University of
Notre Dame du Lac

Consolidated Financial Statements
for the years ended
June 30, 2013 and 2012

Contents

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the University of Notre Dame du Lac and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

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

PricewaterhouseCoopers LLP

November 20, 2013

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University of Notre Dame du Lac

Consolidated Statements of Financial Position

(in thousands)

		As of June 30		
		2013		**2012**
Assets				
Cash and cash equivalents	$	148,564	$	88,557
Accounts receivable, net (*Note 2*)		28,094		24,895
Deferred charges and other assets *(Note 3)*		49,472		42,245
Contributions receivable, net *(Note 4)*		197,703		191,725
Notes receivable, net *(Note 5)*		46,007		60,087
Investments *(Note 6)*		8,509,334		7,632,623
Land, buildings and equipment, net of accumulated depreciation *(Note 7)*		1,350,192		1,290,423
Total assets	$	10,329,366	$	9,330,555
Liabilities				
Accounts payable *(Note 7)*	$	43,324	$	29,599
Short-term borrowing *(Note 8)*		108,000		115,051
Deferred revenue and refundable advances *(Note 9)*		76,125		75,213
Deposits and other liabilities *(Note 10)*		98,907		108,859
Liabilities associated with investments *(Note 6)*		623,273		393,718
Obligations under split-interest agreements (*Note 17*)		107,779		76,732
Bonds and notes payable (*Note 11*)		821,920		825,173
Conditional asset retirement obligations (*Note 7*)		23,443		22,481
Pension and other postretirement benefit obligations (*Note 13*)		100,935		123,122
Government advances for student loans (*Note 5*)		29,525		29,186
Total liabilities		2,033,231		1,799,134
Net Assets				
Unrestricted**:**				
Funds functioning as endowment (*Note 16*)		2,692,444		2,499,911
Invested in land, buildings and equipment		900,308		844,643
Other unrestricted net assets/(deficit)		117,782		(16,308)
Total unrestricted		3,710,534		3,328,246
Temporarily restricted (*Note 14*)		3,070,159		2,756,155
Permanently restricted (*Note 15*)		1,515,442		1,447,020
Total net assets		8,296,135		7,531,421
Total liabilities and net assets	$	10,329,366	$	9,330,555

See accompanying notes to consolidated financial statements.

University of Notre Dame du Lac

Consolidated Statements of Changes in Unrestricted Net Assets

(in thousands)

	Years ended June 30 2013	2012
Operating Revenues and Other Additions		
Tuition and fees	$ 504,325	$ 479,721
Less: Tuition scholarships and fellowships	(226,857)	(210,020)
Net tuition and fees	277,468	269,701
Grants and contracts (*Note 18*)	105,260	110,738
Contributions	38,547	34,642
Accumulated investment return distributed (*Note 6*)	95,751	94,232
Sales and services of auxiliary enterprises	214,322	200,562
Other sources	45,741	39,245
Total operating revenues	777,089	749,120
Net assets released from restrictions (*Note 14*)	196,519	186,470
Total operating revenues and other additions	973,608	935,590
Operating Expenses		
Instruction	341,958	332,299
Research	117,369	115,840
Public service	22,180	32,229
Academic support	56,826	57,619
Student activities and services	39,442	38,151
General administration and support	187,060	185,021
Auxiliary enterprises	194,432	181,832
Total operating expenses	959,267	942,991
Increase/(decrease) in unrestricted net assets from operations	14,341	(7,401)
Non-Operating Changes in Unrestricted Net Assets		
Contributions	9,059	3,158
Investment income (*Note 6*)	35,730	33,594
Net gain on investments (*Note 6*)	338,035	63,481
Accumulated investment return distributed (*Note 6*)	(95,751)	(94,232)
Net gain/(loss) on debt-related derivative instruments (*Note 12*)	14,756	(34,406)
Net assets released from restrictions (*Note 14*)	40,861	41,619
Net pension and postretirement benefits-related changes other than net periodic benefits costs (*Note 13*)	23,639	(47,936)
Other non-operating changes	1,618	8,501
Increase/(decrease) in unrestricted net assets from non-operating activities	367,947	(26,221)
Increase/(decrease) in unrestricted net assets	$ 382,288	$ (33,622)

See accompanying notes to consolidated financial statements.

University of Notre Dame du Lac

Consolidated Statements of Changes in Net Assets

(in thousands)

	Years ended June 30 2013	2012
Unrestricted Net Assets		
Operating revenues and other additions	$ 973,608	$ 935,590
Operating expenses	(959,267)	(942,991)
Increase/(decrease) in unrestricted net assets from operations	14,341	(7,401)
Increase/(decrease) in unrestricted net assets from non-operating activities	367,947	(26,221)
Increase/(decrease) in unrestricted net assets	382,288	(33,622)
Temporarily Restricted Net Assets		
Contributions	108,240	48,818
Investment income (*Note 6*)	40,552	37,976
Net gain on investments (*Note 6*)	397,637	64,888
Change in value of split-interest agreements (*Note 17*)	3,258	(440)
Net assets released from restrictions (*Note 14*)	(237,380)	(228,089)
Other changes in temporarily restricted net assets	1,697	(1,317)
Increase/(decrease) in temporarily restricted net assets	314,004	(78,164)
Permanently Restricted Net Assets		
Contributions	66,759	62,695
Investment income (*Note 6*)	1,571	1,670
Net loss on investments (*Note 6*)	(6)	(670)
Change in value of split-interest agreements (*Note 17*)	668	(388)
Other changes in permanently restricted net assets	(570)	(3,003)
Increase in permanently restricted net assets	68,422	60,304
Increase/(decrease) in net assets	764,714	(51,482)
Net assets at beginning of year	7,531,421	7,582,903
Net assets at end of year	$ 8,296,135	$ 7,531,421

See accompanying notes to consolidated financial statements.

