UNIVERSITY *of* NOTRE DAME

| *Annual Report 2006*

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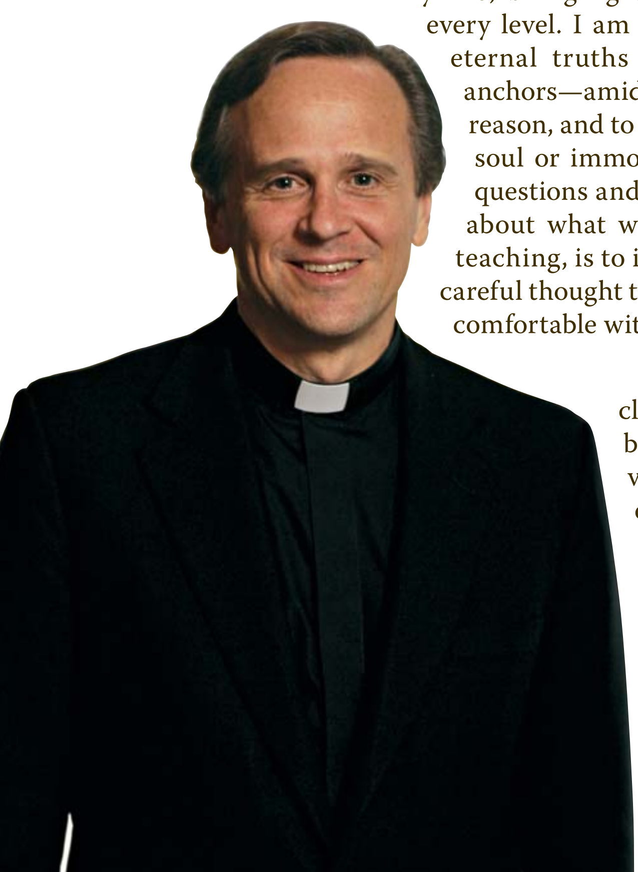
The Role *of a* Catholic University in the 21st Century

Throughout my first year as President I have thought often about my undergraduate days at Notre Dame. It was here—in classrooms and hallways, by the lakes, on the quads and in the residence halls—that I was initiated into the scholarly life, the life of the mind, the vigorous give and take of intellectual questioning. As a philosophy major, I enjoyed the thoughtful sparring, the precision essential to persuasion, the hunt for truth down crooked lanes. I so enjoyed the conversations and found them so rewarding that I chose this course for my life's work.

As this path has taken me from South Bend to Oxford, from student to teacher, from scholar to president, the desire to engage the ultimate questions has remained the central current in my life, bringing coherence and continuity at every turn and every level. I am at home in such a quest, confident of those eternal truths and immutable ideals that bring definite anchors—amid life's complexities—to matters of faith and reason, and to the various truths or doubts about God or the soul or immortality. Philosophy, I tell my students, raises questions and challenges assumptions, leads us to wonder about what we thought was obvious. My purpose, when teaching, is to invite them to wonder and to encourage more careful thought than they have been accustomed to, or perhaps, comfortable with.



This method of teaching and my role in the classroom have acquired new meaning as I look back on my first year as President of this University. I am glad I am so familiar with the educational enterprise here, with the students and their concerns, and with the scholarly life, which, after all, is at the core of all we do. Additionally, though, as President, I have

come to appreciate such discussions in new and meaningful ways. The many tasks that have come with this office have immersed me in a continuing conversation that has been enriching, engaging, and vital to the lifeblood of this institution. This discourse has only affirmed in me the importance of living the questions, the excitement of the intellectual journey, the invaluable benefits of pursuing the rigorously examined life.

In the process I may have discovered (as have my students) that I knew less about certain corners of institutional life than when I started, but I have also gleaned new insights, gained a more profound understanding, and arrived at more settled convictions about matters of great importance in life. I am also comfortable in the knowledge—as we pursue understanding, wisdom, and truth—that answers beget even more questions. This is a fundamental premise of higher education, and those of us engaged in such an undertaking must relish the chase.

The role of a Catholic university is to bring to the life of the Church, through sustained and serious thought and discussion, the integration of reason and faith.

