

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

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

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in net assets consistent with the restrictions placed on their use either by 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 grants and contracts are recognized when related costs are incurred. 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.

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

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

CONTRIBUTIONS

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

AUXILIARY ENTERPRISES

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Valuation

Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The estimated fair value of certain alternative investments, such as private equity interests, 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 alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

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

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

Off-Balance Sheet Risk

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

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

Endowment

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

OTHER FINANCIAL INSTRUMENTS

The University utilizes derivative instruments in a limited manner, primarily interest rate swap agreements, to manage interest rate risk associated with its debt portfolio. These instruments are reported in the statements of financial position at fair value, which is based on valuations provided by counterparty banks and represents the estimated amount that counterparties would receive or pay to terminate the instrument at the reporting date. Any gains or losses resulting from changes in the fair value of these instruments or periodic net cash settlements with counterparties are recognized currently as non-operating changes in unrestricted net assets.

LAND, BUILDINGS AND EQUIPMENT

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

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

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

SPLIT-INTEREST AGREEMENTS

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

USE OF ESTIMATES

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

TAX STATUS

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

RECLASSIFICATIONS

Certain amounts in the 2005 financial statements and footnotes have been reclassified to conform with the 2006 presentation.

NOTE 2. ACCOUNTS AND NOTES RECEIVABLE

At June 30, 2006, accounts and notes receivable are stated net of allowances of \$668,000 and \$1,117,000, respectively. At June 30, 2005, these allowances were \$421,000 and \$1,117,000, respectively.

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

NOTE 3. CONTRIBUTIONS RECEIVABLE

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

	<u>2006</u>		<u>2005</u>	
Unconditional promises expected to be collected in:				
Less than one year	\$	38,159	\$	26,006
One year to five years		59,481		53,912
More than five years		76,391		60,739
		<u>174,031</u>		<u>140,657</u>
Less:				
Unamortized discount		48,910		31,964
Allowance for uncollectible amounts		17,791		30,364
		<u>66,701</u>		<u>62,328</u>
	\$	<u>107,330</u>	\$	<u>78,329</u>

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

	<u>2006</u>		<u>2005</u>	
Temporarily restricted	\$	64,846	\$	49,047
Permanently restricted		42,484		29,282
		<u>107,330</u>		<u>78,329</u>

At June 30, 2006, the University had received documented conditional pledges of \$48.5 million which are not reflected in the accompanying financial statements.

NOTE 4. INVESTMENTS

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

	<u>2006</u>				<u>2005</u>			
	Cost		Fair Value		Cost		Fair Value	
Short-term investments	\$	339,692	\$	347,930	\$	179,198	\$	194,151
Equity securities		1,271,031		1,552,947		1,206,582		1,507,146
Debt securities		287,585		290,774		300,278		317,957
Real estate		244,022		300,742		107,811		142,736
Other investments		2,336,264		2,815,020		1,973,265		2,141,493
	\$	<u>4,478,594</u>	\$	<u>5,307,413</u>	\$	<u>3,767,134</u>	\$	<u>4,303,483</u>

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

Investments totaling \$5.08 billion at June 30, 2006, and \$4.11 billion at June 30, 2005, 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 \$2,491 and \$2,130 at June 30, 2006 and 2005, respectively. Certain other investments are held in specific instruments to comply with donor requirements.

The University is obligated under certain investment contracts to periodically advance additional funding up to contractual levels. At June 30, 2006, such amounts approximated \$1.85 billion.

INVESTMENT RETURN

Investment return for the years ended June 30, 2006 and 2005, comprises the following (in thousands):

	<u>2006</u>	<u>2005</u>
Investment income, net	\$ 91,779	\$ 101,949
Realized gain	518,920	375,051
Unrealized gain	271,653	196,373
	<u>\$ 882,352</u>	<u>\$ 673,373</u>

Investment income is reported net of related expenses, primarily investment advisory fees, of \$17,251,000 and \$14,566,000 for the years ended June 30, 2006 and 2005, respectively.

On March 3, 2006, the University received \$85 million in exchange for 100% of the outstanding stock of Michiana Telecasting, Inc.

NOTE 5. LAND, BUILDINGS AND EQUIPMENT

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

	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 56,559	\$ 56,235
Buildings	820,978	735,166
Equipment	193,296	179,791
Construction in progress	98,689	62,809
	<u>1,169,522</u>	<u>1,034,001</u>
Less: Accumulated depreciation	333,129	296,490
	<u>\$ 836,393</u>	<u>\$ 737,511</u>

Depreciation expense was \$34,485,000 and \$34,575,000 for the years ended June 30, 2006 and 2005, respectively.