University of Notre Dame du Lac

Consolidated Statements of Cash Flows

(in thousands)	Years ended June 30 2013	2012
Cash Flows from Operating Activities		
Increase/(decrease) in net assets	$ 764,714	$ (51,482)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net gain on investments	(735,666)	(127,699)
Contributions for long-term investment	(71,672)	(69,702)
Contributed securities	(76,709)	(39,676)
Proceeds from sales of securities contributed for operations	3,044	3,208
Depreciation	57,623	52,706
Loss on disposal of land, buildings and equipment	3,911	5,150
Change in value of split-interest agreements	(3,759)	1,009
Change in conditional asset retirement obligations	962	363
Change in pension and other postretirement benefit obligations	(22,187)	41,244
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	(10,426)	19,515
Contributions receivable	(5,978)	23,035
Accounts payable, deferred revenue and refundable advances, and deposits and other liabilities	4,685	8,649
Other, net	(7,351)	(2,193)
Net cash used by operating activities	(98,809)	(135,873)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,695,528	1,725,064
Purchases of investments	(1,761,757)	(1,750,479)
Purchases of land, buildings and equipment	(111,775)	(140,847)
Student and other loans granted	(4,290)	(18,235)
Student and other loans repaid	18,987	43,975
Net cash used by investing activities	(163,307)	(140,522)
Cash Flows from Financing Activities		
Investment income restricted for non-operational purposes	3,166	2,888
Contributions for long-term investment	99,430	77,425
Proceeds from sales of securities contributed for long-term investment	72,104	34,698
Proceeds from short-term borrowing	462,289	714,490
Repayment of short-term borrowing	(469,340)	(699,499)
Payments to beneficiaries of split-interest agreements	(8,634)	(6,934)
Proceeds from bonds and notes issued	-	100,000
Repayment of bonds and notes	(3,089)	(3,135)
Government advances for student loans	267	44
Cash accepted for investment on behalf of religious affiliates	178,809	63,077
Cash returned to religious affiliates	(12,879)	(8,108)
Net cash provided by financing activities	322,123	274,946
Net change in cash and cash equivalents	60,007	(1,449)
Cash and cash equivalents at beginning of year	88,557	90,006
Cash and cash equivalents at end of year	$ 148,564	$ 88,557
Supplemental Data		
Interest paid	$ 27,276	$ 27,470

See accompanying notes to consolidated financial statements.

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

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

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

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

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

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

GRANTS AND CONTRACTS

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

AUXILIARY ENTERPRISES

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

CASH AND CASH EQUIVALENTS

Resources invested in money market funds, overnight reverse repurchase agreements and other 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. Overnight reverse repurchase agreements with banks are secured by U.S. Government securities. Substantially all cash and cash equivalents are concentrated in accounts in which balances exceed Federal Deposit Insurance Corporation limits.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at face value and typically have contractual maturities of less than one year.

CONTRIBUTIONS RECEIVABLE

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

NOTES RECEIVABLE

Notes receivable, which are recorded at face value, principally represent amounts due from students under Perkins and other U.S. government sponsored loan programs. A general allowance is made for uncollectible student loans after considering both long-term collection experience and current trends, such as recent default rates of cohorts entering repayment status. Other notes receivable are evaluated individually for impairment, with allowances recorded based on management's expectations given facts and circumstances related to each note.

INVESTMENTS

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

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

Investments Held on Behalf of Other Entities

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

DEBT-RELATED DERIVATIVE INSTRUMENTS

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

LAND, BUILDINGS AND EQUIPMENT

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

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

Conditional Asset Retirement Obligations

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

SPLIT-INTEREST AGREEMENTS

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

FAIR VALUE MEASUREMENTS

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

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability, used in situations in which little or no market activity exists for the asset or liability at the measurement date.

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

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

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

USE OF ESTIMATES

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

SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 20, 2013, the date the financial statements were issued. No events requiring disclosure were identified.

TAX STATUS

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

NEW ACCOUNTING PRONOUNCEMENTS

During the year ended June 30, 2013, the University adopted Accounting Standards Update (“ASU”) 2012-05, *“Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows.”* Accordingly, certain amounts within the fiscal 2012 statement of cash flows were reclassified to conform to 2013 presentation.

The University also adopted ASU 2011-04, *“Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,”* under which additional disclosures with respect to fair value measurements are required.

(All amounts in thousands)

NOTE 2.
ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows at June 30:

	2013	2012
Research and other sponsored programs support	$ 17,115	$ 16,966
Student receivables	3,267	1,340
Other receivables	8,352	7,229
	28,734	25,535
Less allowances for uncollectible amounts	640	640
	$ 28,094	$ 24,895

Activity within allowances for uncollectible amounts was insignificant during the years ended June 30, 2013 and 2012.

NOTE 3.
DEFERRED CHARGES AND OTHER ASSETS

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

	2013	2012
Debt-related derivative instruments (*Note 12*)	$ 6,464	$ -
Retail and other inventories	10,412	9,921
Beneficial interests in perpetual trusts (*Note 15*)	5,172	4,867
Prepaid rental expenses	15,058	15,741
Other deferred charges and prepaid expenses	12,366	11,716
	$ 49,472	$ 42,245

NOTE 4.
CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

	2013	2012
Unconditional promises expected to be collected in:		
Less than one year	$ 85,011	$ 83,664
One year to five years	108,586	103,698
More than five years	86,157	93,658
	279,754	281,020
Less:		
Unamortized discounts	61,148	62,311
Allowances for uncollectible amounts	20,903	26,984
	82,051	89,295
	$ 197,703	$ 191,725

Contributions receivable are discounted at rates ranging from 0.39 percent to 6.91 percent and 0.51 percent to 6.91 percent at June 30, 2013 and 2012, respectively. Activity within allowances for uncollectible amounts was insignificant during the years ended June 30, 2013 and 2012.

(All amounts in thousands)

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

	2013	2012
Temporarily restricted for:		
Operating purposes	$ 41,854	$ 41,815
Investment in land, buildings and equipment	53,099	35,177
Funds functioning as endowment (*Note 16*)	9,618	8,499
Total temporarily restricted *(Note 14)*	104,571	85,491
Permanently restricted for endowment (*Notes 15 and 16*)	93,132	106,234
	$ 197,703	$ 191,725

As of June 30, 2013, the University had received documented conditional pledges of $36,630 which are not reflected in the accompanying consolidated financial statements. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 5.
NOTES RECEIVABLE

Notes receivable are summarized as follows at June 30:

	2013	2012
Student notes receivable, related to:		
Government sponsored loan programs	$ 33,069	$ 33,832
Institutional student loans	979	1,071
	34,048	34,903
Less allowances for uncollectible student notes	2,153	2,403
	31,895	32,500
Other notes receivable	14,112	27,587
	$ 46,007	$ 60,087

Government advances to the University for student loan funding, primarily under the Perkins Loan program, totaled $29,525 and $29,186 at June 30, 2013 and 2012, respectively. Due to significant restrictions that apply to government sponsored student loans, determining the fair value of student notes receivable is not practicable.

Total balances on student notes receivable in past due status were $2,972 and $3,483 at June 30, 2013 and 2012, respectively. The delinquent portions of these balances were $1,664 and $1,888, respectively. Activity within allowances for uncollectible student notes was insignificant.

The estimated fair value of non-student notes receivable approximated the carrying amount at June 30, 2013 and 2012.