Of course, our conversations here at Notre Dame demand a much fuller, more vigorous examination because ours is a Catholic university and our dialogue is inspired by the truths of the Gospel. It is a place where faith seeks understanding, where a deeper understanding of the truths of faith is achieved by pondering questions, puzzles, even objections. The role of a Catholic university is to bring to the life of the Church, through sustained and serious thought and discussion, the integration of reason and faith. It must identify and formulate the critical questions that arise in an age when faith and reason may appear in conflict. And there is no doubt that in our time, with the expansion of knowledge and communication around the globe, the questions are more numerous and challenging than ever before.

The Catholic intellectual tradition is grounded in the Gospel of Jesus Christ, and yet it has developed over centuries through engagement, interaction, and dialogue with the surrounding culture, whether speaking on emerging social questions or applying Gospel truths to the complex situations wrought by advances in science. How our ancient but evolving Catholic tradition expresses itself in the future depends, to a large extent, upon the work of this and other Catholic universities.

We strive to produce leaders for tomorrow's world who not only have the requisite intellectual powers but also the moral, spiritual, and ethical sensitivities essential to navigate the uncharted waters of environmental health, reproductive biology, epidemic disease, and the very nature of the universe, to name just a few.

This interplay between Notre Dame and the wider world is essential in all areas of our academic life as well as in our many service components and initiatives. But today, it is most tangibly apparent in the recently completed Jordan Hall of Science. This 201,782-square-foot, $70 million facility will house 40 teaching-focused laboratories, two 250-seat lecture halls, a greenhouse, herbarium, observatory, and a state-of-the-art multimedia theater, as well as faculty offices and an impressive array of cutting-edge equipment. While the building is dramatic evidence of Notre Dame's spirited commitment to science education, it is also a clear indication of the necessary integration of reason and faith at this University.

Certainly our world demands scholars, scientists, teachers, researchers, and doctors of the very highest professional expertise, people who can venture capably into the frontiers we today can only imagine—as well as those horizons we cannot now foresee. But the world also needs people infused with those qualities of the mind and soul necessary to direct those unknown and unforeseen changes toward the betterment of life on earth. That is the kind of education, training, and development we hope to nurture here. We strive to produce leaders for tomorrow's world who not only have the requisite intellectual powers but also the moral, spiritual, and ethical sensitivities essential to navigate the uncharted waters of environmental health, reproductive biology, epidemic disease, and the very nature of the universe, to name just a few.

This new facility will surely elevate the quality of science education here. To what extent that improvement will be realized, however, is largely up to the faculty, to the people who will serve and lead those educated within its walls and far beyond this campus. Fortunately, Notre Dame has always been blessed by good people—whether faculty or staff, alumni or benefactor, Holy Cross priest or University Trustee. I knew this long ago, as a Notre Dame undergraduate in the early 1970s, as a graduate student, a teacher and professor, and as a member of the University's leadership team prior to assuming the presidency. But this past year has deeply impressed upon me the depth of feeling people have for this place, and not simply the love and affection, but also the expectations, the reverence, the dreams and aspirations. The very passion that animates the discussion of things Notre Dame—its character, traditions, legacy, and future—is perhaps the most gratifying lesson of this past year. Members of the Notre Dame family care deeply about this place, what it is, what it is becoming, what it symbolizes.

This passion is also the institution's most essential and encouraging asset. As I move into my second year as President and as the University moves forward into the future, we are emboldened by the dreams that have been realized, by our unique melding of faith and reason, our Catholic nature and our academic ambitions, and by all those who have given so much to Notre Dame. A year ago I was surely inspired by the promise of this place. Today I am more enthusiastic and more confident than ever about what lies ahead.

Rev. John I. Jenkins, C.S.C.

