Statements of Financial Position

[IN THOUSANDS]

	As of June 30 2002	2001
ASSETS		
Cash and cash equivalents	$ 54,503	$ 52,087
Accounts receivable, net	21,761	23,338
Deferred charges and other assets	11,213	11,732
Contributions receivable, net	84,026	89,188
Notes receivable, principally for student loans, net	33,130	32,351
Investments	3,105,806	3,418,603
Land, buildings and equipment, net of accumulated depreciation	664,729	654,679
Total assets	$ 3,975,168	$ 4,281,978
LIABILITIES		
Accounts payable	$ 18,467	$ 22,506
Deferred revenue	33,723	31,424
Deposits and other liabilities	77,680	57,212
Amounts payable under split-interest agreements	20,526	23,787
Bonds and notes payable	255,176	202,352
Pension and other accrued retirement benefits	82,117	86,658
Government advances for student loans	25,725	24,837
Total liabilities	513,414	448,776
NET ASSETS		
Unrestricted		
Undesignated	89,521	149,316
Designated for specific purposes	218,713	214,359
Invested in land, buildings and equipment	422,671	452,327
Funds functioning as endowment	1,014,473	1,118,236
Total unrestricted	1,745,378	1,934,238
Temporarily restricted	1,012,480	1,232,501
Permanently restricted	703,896	666,463
Total net assets	3,461,754	3,833,202
Total liabilities and net assets	$ 3,975,168	$ 4,281,978

See accompanying notes to financial statements.

Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets

[IN THOUSANDS]

	Years ended June 30 2002	2001
REVENUES AND OTHER ADDITIONS		
Tuition and fees	$ 250,265	$ 232,610
Less: Tuition scholarships and fellowships	(79,708)	(66,346)
Net tuition and fees	170,557	166,264
Grants and contracts	50,066	43,783
Contributions	21,968	16,073
Investment income	17,705	28,780
Net loss on investments	(169,904)	(165,120)
Sales and services of auxiliary enterprises	118,294	128,689
Other sources	26,019	21,898
Total revenues	234,705	240,367
Net assets released from restrictions	112,386	117,797
Total revenues and other additions	347,091	358,164
EXPENSES		
Instruction	194,310	169,480
Research	42,553	35,916
Public service	21,283	20,824
Academic support	36,930	34,330
Student activities and services	25,009	22,029
General administration and support	89,768	84,639
Auxiliary enterprises	126,098	119,063
Total expenses	535,951	486,281
Decrease in unrestricted net assets	$ (188,860)	$ (128,117)

See accompanying notes to financial statements.

Statements of Changes in Net Assets

[IN THOUSANDS]

	Years ended June 30 2002	2001
UNRESTRICTED NET ASSETS		
Revenues	$ 234,705	$ 240,367
Net assets released from restrictions	112,386	117,797
Expenses	(535,951)	(486,281)
Decrease in unrestricted net assets	(188,860)	(128,117)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	41,125	38,841
Investment income	20,308	24,806
Net loss on investments	(168,585)	(170,897)
Change in value of split-interest obligations	(483)	(1,222)
Net assets released from restrictions	(112,386)	(117,797)
Decrease in temporarily restricted net assets	(220,021)	(226,269)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	38,996	53,343
Investment income	1,112	1,737
Net loss on investments	(1,177)	(537)
Change in value of split-interest obligations	(1,498)	(3,578)
Increase in permanently restricted net assets	37,433	50,965
Decrease in net assets	(371,448)	(303,421)
Net assets at beginning of year	3,833,202	4,136,623
Net assets at end of year	$ 3,461,754	$ 3,833,202

See accompanying notes to financial statements.

Statements of Cash Flows

[IN THOUSANDS]