(All amounts in thousands)

NOTE 6.
INVESTMENTS

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

	2013	2012
Notre Dame Endowment Pool assets	$ 8,305,995	$ 7,394,864
Other investments, associated with:		
Endowment and funds functioning as endowment	42,145	42,295
Working capital and other University designations	16,146	63,093
Split-interest agreements (*Note 17*)	9,839	9,430
Revocable charitable trusts	3,164	2,791
Defined benefit pension plan (*Note 13*)	132,045	120,150
	203,339	237,759
	$ 8,509,334	$ 7,632,623

Liabilities associated with investments include the following at June 30:

	2013	2012
Notre Dame Endowment Pool liabilities	$ 2,984	$ 26
Liabilities representing the fair value of investments held on behalf of:		
Religious affiliates	485,080	270,751
Revocable charitable trusts	3,164	2,791
Defined benefit pension plan (*Note 13*)	132,045	120,150
	$ 623,273	$ 393,718

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

	2013	2012
NDEP assets	$ 8,305,995	$ 7,394,864
NDEP liabilities[1] *(Note 12)*	(2,984)	(26)
NDEP net assets reflected within the financial statements	8,303,011	7,394,838
Equity interest in consolidated company[2]	21,413	15,693
NDEP net assets unitized	$ 8,324,424	$ 7,410,531

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

[2]*The University is the majority owner of an externally managed limited liability company, the assets and liabilities of which are reflected in the consolidated financial statements. However, the estimated fair value of the University's equity interest in the company, $21,413 and $15,693 at June 30, 2013 and 2012, respectively, is included in NDEP net assets for unitization purposes.*

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

	2013	2012
Endowment and funds functioning as endowment	$ 6,775,669	$ 6,253,267
Working capital and other University designations	899,577	786,617
Student loan funds	785	710
Split-interest agreements (*Note 17*)	163,313	99,186
Funds invested on behalf of religious affiliates[3]	485,080	270,751
	$ 8,324,424	$ 7,410,531

[3]*NDEP holdings were redeemable by religious affiliates at $3,777.10 and $3,438.41 per unit (whole dollars) at June 30, 2013 and 2012, respectively.*

(All amounts in thousands)

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

Investment assets are summarized in the following tables by asset class at June 30, 2013 and 2012, respectively:

	2013		
	NDEP	*Other Investments*	*Total*
Short-term investments	$ 245,559	$ 345	$ 245,904
Public equities	2,858,611	57,842	2,916,453
Fixed income securities	426,432	7,892	434,324
Marketable alternatives	1,069,418	267	1,069,685
Private equity	2,359,154	3,045	2,362,199
Real estate	667,732	1,903	669,635
Other real assets	679,089	-	679,089
	8,305,995	71,294	8,377,289
Defined benefit pension plan investments (*Note 13*)	-	132,045	132,045
	$ 8,305,995	$ 203,339	$ 8,509,334

	2012		
	NDEP	*Other Investments*	*Total*
Short-term investments	$ 58,942	$ 50,278	$ 109,220
Public equities	2,362,453	49,708	2,412,161
Fixed income securities	475,194	13,753	488,947
Marketable alternatives	974,850	258	975,108
Private equity	2,278,573	1,720	2,280,293
Real estate	605,075	1,892	606,967
Other real assets	639,777	-	639,777
	7,394,864	117,609	7,512,473
Defined benefit pension plan investments (*Note 13*)	-	120,150	120,150
	$ 7,394,864	$ 237,759	$ 7,632,623

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

(All amounts in thousands)

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

	2013	2012
Private equity	$ 976,956	$ 917,130
Real estate	207,173	236,872
Marketable alternatives	228,016	98,824
All other	145,871	137,201
	$ 1,558,016	$ 1,390,027

The following tables reflect fair value measurements of investment assets (excluding defined benefit pension plan assets) at June 30, 2013 and 2012, respectively, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	2013			
	Level 1	*Level 2*	*Level 3*	*Total*
Short-term investments	$ 214,119	$ 31,785	$ -	$ 245,904
Public equities:				
U.S.	346,541	326,025	35,186	707,752
Non-U.S.	164,265	783,618	227,659	1,175,542
Long/short strategies	-	461,847	571,312	1,033,159
Fixed income securities	124,582	309,742	-	434,324
Marketable alternatives	-	576,649	493,036	1,069,685
Private equity	-	-	2,362,199	2,362,199
Real estate	31,080	-	638,555	669,635
Other real assets	108,680	26,496	543,913	679,089
	$ 989,267	$ 2,516,162	$ 4,871,860	$ 8,377,289

	2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Short-term investments	$ 76,634	$ 32,586	$ -	$ 109,220
Public equities:				
U.S.	270,135	221,288	135,106	626,529
Non-U.S.	43,636	603,611	270,314	917,561
Long/short strategies	-	374,711	493,360	868,071
Fixed income securities	113,139	375,808	-	488,947
Marketable alternatives	-	512,461	462,647	975,108
Private equity	-	-	2,280,293	2,280,293
Real estate	17,395	-	589,572	606,967
Other real assets	58,346	42,488	538,943	639,777
	$ 579,285	$ 2,162,953	$ 4,770,235	$ 7,512,473

Certain short-term investments and fixed income securities categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes, or using models with externally verifiable inputs, such as relevant interest or exchange rates.

(All amounts in thousands)

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

Techniques and significant unobservable inputs used in the valuation of the sole Level 3 investment not measured based on NAV are summarized below:

Asset description	*Fair value at June 30, 2013*	*Valuation Technique*	*Significant Unobservable Inputs*
Private company stock[1]	$ 68,466	Market comparable companies	EBITDA multiple (9.4x)
		Discounted cash flow	Discount rate (12.5%) Terminal multiple (6.5x)

[1]*Reflected within the private equity asset class.*

Management has exercised judgment in weighting the techniques used in the valuation. Significant changes in these unobservable inputs could have a corresponding effect on the fair value measurement.

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2013:

	Acquisitions	*Dispositions*	*Net realized/ unrealized gains*	*Transfers out of Level 3*	*Net increase/ (decrease)*
Public equities:					
U.S.	$ -	$ (42,572)	$ 14,197	$ (71,545)	$ (99,920)
Non-U.S.	62,730	(5,637)	36,612	(136,360)	(42,655)
Long/short strategies	85,657	(3,299)	99,532	(103,938)	77,952
Marketable alternatives	165,229	(175,088)	80,870	(40,622)	30,389
Private equity	299,143	(453,227)	235,990	-	81,906
Real estate	82,879	(70,728)	36,832	-	48,983
Other real assets	62,244	(64,357)	7,083	-	4,970
	$ 757,882	$ (814,908)	$ 511,116	$ (352,465)	$ 101,625

(All amounts in thousands)

During the year ended June 30, 2013, the University recognized net unrealized gains of $208,410 on investments still held at June 30, 2013 for which fair value is measured using Level 3 inputs. Transfers from Level 3 to Level 2 are reflected on a gross basis by asset class and represent the migration of assets measured at fair value based on NAV (or its equivalent) that were eligible for redemption at the reporting date or within the near term. There were no transfers in or out of Level 1 during the year ended June 30, 2013.

