements contain one or more heavy metals in surprisingly high amounts.

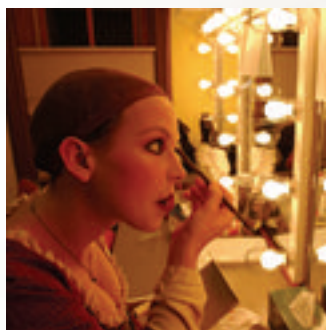
▶ The U.S. Department of Energy's Argonne National Laboratory and Notre Dame created a new joint Institute for Theoretical Sciences, under the direction of physicist Boldizsár Jankó.

▶ Rudolph M. Navari, director of the Walther Cancer Research Center on campus, leads a study that finds a drug used to treat schizophrenia and other psychoses may make chemotherapy treatments far less onerous.

Students

▶ Jill S. Joehl, a preprofessional studies major from Carmel, Ind., was one of 12 national winners of an American Physiology Society undergraduate research fellowship.

▶ Three students—Megan McClain, Petra Dankova, and Alison Glass—received medals in the fifth annual National Post-Secondary Russian Essay contest sponsored by the American Council of Teachers of Russian.



▶ Kathleen Donovan, an aerospace engineering major from Scotch Plains, N.J., earned a graduate fellowship from the National Science Foundation to pursue her doctoral studies at The Ohio State University.

▶ Seven seniors received Fulbright grants for study abroad—Brett Anderson, Mercy Bachner-Reimer, Bonnie Leigh Cockerill, Jennifer Garczyk, Gregory Schober, Katherine Zakas, and Elizabeth Zwickert.

▶ The first collegiate chapter of the Children's Defense Fund, a nonprofit organization that advocates for disadvantaged children, is established at Notre Dame.

▶ Michael Murphy of Casper, Wyo., became the first Notre Dame student to earn a prestigious postgraduate internship from the Financial Accounting Standards Board.



Athletics

▶ An unprecedented 22 of the 26 varsity athletics programs sent either a full team or individuals to NCAA postseason competition in 2003-04.

▶ Significant accomplishments include the women's lacrosse team rising as high as second in the national rankings, and the hockey and women's golf teams earning their first ever NCAA Tournament berths.

▶ Notre Dame compiled the nation's highest overall graduation rate for Division I-A student-athletes to take the top honor in the 2003 *USA Today*/NCAA Academic Achievement Awards. Irish athletes graduated at an 87 percent rate, third only to Duke and Northwestern universities. Among student-athletes who completed all four years of athletic eligibility at Notre Dame, 99 percent earned their degrees.

▶ A study of NFL rosters found that 82 of the 88 (92 percent) former Notre Dame players in professional football earned their degree, the highest graduation rate in the nation.

▶ NBC and Notre Dame agreed to extend until 2010 the agreement in which the network televises Irish home football games.

▶ The NCAA Division I Committee on Athletics Certification recertified the Irish athletics program. The committee, which was established in 1993 to ensure integrity in collegiate athletics programs, offered high praise for all facets of the Notre Dame athletic department.

▶ The weekly publication *Sports Illustrated on Campus* selected the Notre Dame intramural athletics program as the best in the nation.

▶ The late and legendary football coach Knute Rockne was one of six distinguished Americans honored with the Ellis Island Family Heritage Award in a ceremony at the Statue of Liberty.

Community Relations

▶ Notre Dame Downtown celebrated its grand opening in October 2003. The 10,000-square-foot space in the heart of downtown South Bend houses the Office of Community Relations, the Crossroads Gallery (a joint venture of the Snite Museum of Art, Institute for Latino Studies, and the Department of Art, Art History, and Design), and the Urban Studio, a storefront design studio that allows Notre Dame architecture students to interact with design professionals and community leaders on urban revitalization projects.

▶ A study commissioned by Notre Dame and conducted by Bay Area Economics of Berkeley, Calif., found that the economic impact of the University on the local area totaled \$833 million during 2002. It is the first comprehensive study the University has done of its economic impact on the surrounding community.

▶ In early June, a three-year process of negotiation among the University, local government officials, and the general public came to a successful conclusion when the St. Joseph County Council unanimously voted in favor of a Notre Dame proposal to close Juniper Road through campus and realign Edison Road south of campus. The vote paves the way for Notre Dame to fulfill its master plan for campus.



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