	Years ended June 30 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (371,448)	$ (303,421)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	32,191	31,297
Changes in operating assets and liabilities:		
Accounts receivable	1,577	(3,058)
Deferred charges and other assets	519	1,845
Contributions receivable	5,723	19,942
Accounts payable	(4,039)	(7,494)
Deferred revenue	2,299	(315)
Deposits and other liabilities	4,805	2,703
Amounts payable under split-interest agreements	(3,261)	(1,999)
Pension and other accrued retirement benefits	(4,541)	(5,655)
Contributions for investments and physical facilities	(70,948)	(90,471)
Investment income restricted for reinvestment	(1,112)	(1,737)
Net loss on investments	339,666	336,554
Other, net	29,006	17,592
Net cash used by operating activities	(39,563)	(4,217)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	(30,265)	(47,838)
Purchases of land, buildings and equipment	(52,580)	(56,471)
Student loans granted	(4,978)	(4,372)
Student loans repaid	3,991	3,352
Change in other notes receivable	39	303
Net cash used by investing activities	(83,793)	(105,026)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for:		
Investments	67,742	67,182
Physical facilities	3,206	23,289
Investment income restricted for reinvestment	1,112	1,737
Proceeds from bonds issued	65,000	–
Repayment of bonds and notes	(12,176)	(2,095)
Government advances for student loans	888	797
Net cash provided by financing activities	125,772	90,910
Net change in cash and cash equivalents	2,416	(18,333)
Cash and cash equivalents at beginning of year	52,087	70,420
Cash and cash equivalents at end of year	$ 54,503	$ 52,087

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

The accompanying financial statements have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets — Net assets not subject to donor-imposed restrictions. Such assets are available for any purpose consistent with the University's mission.

Temporarily Restricted Net Assets — Net assets subject to specific, donor-imposed restrictions that must be met by actions of the University and/or passage of time. Such assets normally fund specific expenditures of an operating or capital nature.

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

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

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

CHANGE IN ACCOUNTING

On July 1, 2000, the University adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as "derivatives"), and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The University follows a policy of recognizing all its derivative instruments at fair market value and does not apply hedge accounting treatment to those transactions. The adoption of this statement did not have a material effect on the University's statement of financial position, or the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets and cash flows.

CONTRIBUTIONS

Contributions include unconditional promises to give that are recognized as revenues — either temporarily restricted or permanently restricted — in the period such commitments are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions to be received in future years are discounted at a U.S. Treasury rate commensurate with the payment plan. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management's expectations regarding collection of outstanding promises to give and the University's collection experience.

AUXILIARY ENTERPRISES

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

CASH AND CASH EQUIVALENTS

Resources invested in money market funds and in short-term investments with maturities at date of purchase of three months or less are classified as cash equivalents, except that any such investments purchased by external investment managers are classified as investments.

INVESTMENTS

Valuation

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

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

Open futures and options contracts are valued at the closing exchange quotations on the last business day of the year. Brokerage commissions on open positions are accrued as a liability of the University in full upon the initiation of such open positions. Upon entering into futures contracts, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contracts are traded. New contracts and changes in margin requirements resulting from changes in the fair value of the instruments are funded each business day.

The fair value of interest rate swap agreements is based on valuations provided by the counterparty banks and represents the estimated amount the banks would receive or pay to terminate the swap agreement at the reporting date. The University uses interest rate swap agreements to manage interest rate risk on its variable rate indebtedness. The University includes the differential payable or receivable on its interest rate swap agreements and any gain or loss on the fair value of the instruments currently in the statement of unrestricted revenues, expenses and other changes in unrestricted net assets. The estimated fair value of these instruments is reported in the statement of financial position.

Off-Balance Sheet Risk

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

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

Endowment

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

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.

SPLIT-INTEREST AGREEMENTS

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

USE OF ESTIMATES

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

TAX STATUS

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

RECLASSIFICATIONS

Certain amounts in the 2001 financial statements and footnotes have been reclassified to conform with the 2002 presentation.

NOTE 2.
ACCOUNTS AND NOTES RECEIVABLE

At June 30, 2002, accounts and notes receivable are stated net of allowances of $1,484,000 and $1,158,000, respectively. At June 30, 2001, these allowances were $1,531,000 and $1,151,000, respectively.

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

NOTE 3.
CONTRIBUTIONS RECEIVABLE

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

	2002	2001
Unconditional promises expected to be collected in:		
Less than one year	$ 31,181	$ 29,192
One year to five years	61,824	80,663
More than five years	17,366	9,836
	110,371	119,691
Less:		
Unamortized discount	17,217	20,813
Allowance for uncollectible amounts	9,128	9,690
	26,345	30,503
	$ 84,026	$ 89,188

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

	2002	2001
Temporarily restricted	$ 34,037	$ 37,393
Permanently restricted	49,989	51,795
	$ 84,026	$ 89,188

NOTE 4.
INVESTMENTS

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

	2002		2001	
	Cost	*Fair Value*	*Cost*	*Fair Value*
Short-term investments	$ 174,684	$ 189,069	$ 296,704	$ 306,227
Fixed income securities	401,667	414,216	325,058	328,673
Equity securities	1,394,359	1,325,033	1,487,269	1,521,201
Limited partnerships & similar interests	1,064,590	1,105,801	967,069	1,201,750
Other investments	69,528	71,687	60,719	60,752
	$ 3,104,828	$ 3,105,806	$ 3,136,819	$ 3,418,603

The University is obligated under certain investment contracts to periodically advance additional funding up to contractual levels. At June 30, 2002, such amounts approximated $489 million.