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2012:

	Acquisitions	*Dispositions*	*Net realized/ unrealized gains/(losses)*	*Transfers into/(out of) Level 3*	*Net increase/ (decrease)*
Public equities:					
U.S.	$ 7,500	$ (6,711)	$ 6,501	$ (9,421)	$ (2,131)
Non-U.S.	58,800	-	(17,499)	56,656	97,957
Long/short strategies	88,155	(55,382)	30,623	-	63,396
Marketable alternatives	165,069	(99,278)	(6,014)	(4,951)	54,826
Private equity	343,829	(320,955)	124,179	223	147,276
Real estate	117,360	(42,187)	(17,784)	-	57,389
Other real assets	59,832	(96,987)	18,834	-	(18,321)
	$ 840,545	$ (621,500)	$ 138,840	$ 42,507	$ 400,392

During the year ended June 30, 2012, the University recognized net unrealized losses of $120,741 on investments still held at June 30, 2012 for which fair value is measured using Level 3 inputs. Transfers in and out of Levels 2 and 3 are reflected on a gross basis by asset class and reflect the migration of assets measured at fair value based on NAV (or its equivalent) that were eligible for redemption at the reporting date or within the near term, or became non-redeemable during the year. There were no transfers in or out of Level 1 during the year ended June 30, 2012.

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

INVESTMENT RETURN

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

	2013	**2012**
Investment income, net	$ 77,853	$ 73,240
Net gain on investments:		
Realized gains, net	380,738	356,213
Unrealized gains/(losses), net	354,928	(228,514)
	735,666	127,699
	$ 813,519	$ 200,939

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2013 Total	2012 Total
Investment income, net	$ 35,730	$ 40,552	$ 1,571	$ 77,853	$ 73,240
Net gain/(loss) on investments	338,035	397,637	(6)	735,666	127,699
	$ 373,765	$ 438,189	$ 1,565	$ 813,519	$ 200,939

Investment income is reported net of related expenses of $28,055 and $22,588 for the years ended June 30, 2013 and 2012, respectively. Investment-related expenses consist of fees paid to external investment managers, as well as expenses related to internal investment office operations.

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

	Unrestricted		Temporarily	2013	2012
	Operating	Non-operating	restricted	Total	Total
Endowment (*Note 16*)	$ 65,120	$ 14,579	$ 176,942	$ 256,641	$ 250,560
Working capital	30,631	-	-	30,631	8,845
	$ 95,751	$ 14,579	$ 176,942	$ 287,272	$ 259,405

NOTE 7.
LAND, BUILDINGS AND EQUIPMENT

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

	2013	2012
Land and land improvements	$ 124,632	$ 120,427
Buildings	1,456,549	1,399,696
Equipment	255,478	250,923
Construction in progress	80,988	44,115
	1,917,647	1,815,161
Less accumulated depreciation	567,455	524,738
	$ 1,350,192	$ 1,290,423

Depreciation expense was $57,623 and $52,706 for the years ended June 30, 2013 and 2012, respectively.

The University recorded accounts payable associated with construction in progress costs of $14,521 and $8,126 at June 30, 2013 and 2012, respectively.

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

	2013	2012
Beginning of year	$ 22,481	$ 22,118
New obligations recognized	545	122
Obligations settled	(408)	-
Accretion expense	825	815
Revisions in estimated cash flows	-	(574)
End of year	$ 23,443	$ 22,481

(All amounts in thousands)

NOTE 8.
SHORT-TERM BORROWING

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

The University also maintains unsecured lines of credit with commercial banks in the aggregate amount of $300,000 to be utilized primarily for working capital purposes. Termination dates on lines of credit available at June 30, 2013 ranged from January 2014 to March 2018.

Total outstanding balances on short-term borrowing are summarized below at June 30:

	2013	2012
Standard taxable commercial paper	$ -	$ 101,051
Lines of credit	108,000	14,000
	$ 108,000	$ 115,051

Total interest costs incurred on short-term borrowing were approximately $105 and $226 for the years ended June 30, 2013 and 2012, respectively.

NOTE 9.
DEFERRED REVENUE AND REFUNDABLE ADVANCES

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

	2013	2012
Deferred ticket sales and other revenues from intercollegiate athletics	$ 46,234	$ 46,165
Deferred tuition and other student revenues	13,765	11,776
Refundable advances for research and other sponsored programs	13,876	14,877
Other deferred revenues	2,250	2,395
	$ 76,125	$ 75,213

NOTE 10.
DEPOSITS AND OTHER LIABILITIES

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

	2013	2012
Debt-related derivative instruments (*Note 12*)	$ 13,272	$ 26,906
Accrued compensation and employee benefits	37,248	34,614
Payroll and other taxes payable	11,661	10,317
Student organization funds and other deposits	9,182	8,388
Self-insurance reserves	8,619	8,648
Accrued interest expense, pledges payable and other liabilities	18,925	19,986
	$ 98,907	$ 108,859

(All amounts in thousands)

NOTE 11.
BONDS AND NOTES PAYABLE

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

	2013	2012
Obligations of the University:		
St. Joseph County (Indiana) Educational Facilities Revenue Bonds[1]	$ 358,973	$ 361,597
Series 2012 Taxable Fixed Rate Bonds	100,000	100,000
Series 2010 Taxable Fixed Rate Bonds	160,000	160,000
Series 2009 Taxable Fixed Rate Notes	150,000	150,000
Mortgage notes payable	15,435	15,435
	784,408	787,032
Obligations of consolidated company:		
Mortgage note payable	37,512	38,141
	$ 821,920	$ 825,173

[1]Includes the unamortized Series 2009 bond premium of $6,858 and $7,022 at June 30, 2013 and 2012, respectively.

The estimated fair value of bond and note obligations was $832,968 and $903,748 at June 30, 2013 and 2012, respectively. Fair value measurements of bonds and notes are based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs. The aggregate scheduled maturities of bonds and notes payable are summarized by fiscal year as follows:

2014	$ 153,217
2015	3,345
2016	38,865
2017	3,327
2018	3,432
Thereafter	612,876
	$ 815,062

The Series 2012 Taxable Fixed Rate Bonds bear interest at a fixed rate of 3.72 percent and are due March 1, 2043. Issuance costs of $364 paid out of proceeds received are reflected within operating expenses for the year ended June 30, 2012.

The Series 2010 Taxable Fixed Rate Bonds bear interest at a fixed rate of 4.90 percent and are due March 1, 2041.

The Series 2009 Taxable Fixed Rate Notes bore interest at a fixed rate of 4.141 percent and were repaid in September 2013.