The University has commitments to expend approximately \$19 million to complete various construction projects as of June 30, 2006.

NOTE 6. BONDS AND NOTES PAYABLE

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

	2006	2005
<i>Obligations of the University</i>		
St. Joseph County, Indiana		
Educational Facilities Revenue Bonds:		
Series 2005, bearing interest at a variable rate (3.9 percent currently) through 2040	\$ 185,000	\$ —
Series 2003, bearing interest at 2.5 percent through 2007, variable thereafter through 2038	65,000	65,000
Series 2002, refunded as part of the Series 2005 variable rate bonds	—	65,000
Series 1998, bearing interest at a variable rate (3.9 percent currently) through 2033	43,000	43,000
Series 1997, bearing interest at 4.5 percent to 5.25 percent through 2027	27,540	28,275
Series 1996, bearing interest at 5.5 percent to 6.5 percent through 2026, partially refunded as part of the Series 2005 variable rate bonds	7,890	30,000
Indiana Educational Facilities Authority Revenue Bonds:		
Series 1997, bearing interest at 4.5 percent to 5.25 percent through 2025	22,745	22,830
Series 1995, refunded as part of the Series 2005 variable rate bonds	—	26,500
Notre Dame du Lac Dormitory Refunding and Construction Bonds bearing interest at 3 percent through 2018	1,190	1,270
	352,365	281,875
<i>Obligation of majority-owned limited liability corporation</i>		
Mortgage notes payable, bearing interest at 5.68 percent through 2015	39,900	—
	\$ 392,265	\$ 281,875

The aggregate scheduled maturities of the bonds and notes payable for each of the five fiscal years subsequent to June 30, 2006, are as follows (in thousands): \$940 in 2007; \$985 in 2008; \$1,025 in 2009; \$1,070 in 2010; and \$1,120 in 2011.

The Dormitory Refunding and Construction Bonds are collateralized by the facilities to which they relate. The Indiana and St. Joseph County Educational Facilities Revenue Bonds represent general obligations of the University and are not collateralized by the related facilities. Proceeds of \$33,564,000 from the Series 2005 St. Joseph County Educational Facilities Revenue Bonds were unexpended as of June 30, 2006.

The University is the majority owner of an externally managed limited liability corporation, the activities of which are consolidated in the University's financial statements. The corporation's assets consist primarily of real estate, the acquisition of which was financed in part with a \$40 million note payable bearing interest at 5.68%, due in 2015. The note is not a general obligation of the University but is fully collateralized by the property acquired.

The fair value of the University's bond and note obligations approximates the aggregate carrying value at June 30, 2006 and 2005.

The University utilizes interest rate swaps as a strategy for managing interest rate risk associated with certain bond issues. Under the terms of swap arrangements that seek to effectively fix the variable rates associated with certain issues, the University pays fixed rates ranging from 3.37 percent to 5.01 percent and receives variable rates ranging from 67 percent to 70 percent of the London Interbank Offer Rate (LIBOR) on total notional amounts of \$107,930,000. A separate swap arrangement seeks to convert the fixed rate on the Series 2003 bonds to a variable rate through 2007. Under the terms of this swap, the University pays a variable rate equal to the Bond Market Association (BMA) Municipal Swap Index and receives a fixed rate of 2.35 percent on a notional amount of \$65,000,000. The estimated fair value of interest rate swaps was a net unrealized loss position of \$4,077,000 and \$8,776,000 at June 30, 2006 and 2005, respectively. The University paid periodic net settlements of \$1,351,000 and \$1,664,000 to counterparties pursuant to interest rate swaps during the years ended June 30, 2006 and 2005, respectively.

Total interest costs incurred and paid by the University were \$11,731,000 and \$12,285,000, respectively, for the year ended June 30, 2006. Interest costs incurred and paid were \$8,376,000 and \$8,442,000, respectively, for the year ended June 30, 2005.

In fiscal 2006, the University established a taxable and tax-exempt extendible municipal commercial paper program issued by St. Joseph County, Indiana and the University of Notre Dame. The University may utilize tax-exempt commercial paper to finance, reimburse, or refinance the cost of land, site improvements, buildings, and equipment for educational facilities for the University. In addition, taxable commercial paper may be used to finance working capital needs. Total outstanding issues are limited to \$75 million. During the year ended June 30, 2006, the University made various draws for short-term working capital needs, the largest of which was \$42 million. At June 30, 2006, the University had \$21 million in commercial paper outstanding.