POOLED INVESTMENTS

Investments totaling $2.91 billion at June 30, 2002, and $3.23 billion at June 30, 2001, are pooled on a market value basis with each participating fund owning units in the pool. Additions or withdrawals are based on the market value of the pooled investments. The value per unit was $1,540 and $1,719 at June 30, 2002, and 2001, respectively.

Investment return for the years ended June 30, 2002, and 2001, is comprised of the following (in thousands):

	2002	2001
Investment income, net	$ 37,469	$ 49,304
Realized gain/(loss)	(54,008)	345,050
Unrealized loss	(283,948)	(689,712)
Total investment return	$ (300,487)	$ (295,358)

Investment income is reported net of related expenses, primarily investment advisory fees, of $14,318,000 and $15,733,000 for the years ended June 30, 2002, and 2001, respectively.

NOTE 5.
LAND, BUILDINGS AND EQUIPMENT

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

	2002	2001
Land and land improvements	$ 50,787	$ 50,440
Buildings	633,133	598,626
Equipment	180,595	168,514
Construction in progress	29,581	42,933
	894,096	860,513
Less accumulated depreciation	229,367	205,834
	$ 664,729	$ 654,679

Depreciation expense was $32,191,000 and $31,297,000 for the years ended June 30, 2002, and 2001, respectively. The University has commitments to expend approximately $63.5 million to complete various construction projects as of June 30, 2002.

NOTE 6.
BONDS AND NOTES PAYABLE

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

	2002	2001
St. Joseph County, Indiana		
Educational Facilities Revenue Bonds:		
Series 2002, bearing interest at a variable rate (1.15 percent currently) through 2037	$ 65,000	$ –
Series 2000, repaid in 2002	–	10,000
Series 1998, bearing interest at a variable rate (1.10 percent currently) through 2033	43,000	43,000
Series 1997, bearing interest at 4.25 percent to 5.25 percent through 2027	30,295	30,915
Series 1996, bearing interest at 5.5 percent to 6.5 percent through 2026	30,000	30,000
Indiana Educational Facilities Authority Revenue Bonds:		
Series 1997, bearing interest at 4.25 percent to 5.25 percent through 2025	23,060	23,130
Series 1995, bearing interest at a variable rate (1.15 percent currently) through 2025	26,500	26,500
Series 1994, bearing interest at 5.5 percent to 6.65 percent through 2019	28,990	29,865
Series 1992, bearing interest at 5.4 percent to 6 percent through 2023	5,925	6,425
Notre Dame du Lac Dormitory Refunding and Construction Bonds bearing interest at 3 percent through 2018	1,500	1,570
Mortgage notes payable, bearing interest at 3 percent through 2019	906	947
	$ 255,176	$ 202,352

The aggregate scheduled maturities of the bonds and notes payable for each of the five fiscal years subsequent to June 30, 2002, are as follows (in thousands): $2,357 in 2003; $2,049 in 2004; $2,205 in 2005; $2,246 in 2006; and $2,513 in 2007.

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

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

Total interest costs incurred and paid were $10,880,000 and $8,629,000, respectively, for the year ended June 30, 2002. Interest costs incurred and paid were $10,071,000 for the year ended June 30, 2001.

The University has established an unsecured line of credit with a major commercial bank to be used for working capital purposes. On May 31, 2002, the line of credit agreement was amended, increasing the amount by $20 million to $50 million and extending the termination date to June 30, 2003. The available line of credit was entirely unused at June 30, 2002, and 2001.

NOTE 7.
RETIREMENT PROGRAMS

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

Faculty and certain administrative employees who have completed one year of full-time service at the University are eligible to participate in the defined contribution plan. Participating staff in the defined contribution plan have the option of directing their contributions and the University's contributions on their behalf to Teachers Insurance and Annuity Association, Fidelity Investments or the Vanguard Group. Participating staff are immediately vested in the plan. The University's share of the cost of these benefits was $13,251,000 and $11,941,000 for the years ended June 30, 2002, and 2001, respectively.