Taxable Fixed Rate Bonds and Notes constitute unsecured general obligations of the University and the associated interest is taxable to investors. Interest costs incurred on Taxable Fixed Rate Bonds and Notes were $17,772 and $14,299 during the years ended June 30, 2013 and 2012, respectively.

(All amounts in thousands)

Mortgage notes in the amount of $15,435 bear interest at a fixed rate of 1.103 percent and are due on July 1, 2042. These notes are collateralized by the facilities to which they relate. The University incurred interest costs of $173 on the notes during the years ended June 30, 2013 and 2012.

The University is the majority owner of an externally managed limited liability company, the activities of which are reflected in the University's consolidated financial statements. The company's assets consist primarily of real estate, the acquisition of which was financed in part with a note payable bearing interest at 5.68 percent, due on February 1, 2016. The note is not a general obligation of the University and is fully collateralized by the property acquired. Interest costs of $2,136 and $2,182 related to the note are reflected within non-operating changes in unrestricted net assets for the years ended June 30, 2013 and 2012, respectively.

ST. JOSEPH COUNTY (INDIANA) EDUCATIONAL FACILITIES REVENUE BONDS

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

	Outstanding through	*Current rate of interest*[1]	**2013**	**2012**
Issues bearing variable rates:				
Series 2003	2038	0.040%	$ 47,660	$ 50,120
Series 2005	2040	0.030%	75,000	75,000
Series 2007	2042	0.040%	75,000	75,000
			197,660	200,120
Issues bearing fixed rates:				
Series 1996	2026	6.500%	7,890	7,890
Series 2009[2]	2036	5.000%	153,423	153,587
			161,313	161,477
			$ 358,973	$ 361,597

[1]*Variable rates reset weekly. Represents annual percentage rate in effect at June 30, 2013.*

[2]*Carrying amount includes the unamortized premium of $6,858 and $7,022 at June 30, 2013 and 2012, respectively.*

The University maintains standby credit facilities with commercial banks to provide alternative liquidity to support the repurchase of tendered variable rate SJC bonds in the event they are unable to be remarketed. Financing obtained through standby credit facilities to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues, and mature over the five year period following repurchase. The standby credit facilities in effect at June 30, 2013 expire in February and May 2015.

The University utilizes interest rate swap agreements (see also *Note 12*) as a strategy for managing interest rate risk associated with variable rate SJC bond issues. Under the terms of swap agreements in effect at June 30, 2013, the University pays fixed rates ranging from 2.01 percent to 4.97 percent and receives variable rates equal to 67 percent or 70 percent of the one-month or three-month London Interbank Offered Rate ("LIBOR") on total notional amounts of $192,500. The estimated fair value of interest rate swaps was a net unrealized loss position of $6,808 and $26,906 at June 30, 2013 and 2012, respectively.

(All amounts in thousands)

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

	2013		2012	
	Interest expense[1]	*Net periodic settlements*	*Interest expense*[1]	*Net periodic settlements*
Issues bearing variable rates	$ 227	$ 5,342	$ 261	$ 4,444
Issues bearing fixed rates	7,677	-	9,622	-
	$ 7,904	$ 5,342	$ 9,883	$ 4,444

[1]*Includes amortization of Series 2009 premium of $164 and $156 for the years ended June 30, 2013 and 2012, respectively. The premium is amortized using the effective interest method over the period the bonds are outstanding.*

NOTE 12.
DERIVATIVE INSTRUMENTS

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

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

Collateral associated with NDEP derivatives is moved as required by market fluctuations, and is generally in the form of cash or cash equivalents. Interest rate swaps associated with the University's variable rate bonds have credit-risk-related contingent features that could require the University to post collateral on instruments in net liability positions in the event of a downgrade to the rating on the University's debt. The aggregate fair value of interest rate swaps with credit-risk-related contingent features that were in liability positions was $13,272 and $26,906 at June 30, 2013 and 2012, respectively. If the credit-risk-related contingent features associated with these instruments had been triggered, the University would have been required to post collateral to its counterparties in an amount up to the full liability position of the instruments, depending on the level of the University's credit rating. Based on the quality of its credit rating, the University had posted no collateral associated with these instruments at June 30, 2013.

(All amounts in thousands)

The estimated fair values of derivative assets and liabilities, certain of which are reflected on a net-by-counterparty basis within the consolidated statements of financial position, are summarized in the table below at June 30, 2013, along with the net gains and losses for the year then ended:

	Notional amounts	*Derivative assets*	*Derivative liabilities*	*Net gain/(loss)*
NDEP derivatives:				
Options contracts[1]:				
Interest rates	$ 511,024	$ 6,665	$ -	$ 7,096
Commodities	290,913	36	-	(3,330)
Foreign currency	400,000	1,133	-	10,155
Equity contracts[1]	20,488	81	2,261	3,758
Forward currency contracts[1]	2,731	1	2	(909)
Futures contracts[2]	86,084	-	722	(1,036)
Gross value		7,916	2,985	15,734
Counterparty netting		(1)	(1)	-
Net by counterparty		$ 7,915	$ 2,984	$ 15,734
Debt-related derivatives:				
Interest rate contracts[1]	$ 192,500	$ 6,464	$ 13,272	$ 14,756

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

[2]Futures contracts are exchange-traded. Fair value is based on quoted prices that fall within Level 1 of the hierarchy of fair value inputs. Notional amount on futures at June 30, 2013 represents long exposures.

The estimated fair values of derivative assets and liabilities, certain of which are reflected on a net-by-counterparty basis within the consolidated statements of financial position, are summarized in the table below at June 30, 2012, along with the net gains and losses for the year then ended:

	Notional amounts	*Derivative assets*	*Derivative liabilities*	*Net gain/(loss)*
NDEP derivatives:				
Options contracts[1,2]	$ 679,575	$ 6,209	$ -	$ (13,175)
Forward currency contracts[2]	757,781	1	6	184
Futures contracts[3]	98,989	133	21	11,528
Gross value		6,343	27	(1,463)
Counterparty netting		(1)	(1)	-
Net by counterparty		$ 6,342	$ 26	$ (1,463)
Debt-related derivatives:				
Interest rate contracts[2]	$ 196,095	$ -	$ 26,906	$ (34,406)

[1]Includes interest rate and commodities options with notional amounts of $511,024 and $168,551 at June 30, 2012.

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

[3]Futures contracts are exchange-traded. Fair value is based on quoted prices that fall within Level 1 of the hierarchy of fair value inputs. Notional amount on futures at June 30, 2012 represents long exposures.