The University maintains an unsecured line of credit in the amount of \$50 million with a major commercial bank to be used for working capital purposes. On March 22, 2006, the line of credit agreement was amended, extending the termination date to March 29, 2007. The available line of credit was entirely unused at June 30, 2006 and 2005.

NOTE 7. PENSION AND OTHER RETIREMENT PLANS

DEFINED CONTRIBUTION RETIREMENT SAVINGS PLAN

Faculty and certain administrative employees who have completed one year of full-time service at the University are eligible to participate in the defined contribution retirement savings plan. Staff members participating in the plan have the option of directing their contributions and the University's contributions on their behalf to Teachers Insurance and Annuity Association, Fidelity Investments or the Vanguard Group. Participating staff are immediately vested in the plan. The University's share of the cost of these benefits was \$17,114,000 and \$16,038,000 for the years ended June 30, 2006 and 2005, respectively.

DEFINED BENEFIT PENSION PLAN

Retirement benefits are provided for other employees under a defined benefit, trustee pension plan administered by the University. This plan provides benefits for certain administrative and staff employees who have completed at least five years of service at a minimum of 1,000 hours of service each year. The University funds the plan with annual contributions that meet ERISA minimum requirements. The plan assets and their related actuarially determined benefit obligation are included in investments and pension and other postretirement benefits, respectively, on the statements of financial position as of June 30, 2006 and 2005.

At June 30, 2005, the accumulated benefit obligation with respect to the plan exceeded the fair value of plan assets by more than the actuarially determined unrecognized prior service cost. As such, the University recognized a minimum pension liability adjustment of \$18,040,000 at June 30, 2005. The decrease or increase in the required minimum pension liability adjustment is reflected as a non-operating gain or loss in the statements of changes in unrestricted net assets.

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

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

	2006	2005
Change in Benefit Obligation		
Projected benefit obligation at beginning of year	\$ 127,536	\$ 102,912
Service cost	6,031	4,567
Interest cost	6,149	5,997
Actuarial (gain)/loss	(25,049)	17,747
Benefit payments	(3,752)	(3,687)
Projected benefit obligation at end of year	110,915	127,536
Change in Plan Assets		
Fair value of plan assets at beginning of year	70,765	63,813
Actual return on plan assets	8,072	6,570
Employer contributions	4,840	4,069
Benefit payments	(3,752)	(3,687)
Fair value of plan assets at end of year	79,925	70,765
Funded status	(30,990)	(56,771)
Unrecognized net loss	14,744	44,426
Unrecognized prior service costs	200	291
Accrued benefit cost	(16,046)	(12,054)
Minimum pension liability adjustment	—	(18,040)
Total liability	\$ (16,046)	\$ (30,094)
Components of Net Periodic Benefit Cost		
Service cost	\$ 6,031	\$ 4,567
Interest cost	6,149	5,997
Expected return on plan assets	(5,933)	(5,252)
Amortization of:		
Unrecognized net loss	2,494	1,237
Unrecognized prior service cost	92	92
Net periodic benefit cost	\$ 8,833	\$ 6,641
Accumulated benefit obligation at end of year	\$ 86,214	\$ 101,150
Weighted-average Assumptions		
Discount rate	6.25%	5.00%
Expected long-term rate of return on plan assets	8.50%	8.50%
Rate of compensation increase	5.00%	5.00%

The projected benefit payments under the plan for each of the five fiscal years subsequent to June 30, 2006, are as follows (in thousands): \$4,019 in 2007; \$4,236 in 2008; \$4,494 in 2009; \$4,792 in 2010; and \$5,125 in 2011. Projected aggregate benefit payments under the plan for the five year period ended June 30, 2016, are \$32,811,000. The University's estimated contributions to the plan for the year subsequent to June 30, 2006, are \$6,200,000.

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

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

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

	2006	2005	Target
Short-term investments	1%	3%	0%
Equity securities	39%	48%	50%
Debt securities	17%	25%	25%
Other assets	43%	24%	25%
	100%	100%	100%

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

NOTE 8. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

During the year ended June 30, 2006, the University amended certain features of its postretirement benefit plans as a result of consolidating several retiree medical plans. The effect of these amendments on the accumulated postretirement benefit obligation (APBO) was a decrease of \$14,730,000.

