

## Financial Review

In these pages last year, I mentioned the seeds of a comprehensive strategic planning effort that would take root in fiscal 2002. “Notre Dame 2010: A Quest for Leadership” was formally announced by our president, Fr. Malloy, late last winter with a purpose of identifying the key strategic initiatives the University should undertake over the next 10 years.

Notre Dame enjoys a good record in thinking ahead. “Colloquy for the Year 2000,” the last long-term planning effort, took place a decade ago. It set the stage for perhaps the most impressive period of advancement in the University’s history — in areas like financial aid, endowed faculty positions, library resources and facilities — and in the fund raising achieved to make the plan a reality. And even during the heady financial years of the 1990s, ambitious goals were supported with prudent fiscal policies grounded in long-term perspectives.

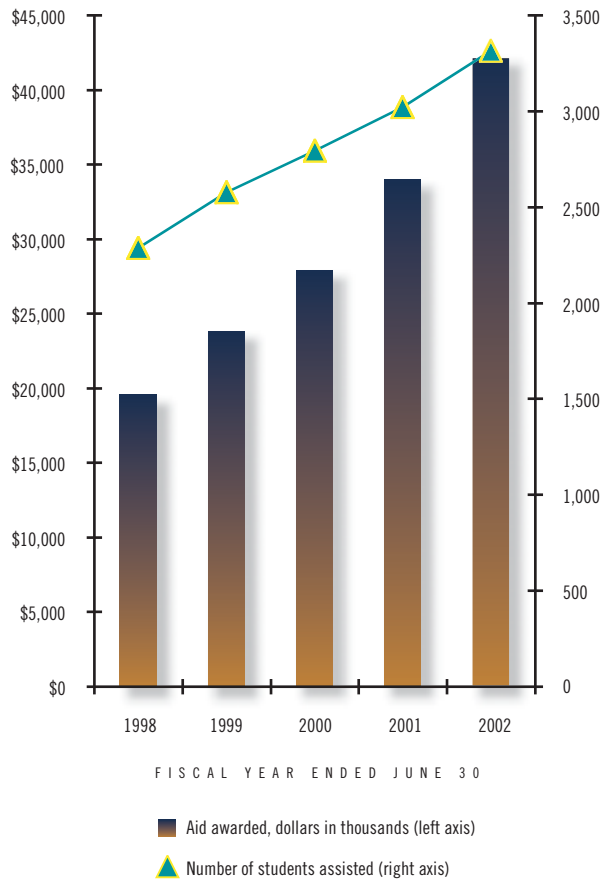
We all know that times have changed. Many student families are dealing with economic hardships precipitated by the bursting of the “tech bubble” and exacerbated by the terrorism of September 11, 2001, and subsequent events. The University’s financial planning has been directly affected by capital market declines, as growth in the rate of endowment spending budgeted for fiscal 2003 was limited to four percent compared to over 19 percent annually on average over the past five years. Additionally, in the past year the University began to tackle in earnest the time-consuming and expensive task of replacing its administrative computing systems, as the manufacturer announced it would cease support of our aging mainframe.

But now more than ever, Notre Dame is positioned to make a tremendous difference as a world leader in higher education. But now more than ever, Notre Dame is positioned to make a tremendous difference as a world leader in higher education. Indeed, the very success of the Colloquy in fueling the advancement of the last decade provides a magnificent foundation on which to build. Significant initiatives on the international front mentioned elsewhere in this Annual Report, for example, flowed from that planning process and the fund-raising campaign that followed. The long-standing ethical component of the University’s curriculum, notably in the Mendoza College of Business and the Law School, has assumed an even greater urgency in a society disillusioned by corporate scandal.

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### University Funded Undergraduate Scholarship Aid



The economic challenges we face actually have stirred a collective energy to approach our institutional mission with greater dedication, creativity and focus than ever. This, of course, is where strategic planning will vitally contribute, sharpening the University's vision for the future and helping to define priorities. To complement the planning work now being undertaken in the colleges and schools, every department serving the academy in an administrative support role is also deeply involved in the Quest for Leadership process. We are determined to emerge from this endeavor with smarter and more efficient operations.

In noteworthy ways we are already far along. As an example, the program of no budgeted growth for non-salary items over the past several years and budget incentives instituted in the past year have saved significant funds as departments have done a tremendous job of identifying cost-saving and resource reallocation opportunities.



### Fiscal 2002 Results

The overall solid financial position of the University continued despite another year of declines in financial markets. During fiscal 2002, unrestricted revenues, excluding investment losses, were unchanged from fiscal 2001. Grants and contracts provided a significant increase in revenue for the second consecutive year, growing 14.3 percent over fiscal 2001 and 46.0 percent over the last two years, demonstrating the University's commitment to expanding its research enterprise.