(All amounts in thousands)

Derivative assets and liabilities are reflected within the following lines of the consolidated statements of financial position at June 30:

		2013		2012
NDEP derivatives:				
Investments[1]	$	7,915	$	6,342
Liabilities associated with investments (*Note 6*)		2,984		26
Debt-related derivatives:				
Deferred charges and other assets (*Note 3*)	$	6,464	$	-
Deposits and other liabilities (*Note 10*)		13,272		26,906

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

Certain options contracts are employed within the NDEP with the intent of protecting the investment portfolio against significant fluctuations in interest rates, commodity prices and other market fluctuations. Options contracts held in the NDEP are fully collateralized at June 30, 2013. Forward currency contracts are utilized to settle planned purchases or sales, for investment purposes, and to mitigate the impact of exchange rate fluctuations on the U.S. dollar value of NDEP international holdings. A variety of currency, interest rate, equity, bond and commodities futures contracts are also employed in the NDEP to manage exposure to various financial markets.

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

(All amounts in thousands)

NOTE 13.
PENSION AND OTHER POSTRETIREMENT BENEFITS

DEFINED CONTRIBUTION RETIREMENT SAVINGS PLAN

Faculty and exempt staff participate in the University of Notre Dame 403(b) Retirement Plan, a defined contribution retirement plan, upon meeting eligibility requirements. The plan, operated under section 403(b) of the Internal Revenue Code, is funded by mandatory employee contributions and University contributions. All faculty and staff may also participate in the plan on a voluntary basis by making voluntary employee contributions up to the annual limit established by the Internal Revenue Service. Participants are immediately vested in the plan, and may direct their contributions and the University's contributions on their behalf to any of the fund sponsors: Fidelity, TIAA-CREF and Vanguard. The University's share of the cost of these benefits was $26,558 and $26,007 for the years ended June 30, 2013, and 2012, respectively.

DEFINED BENEFIT PENSION PLAN AND POSTRETIREMENT MEDICAL INSURANCE BENEFITS

Retirement benefits are provided for University staff under a defined benefit pension plan, for which the University serves as trustee and administrator. This plan provides benefits for certain non-exempt staff after one year of qualifying service. Retirement benefits are based on the employee's total years of service and final average pay as defined by the plan. Plan participants are fully vested after five years of service. The University funds the plan with annual contributions that meet minimum requirements under the Employee Retirement Income Security Act of 1974 and Pension Protection Act of 2006.

Other postretirement benefit plans offered by the University provide either medical insurance benefits for retirees and their spouses or Health Reimbursement Accounts upon which Medicare-eligible retirees may draw to purchase individual supplemental medical coverage. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. The plans hold no assets and are funded by the University as claims are paid.

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

	2013	2012
Liability for pension benefits:		
PBO at end of year	$ 196,505	$ 204,977
Less: Fair value of plan assets at end of year	(132,045)	(120,150)
	64,460	84,827
Liability for other postretirement benefits (APBO at year end)	36,475	38,295
	$ 100,935	$ 123,122

(All amounts in thousands)

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

	Pension benefits (PBO)		*Other postretirement benefits (APBO)*	
	2013	**2012**	**2013**	**2012**
Beginning of year	$ 204,977	$ 167,512	$ 38,295	$ 31,697
Service cost	7,339	6,256	2,174	1,817
Interest cost	8,928	9,009	1,595	1,636
Plan amendments	-	-	(199)	(271)
Actuarial loss/(gain)	(17,557)	29,039	(4,503)	4,973
Benefit payments	(7,182)	(6,839)	(887)	(1,557)
End of year	$ 196,505	$ 204,977	$ 36,475	$ 38,295

The accumulated benefit obligation associated with pension benefits was $168,647 and $173,579 at June 30, 2013 and 2012, respectively.

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

	2013	**2012**
Fair value of plan assets at beginning of year	$ 120,150	$ 117,331
Actual return on plan assets	12,286	(1,548)
Employer contributions	6,791	11,206
Benefit payments	(7,182)	(6,839)
Fair value of plan assets at end of year	$ 132,045	$ 120,150

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

	Pension benefits		*Other postretirement benefits*	
	2013	**2012**	**2013**	**2012**
Service cost	$ 7,339	$ 6,256	$ 2,174	$ 1,817
Interest cost	8,928	9,009	1,595	1,636
Expected return on plan assets	(9,954)	(9,452)	-	-
Amounts recognized previously as non-operating changes in net assets:				
Amortization of net loss	4,494	2,483	1,685	1,405
Amortization of prior service cost/(credit)	432	434	(7,563)	(7,517)
	4,926	2,917	(5,878)	(6,112)
	$ 11,239	$ 8,730	$ (2,109)	$ (2,659)

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

(All amounts in thousands)

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

	Pension benefits		*Other postretirement benefits*	
	2013	**2012**	**2013**	**2012**
Net actuarial gain/(loss)	$ 19,889	$ (40,039)	$ 4,503	$ (4,973)
Plan amendments	-	-	199	271
Adjustment for components of net periodic benefit cost recognized previously	4,926	2,917	(5,878)	(6,112)
	$ 24,815	$ (37,122)	$ (1,176)	$ (10,814)

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

	Pension benefits		*Other postretirement benefits*	
	2013	**2012**	**2013**	**2012**
Net loss	$ 54,413	$ 78,796	$ 16,382	$ 22,570
Prior service cost/(credit)	3,126	3,558	(27,268)	(34,632)
	$ 57,539	$ 82,354	$ (10,886)	$ (12,062)

The University expects to amortize the following as components of net periodic benefit cost during the year ending June 30, 2014:

	Pension benefits	*Other postretirement benefits*
Net loss	$ 3,269	$ 1,300
Prior service cost/(credit)	432	(7,626)

The following weighted-average assumptions were used in measuring the actuarially determined benefit obligations (PBO for pension benefits and APBO for other postretirement benefits) at June 30:

	Pension benefits		*Other postretirement benefits*	
	2013	**2012**	**2013**	**2012**
Discount rate	5.00%	4.50%	5.00%	4.50%
Rate of compensation increase	4.00%	4.00%		
Health care cost trend rate (grading to 5.00% in 2018)			7.50%	8.00%

(All amounts in thousands)

The following weighted-average assumptions were used in measuring the actuarially determined net periodic benefit costs for the years ended June 30:

	Pension benefits		*Other postretirement benefits*	
	2013	**2012**	**2013**	**2012**
Discount rate	4.50%	5.50%	4.50%	5.50%
Expected long-term rate of return on plan assets	8.00%	8.50%		
Rate of compensation increase	4.00%	4.00%		
Health care cost trend rate (grading to 5.00% in 2018)			8.00%	7.50%

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

A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO associated with postretirement medical benefits by approximately $153 and $831, respectively. A one-percentage-point decrease in the assumed health care cost trend rate would have decreased aggregate service and interest costs and the APBO by approximately $136 and $759, respectively.