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

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

	2006	2005
Change in Benefit Obligation		
Accumulated postretirement benefit obligation at beginning of year	\$ 58,715	\$ 31,984
Service cost	3,859	2,929
Interest cost	2,586	2,569
Plan amendments	(14,730)	—
Actuarial loss	607	22,233
Benefit payments	(884)	(1,000)
Accumulated postretirement benefit obligation at end of year	50,153	58,715
Change in Plan Assets		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Employer contributions	884	1,000
Benefit payments	(884)	(1,000)
Fair value of plan assets at end of year	—	—
Funded status	(50,153)	(58,715)
Unrecognized net loss	34,542	36,656
Unrecognized prior service costs	(20,091)	(9,457)
Unrecognized net transition obligation	—	—
Accrued benefit cost	\$ (35,702)	\$ (31,516)
Components of Net Periodic Benefit Cost		
Service cost	\$ 3,859	\$ 2,929
Interest cost	2,586	2,569
Expected return on plan assets	—	—
Amortization of:		
Unrecognized net loss	—	—
Unrecognized prior service cost	(4,096)	(2,364)
Unrecognized net obligation	2,721	1,808
Net periodic benefit cost	\$ 5,070	\$ 4,942
Weighted-average Assumptions		
Discount rate	6.25%	5.00%
Health care cost trend rate (grading to 5.0 percent in 2013)	10.00%	8.50%

A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO by approximately \$1,634,000 and \$9,599,000, respectively. Likewise, a one-percentage-point decrease in the assumed health care cost trend rate would have decreased aggregate service and interest costs and the APBO by approximately \$1,296,000 and \$8,057,000, respectively.

The projected postretirement benefit payments for each of the five fiscal years subsequent to June 30, 2006, are as follows (in thousands): \$1,082 in 2007; \$1,216 in 2008; \$1,356 in 2009; \$1,556 in 2010; and \$1,734 in 2011. Projected aggregate postretirement benefit payments for the five-year period ended June 30, 2016, are \$11,960,000.

NOTE 9. RESTRICTED NET ASSETS AND ENDOWMENT

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

	<u>2006</u>	<u>2005</u>
Contributions and earnings for operating purposes	\$ 70,979	\$ 58,984
Contributions for the acquisition of buildings and equipment	117,837	165,062
Split-interest agreements	7,703	9,337
Funds functioning as endowment	1,493,244	1,206,460
	<u>\$ 1,689,763</u>	<u>\$ 1,439,843</u>

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

	<u>2006</u>	<u>2005</u>
Endowment funds	\$ 903,573	\$ 818,985
Student loan funds	6,048	5,313
Split-interest agreements	8,845	9,157
	<u>\$ 918,466</u>	<u>\$ 833,455</u>

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

	<u>2006</u>	<u>2005</u>
Unrestricted	\$ 2,091,021	\$ 1,665,249
Temporarily restricted	1,493,244	1,206,460
Permanently restricted	903,573	818,985
	<u>\$ 4,487,838</u>	<u>\$ 3,690,694</u>

The aggregate amount of deficiencies for all donor-restricted endowment funds for which the fair value of the assets is less than the level required by donor stipulations was \$338,000 at June 30, 2006, and \$104,000 at June 30, 2005. These unrealized losses have been recorded as non-operating reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the level required by donor stipulations or law increases temporarily restricted net assets.

NOTE 10. ADOPTION OF NEW ACCOUNTING STANDARD

CONDITIONAL ASSET RETIREMENT OBLIGATION

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), to clarify the term conditional asset retirement obligation used in its previously issued SFAS 143, "Accounting for Asset Retirement Obligations." FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity where the timing and (or) method of settlement are conditioned on a future event that may or may not be within the control of the entity. The interpretation specifies that the obligation be recorded when it is incurred and an entity has sufficient information to reasonably estimate the liability.

The University has adopted FIN 47 as of June 30, 2006. The pronouncement prescribes that upon adoption, an entity must recognize the cumulative effect of the initial application as a change in accounting principle. In the opinion of management, all conditional asset retirement obligations are reasonably estimable. A discounting technique has been used to calculate the present value of obligations consistent with the University's standard procedures and in consideration of industry practice, management's intentions related to future renovation projects, and the estimated economic lives of the assets involved. The conditional asset retirement obligation for the University relates primarily to asbestos remediation which will be settled upon undertaking associated renovation projects. Following is the pro-forma effect of implementing the pronouncement for each year presented (in thousands):

	2006		2005	
Conditional asset retirement obligation, beginning of year	\$	18,786	\$	18,117
Conditional asset retirement obligation, end of year	\$	19,481	\$	18,786

NOTE 11. CONTINGENCIES

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

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