Retirement benefits are provided for other employees under a defined benefit, trusteed retirement plan administered by the University. This plan provides benefits for certain administrative and staff employees who have completed at least five years of service at a minimum of 1,000 hours of service each year. The defined benefit plan is funded by annual contributions made by the University to the Employee's Retirement Fund. The University's contributions meet ERISA minimum requirements. The plan assets and their related actuarially determined benefit obligation are included in investments and pension and other accrued retirement benefits, respectively, on the Statements of Financial Position as of June 30, 2002, and 2001.

The postretirement benefits offered by the University consist principally of medical and life insurance for retirees and their spouses. Employees are eligible for the postretirement benefits if they retire after attaining specified age and service requirements while employed by the University. The plan is funded as claims are paid.

The University determines the amortization of any prior service cost relating to the projected benefit obligation and accumulated postretirement benefit obligation (APBO) using a straight-line amortization of the cost over the average remaining service period of employees expected to receive the benefits under the respective plan.

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

	Pension Benefits		*Postretirement Benefits*	
	2002	**2001**	**2002**	**2001**
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 69,011	$ 60,712	$ 25,001	$ 23,198
Service cost	3,207	2,897	1,256	977
Interest cost	5,003	4,799	1,829	1,679
Actuarial (gain)/loss	1,987	3,669	5,690	(194)
Benefit payments	(3,096)	(3,066)	(850)	(659)
Benefit obligation at end of year	76,112	69,011	32,926	25,001
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	65,542	73,975	–	–
Actual return on plan assets	(5,892)	(5,367)	–	–
Employer contributions	–	–	850	659
Benefit payments	(3,096)	(3,066)	(850)	(659)
Fair value of plan assets at end of year	56,554	65,542	–	–
Funded status	(19,558)	(3,469)	(32,926)	(25,001)
Unrecognized net (gain)/loss	13,708	(478)	5,872	181
Unrecognized prior service costs	567	659	–	–
Unrecognized net transition (asset)/obligation	–	(398)	6,774	7,390
Accrued benefit cost	$ (5,283)	$ (3,686)	$ (20,280)	$ (17,430)
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost	$ 3,207	$ 2,897	$ 1,256	$ 977
Interest cost	5,003	4,799	1,829	1,679
Expected return on plan assets	(6,300)	(6,512)	–	–
Amortization of:				
Unrecognized net (gain)/loss	(7)	(646)	–	–
Unrecognized prior service cost	92	243	–	–
Unrecognized net (asset)/obligation	(398)	(398)	616	616
Net periodic benefit cost	$ 1,597	$ 383	$ 3,701	$ 3,272
WEIGHTED-AVERAGE ASSUMPTIONS				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	8.50%	9.00%		
Rate of compensation increase	5.00%	5.00%		

The assumed health care cost trend rate used in measuring the APBO was 7.5 percent at June 30, 2001, and 10.0 percent at June 30, 2002, grading down to 5 percent in 2012. A one-percentage-point increase or decrease in the assumed health care cost trend rates would have affected the total of service and interest cost and APBO by approximately $507,000 and $4,955,000, respectively.

NOTE 8.
RESTRICTED NET ASSETS AND ENDOWMENT

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

	2002	2001
Contributions and earnings for operating purposes	$ 46,972	$ 45,270
Contributions for the acquisition of buildings and equipment	56,829	60,036
Split-interest agreements	9,937	10,516
Funds functioning as endowment	898,742	1,116,679
	$ 1,012,480	$ 1,232,501

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

	2002	2001
Endowment funds	$ 692,307	$ 648,691
Student loan funds	4,089	7,324
Split-interest agreements	7,500	10,448
	$ 703,896	$ 666,463

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

	2002	2001
Unrestricted	$ 1,014,473	$ 1,118,236
Temporarily restricted	898,742	1,116,679
Permanently restricted	692,307	648,691
	$ 2,605,522	$ 2,883,606

As a result of market declines, the fair market value of certain donor-restricted endowments is less than the level required by donor stipulations or law by $15,055,000 at June 30, 2002, and $5,989,000 at June 30, 2001. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the level required by donor stipulations or law increases temporarily restricted net assets.

NOTE 9.
CONTINGENCIES

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

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

Report of Independent Accountants

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

In our opinion, the accompanying statements of financial position and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets and cash flows present fairly, in all material respects, the financial position of the University of Notre Dame du Lac (the "University") at June 30, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Chicago, Illinois
October 4, 2002