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2013 are as follows:

	Pension Benefits	*Other postretirement benefits*
2014	$ 7,495	$ 1,395
2015	7,844	1,579
2016	8,268	1,776
2017	8,762	2,003
2018	9,342	2,255

Projected aggregate payments for pension benefits and other postretirement benefits for the five year period ending June 30, 2023 are $57,791 and $14,578, respectively. The University's estimated contributions to the defined benefit pension plan for the year subsequent to June 30, 2013 are $9,800.

DEFINED BENEFIT PENSION PLAN ASSETS

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

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

(All amounts in thousands)

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

	2013	2012	Target
Short-term investments	4.3%	4.8%	0.0%
Public equities	47.2%	43.0%	45.0%
Fixed income securities	18.0%	18.3%	20.0%
Marketable alternatives	15.2%	17.3%	15.0%
Private equity	7.0%	7.5%	10.0%
Real assets	8.3%	9.1%	10.0%
	100.0%	100.0%	100.0%

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

The role of each asset class within the overall asset allocation of the plan is described as follows:

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

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

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

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

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

Fair value measurements of plan investments at June 30, 2013 are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	Level 1	*Level 2*	*Level 3*	*Total*
Short-term investments	$ 5,661	$ -	$ -	$ 5,661
Public equities:				
U.S.	11,122	13,164	-	24,286
Non-U.S.	9,957	12,829	5,297	28,083
Long/short strategies	-	3,494	6,486	9,980
Fixed income securities	23,809	-	-	23,809
Marketable alternatives	-	7,429	12,695	20,124
Private equity	-	-	9,217	9,217
Real assets	4,549	299	6,037	10,885
	$ 55,098	$ 37,215	$ 39,732	$ 132,045

(All amounts in thousands)

Fair value measurements of plan investments at June 30, 2012 are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	Level 1	*Level 2*	*Level 3*	*Total*
Short-term investments	$ 5,734	$ -	$ -	$ 5,734
Public equities:				
U.S.	8,611	10,014	-	18,625
Non-U.S.	8,232	10,295	2,659	21,186
Long/short strategies	-	6,498	5,395	11,893
Fixed income securities	21,987	-	-	21,987
Marketable alternatives	-	9,223	11,533	20,756
Private equity	-	-	9,025	9,025
Real assets	4,451	482	6,011	10,944
	$ 49,015	$ 36,512	$ 34,623	$ 120,150

Changes in plan investments for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2013:

	Acquisitions	*Dispositions*	*Net realized/ unrealized gains*[1]	*Transfers into/(out of) Level 3*	*Net increase*
Public equities:					
Non-U.S.	$ 2,000	$ -	$ 638	$ -	$ 2,638
Long/short strategies	2,500	(1,978)	569	-	1,091
Marketable alternatives	-	(567)	1,729	-	1,162
Private equity	1,323	(1,714)	583	-	192
Real assets	262	(626)	390	-	26
	$ 6,085	$ (4,885)	$ 3,909	$ -	$ 5,109

[1]Included in the actual return on plan assets for the year ended June 30, 2013.

Changes in plan investments for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2012:

	Acquisitions	*Dispositions*	*Net realized/ unrealized gains/(losses)*[1]	*Transfers into/(out of) Level 3*	*Net increase*
Public equities:					
Non-U.S.	$ 3,000	$ -	$ (341)	$ -	$ 2,659
Long/short strategies	2,000	-	(9)	-	1,991
Marketable alternatives	6,613	(181)	213	-	6,645
Private equity	1,276	(1,101)	430	-	605
Real assets	685	(299)	289	-	675
	$ 13,574	$ (1,581)	$ 582	$ -	$ 12,575

[1]Included in the actual return on plan assets for the year ended June 30, 2012.

No transfers between Levels 1, 2 or 3 were made during the years ended June 30, 2013 and 2012.

(All amounts in thousands)

The plan is committed under contracts with certain investment managers to periodically advance additional funding as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. Total commitments of $9,078 and $8,998 were uncalled at June 30, 2013 and 2012, respectively.

NOTE 14.
TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
Expendable funds restricted for:		
Operating purposes	$ 163,903	$ 153,551
Investment in land, buildings and equipment	79,626	63,252
Split-interest agreements (*Note 17*)	51,264	21,091
Endowment funds (*Note 16*):		
Accumulated appreciation on donor-restricted endowment	2,410,652	2,176,894
Funds functioning as endowment	364,714	341,367
	2,775,366	2,518,261
	$ 3,070,159	$ 2,756,155

As described in *Note 4*, temporarily restricted net assets include contributions receivable of $104,571 and $85,491 at June 30, 2013 and 2012, respectively.

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

	2013	2012
Purpose restrictions satisfied:		
Scholarships and fellowships awarded	$ 73,627	$ 75,350
Expenditures for operating purposes	122,892	110,945
Term restrictions satisfied:		
Matured split-interest agreements available for operations (*Note 17*)	-	175
	$ 196,519	$ 186,470

Non-operating net assets released from restrictions reflect expenditures for land, buildings and equipment of $40,861 and $41,619 for the years ended June 30, 2013 and 2012, respectively.

(All amounts in thousands)

NOTE 15.
PERMANENTLY RESTRICTED NET ASSETS

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

	2013	2012
Endowment funds (*Note 16*)	$ 1,491,241	$ 1,426,427
Student loan funds	2,313	2,221
Split-interest agreements (*Note 17*)	16,716	13,505
Beneficial interests in perpetual trusts (*Note 3*)	5,172	4,867
	$ 1,515,442	$ 1,447,020

As reflected in *Notes 4* and *16*, permanently restricted endowment funds include $93,132 and $106,234 in contributions receivable at June 30, 2013 and 2012, respectively.

NOTE 16.
ENDOWMENT

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

Endowment and funds functioning as endowment at June 30, 2013 are summarized below:

	Unrestricted	*Temporarily restricted (Note 14)*	*Permanently restricted (Note 15)*	*Total*
Funds established to support:				
Scholarships and fellowships	$ 404,584	$ 1,011,394	$ 583,632	$ 1,999,610
Faculty chairs	109,726	788,221	266,457	1,164,404
Academic programs	200,193	371,617	219,907	791,717
General operations	1,079,231	57,657	8,857	1,145,745
Other	898,710	536,859	319,256	1,754,825
	2,692,444	2,765,748	1,398,109	6,856,301
Contributions receivable (*Note 4*)	-	9,618	93,132	102,750
	$ 2,692,444	$ 2,775,366	$ 1,491,241	$ 6,959,051

	Unrestricted	*Temporarily restricted*	*Permanently restricted*	*Total*
Donor-restricted funds	$ (221)	$ 2,765,748	$ 1,398,109	$ 4,163,636
University-designated funds	2,692,665	-	-	2,692,665
	2,692,444	2,765,748	1,398,109	6,856,301
Contributions receivable (*Note 4*)	-	9,618	93,132	102,750
	$ 2,692,444	$ 2,775,366	$ 1,491,241	$ 6,959,051