The University's asset base at year-end was \$3.98 billion, with total assets decreasing during the year by 7.2 percent, or \$306.8 million, resulting from a \$312.8 million decline in the investment portfolio. Reductions of \$188.9 million in unrestricted net assets and \$220.0 million in temporarily restricted net assets were due principally to the decline in the market value of the endowment. Permanently restricted net assets increased by \$37.4 million as a result of contributions received for endowment.

Capital spending in fiscal 2002 totaled \$52.6 million compared to \$56.5 million the prior year. Moody's Investors Service reaffirmed the University's long-term debt rating of Aaa in connection with bonds issued in the latter part of the fiscal year to fund capital projects. Indicators of financial strength noted by Moody's included successful fund-raising and investment programs, strong and consistent operating performance and Notre Dame's established position as a leading Catholic university.



## A Commitment to International Programs

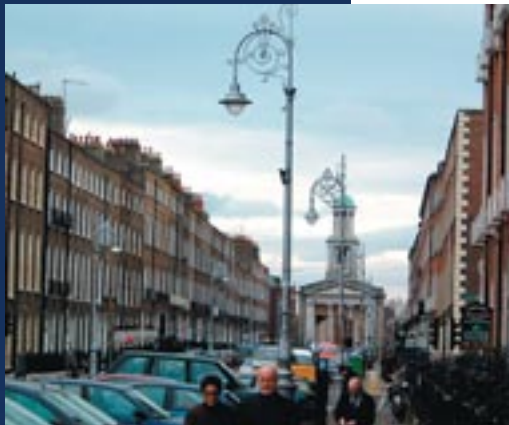
The growing Dublin program serves students from all four of Notre Dame's colleges — Arts and Letters, Business, Engineering and Science. Through the generosity of Donald and Marilyn Keough and Martin and Carmel Naughton, the program was greatly enhanced in the past year with the purchase of O'Connell

House on historic Merrion Square, which will supplement the recently remodeled Newman House.

Once the home of Daniel O'Connell, Ireland's famous Catholic liberator, this facility will

provide improved Campus Ministry services, classrooms and computer study and library space for students, faculty and visitors to this important international program.

More about O'Connell may be learned from the book *DANIEL O'CONNELL*, published by the Keough-Notre Dame Centre and edited by Kevin Whelan. Professor Whelan, a historian and member of the Royal Irish Academy, is director of the Centre and taught at Notre Dame in the spring semesters of 1997 and 2000.



held to 4.9 percent, together with the prior year constituting the lowest rates of increase in decades. Notre Dame's charges are at the mid-range for private institutions, and the net cost of a Notre Dame education after accounting for financial aid remains favorable compared to peer institutions. The

recently released annual rankings published by *U.S. News & World Report* placed the University in a tie for 18th on its list of national, doctoral universities and 14th on its "great schools at great prices" list of best values.

But we must continue to be competitive with our aid packages and to increase the diversity of our student body. Financial assistance will depend to a greater extent on operating resources in the next few years, as spending from scholarship endowments — like all endowments — will moderate due to market conditions.

In all of these areas, thoughtful planning and sound management are necessary but insufficient ingredients for success. We must add to the mix the generosity of our alumni and other benefactors even as their world has changed. All of us here today, and those that follow us, are grateful for the enduring nature of their loyalty to Notre Dame as an institution and their deep desire to perpetuate its mission for future generations.



— REV. TIMOTHY R. SCULLY, C.S.C.  
EXECUTIVE VICE PRESIDENT

## Summary of Financial Results

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

	Years ended June 30	
	2002	2001
Assets	\$3,975,168	\$4,281,978
Net assets	\$3,461,754	\$3,833,202
Decrease in net assets	\$(371,448)	\$(303,421)
Market value of endowment and funds functioning as endowment	\$2,605,522	\$2,883,606
Bonds and notes payable	\$255,176	\$202,352
Revenues	\$164,503	\$182,860
Expenses	\$535,951	\$486,281
Capital expenditures	\$52,580	\$56,471

## Revenues

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

	Years ended June 30	
	2002	2001
Tuition and fees, net of scholarships and fellowships	\$ 170,557	\$ 166,264
Grants and contracts	50,066	43,783
Contributions		
Unrestricted	21,968	16,073
Temporarily restricted	41,125	38,841
Permanently restricted	38,996	53,343
Investment income		
Unrestricted	17,705	28,780
Temporarily restricted	20,308	24,806
Permanently restricted	1,112	1,737
Net loss on investments		
Unrestricted	(169,904)	(165,120)
Temporarily restricted	(168,585)	(170,897)
Permanently restricted	(1,177)	(537)
Auxiliary enterprises	118,294	128,689
Other sources	24,038	17,098
Total	\$ 164,503	\$ 182,860