(All amounts in thousands)

Endowment and funds functioning as endowment at June 30, 2012 are summarized below:

	Unrestricted	Temporarily restricted (*Note 14*)	Permanently restricted (*Note 15*)	Total
Funds established to support:				
Scholarships and fellowships	$ 379,195	$ 914,037	$ 545,489	$ 1,838,721
Faculty chairs	101,742	712,589	245,580	1,059,911
Academic programs	178,223	343,036	218,870	740,129
General operations	998,754	53,655	8,681	1,061,090
Other	841,997	486,445	301,573	1,630,015
	2,499,911	2,509,762	1,320,193	6,329,866
Contributions receivable (*Note 4*)	-	8,499	106,234	114,733
	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ (578)	$ 2,509,762	$ 1,320,193	$ 3,829,377
University-designated funds	2,500,489	-	-	2,500,489
	2,499,911	2,509,762	1,320,193	6,329,866
Contributions receivable (*Note 4*)	-	8,499	106,234	114,733
	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by donor stipulations when the timing of contributions coincides with unfavorable market fluctuations. Unrealized depreciation of this nature amounted to $221 and $578 at June 30, 2013 and 2012, respectively, as reflected in the preceding tables.

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

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of the year	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599
Contributions	7,472	7,291	64,193	78,956
Investment return:				
Investment income	27,111	39,837	1,553	68,501
Net gain/(loss) on investments	259,555	397,546	(81)	657,020
Accumulated investment return distributed (*Note 6*)	(79,699)	(176,942)	-	(256,641)
Other changes, net	(21,906)	(10,627)	(851)	(33,384)
	$ 2,692,444	$ 2,775,366	$ 1,491,241	$ 6,959,051

Other changes include appropriations of approximately $52,000 from funds functioning as endowment to fund certain capital projects, offset by the designation of other University net assets as funds functioning as endowment.

(All amounts in thousands)

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of the year	$ 2,426,132	$ 2,591,932	$ 1,365,280	$ 6,383,344
Contributions	1,983	6,497	60,155	68,635
Investment return:				
Investment income	24,973	37,287	1,640	63,900
Net gain/(loss) on investments	49,462	64,402	(683)	113,181
Accumulated investment return distributed (*Note 6*)	(85,387)	(165,173)	-	(250,560)
Other changes, net	82,748	(16,684)	35	66,099
	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599

During the year ended June 30, 2012, the University designated more than $80,000 in unrestricted net assets as funds functioning as endowment, primarily as general University reserves.

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

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

	Unrestricted	Temporarily restricted	**2013** Total	**2012** Total
Operating purposes:				
Scholarships and fellowships	$ 18,558	$ 72,165	$ 90,723	$ 85,386
Faculty chairs	5,074	46,869	51,943	48,877
Academic programs	928	26,748	27,676	26,422
Libraries	358	7,573	7,931	7,616
Other endowed programs	7,740	20,490	28,230	25,705
General operations	32,462	3,097	35,559	56,554
	65,120	176,942	242,062	250,560
Capital projects	14,579	-	14,579	-
	$ 79,699	$ 176,942	$ 256,641	$ 250,560

(All amounts in thousands)

NOTE 17.
SPLIT-INTEREST AGREEMENTS

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

	Unrestricted	*Temporarily restricted (Note 14)*	*Permanently restricted (Note 15)*	**2013** *Total*	**2012** *Total*
Charitable trust assets, held in:					
NDEP (*Note 6*)	$ -	$ 107,346	$ 55,967	$ 163,313	$ 99,186
Other investments (*Note 6*)	-	6,734	3,105	9,839	9,430
	-	114,080	59,072	173,152	108,616
Less obligations[1] associated with:					
Charitable trusts	-	62,048	39,081	101,129	69,970
Charitable gift annuities	2,607	768	3,275	6,650	6,762
	2,607	62,816	42,356	107,779	76,732
	$ (2,607)	$ 51,264	$ 16,716	$ 65,373	$ 31,884

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

Assets contributed pursuant to the University's charitable gift annuity program are not held in trust, and based on the nature of the agreements, are designated as funds functioning as endowment. The aggregate fair value of these assets was $19,594 and $19,392 at June 30, 2013 and 2012, respectively.

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

	Unrestricted	*Temporarily restricted*	*Permanently restricted*	**2013** *Total*	**2012** *Total*
Contributions:					
Assets received	$ 160	$ 48,256	$ 9,278	$ 57,694	$ 11,758
Discounts recognized[1]	(103)	(20,943)	(6,712)	(27,758)	(7,723)
	57	27,313	2,566	29,936	4,035
Change in value of agreements:					
Investment return, net	-	9,500	6,182	15,682	3,156
Payments to beneficiaries	(376)	(4,726)	(3,532)	(8,634)	(6,934)
Actuarial adjustments and other changes in obligations	209	(1,516)	(1,982)	(3,289)	2,769
	(167)	3,258	668	3,759	(1,009)
Net assets released from restrictions (*Note 14)*	-	-	-	-	(175)
Transfers and other changes, net	215	(398)	(23)	(206)	(4,479)
	$ 105	$ 30,173	$ 3,211	$ 33,489	$ (1,628)

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

(All amounts in thousands)

NOTE 18.
GRANTS AND CONTRACTS

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

	Direct	*Indirect*	**2013** *Total*	**2012** *Total*
Provided for:				
Research	$ 77,465	$ 20,659	$ 98,124	$ 104,035
Other sponsored programs	7,045	91	7,136	6,703
	$ 84,510	$ 20,750	$ 105,260	$ 110,738

	Direct	*Indirect*	**2013** *Total*	**2012** *Total*
Provided by:				
Federal agencies	$ 65,425	$ 19,063	$ 84,488	$ 87,203
State and local agencies	338	45	383	1,078
Private organizations	18,747	1,642	20,389	22,457
	$ 84,510	$ 20,750	$ 105,260	$ 110,738

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

The University also administers certain federally sponsored programs, primarily related to student financial aid, for which it recognizes neither revenues nor expenses. Receipts and disbursements for such programs totaled $12,248 for the year ended June 30, 2013, including $6,090 related to Reserve Officers Training Corps ("ROTC") scholarships. Receipts and disbursements for the year ended June 30, 2012 were $13,493, including $7,090 in ROTC scholarships.

NOTE 19.
CONTINGENCIES AND COMMITMENTS

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.

(All amounts in thousands)

The University leases space for academic and administrative purposes under noncancelable operating leases. Minimum future payments under these lease agreements are summarized by fiscal year as follows:

2014	$	1,688
2015		1,716
2016		1,744
2017		1,744
2018		1,744
2019 through 2080		49,362
	$	57,998

At June 30, 2013, the University also has commitments to expend approximately $14,600 to complete various construction projects.