President

Academic Year Ended June 30, 2006

NOTRE DAME AT A GLANCE

STUDENTS	
Undergraduate	8,275
Graduate and professional	3,142
Total fall enrollment	11,417
UNDERGRADUATE ADMISSIONS	
Applications	11,316
Offers of admission	3,581
Enrolled	1,995
Selectivity ratio	31.6%
Matriculation ratio	55.7%
DEGREES CONFERRED	
Baccalaureate	2,072
Master's	848
First professional	182
Doctoral	160
Total degrees conferred	3,262
Undergraduate Tuition Rate	$31,100
Percent increase over prior year	7.0%

New Facility Underscores Notre Dame's Commitment *to* Science Education

At 201,782 square feet, the Jordan Hall of Science becomes Notre Dame's newest and most technologically advanced facility dedicated solely to undergraduate science instruction. With the completion of this $70 million facility, the square footage of laboratory space on campus increases significantly in each of these areas: from 14,600 square feet to nearly 34,000 square feet for biology; from 14,000 square feet to 39,000 square feet for chemistry and biochemistry; and from less than 7,000 square feet to about 20,000 square feet for physics.

Not only does this new facility increase the space dedicated to science instruction on campus, its layout also fosters an interdisciplinary style of learning by bringing physics, biology, and chemistry students together under one roof. State-of-the-art equipment, labs, lecture halls, and classrooms can be shared as needed by all students.

Jordan Hall will dramatically improve the way science is taught by taking full advantage of the talents and ingenuity of Notre Dame's world-class faculty. For the first time, College of Science faculty will be able to teach their courses without constraints or compromises. Our students can now experience a truly integrated, creative learning environment that better prepares them for their futures as independent thinkers and leaders.

At a Glance

JORDAN HALL OF SCIENCE

4-bay greenhouse

22 administrative offices

40 undergraduate laboratories

136-seat Digital Visualization Theatre

223 fume hoods distributed among labs, enough for each student in class

Two **250**-seat lecture halls

3,000 and **4,000** students: projected enrollment of students in science lecture and laboratory courses, respectively, per semester

201,782 square feet

Approximately **500,000** bricks

"Unquestionably, Jordan Hall enhances my science-related experience here at Notre Dame by providing concentrated learning resources in a state-of-the-art facility."

Tristan VanVoorhis '08
Preprofessional

Notable Sponsored Research Awards / Fiscal 2006

Project	Sponsor	Amount
Preventing Child Neglect in High-risk Mothers	National Institutes of Health	$1,662,590
Ionic Liquids for Utilization of Waste Heat from Distributed Power Systems	Department of Energy	$1,431,931
Radiation and Photochemistry in the Condensed Phase	Department of Energy	$3,220,000
Pathophysiologies Involving Hemostasis-Related Genes	National Institutes of Health	$1,760,503
Wind Tunnel for Airbourne Platform Laser and Flight Control	Department of the Air Force	$2,838,276
NIRT: Extremely Mismatched Materials for Advanced Nanodevices	National Science Foundation	$1,300,000
Environmental Molecular Science Institute: Actinides and Heavy Metals in the Environment: The Formation, Stability, and Impact of Nano- and Micro-Particles	National Science Foundation	$1,000,000
NIRT: Spatial and Intensity Modulation of Light Emission in Fluorescent Molecules, Nanocrystals, and Nanowires	National Science Foundation	$1,199,544
Anti-Sand Fly Saliva Vaccine Development	ARMY/ DARPA	$2,703,000
Nuclear Structure and Nuclear Astrophysics (Joint Institute for Nuclear Astrophysics)	National Science Foundation	$2,000,000
Nuclear Structure and Nuclear Astrophysics	National Science Foundation	$1,400,000
VectorBase: A Bioinformatics Resource Center for Invertebrate Vectors of Human Pathogens	National Institutes of Health	$1,526,840

"I've had such brilliant and engaging professors in my science courses here at Notre Dame. With the gift of the Jordan Hall of Science, our science facilities now fully reflect the quality of our faculty. I believe Jordan Hall will move us to the forefront of undergraduate education, and I'm honored to be a student here during this exciting time."

Brennan Bollman '09
Biochemistry

Stewarding *a* Bold Vision

When I came to Notre Dame in summer 2005, several experiences helped shape my expectations. I am a Notre Dame graduate, a Notre Dame parent, and had served as a consultant on several occasions over past years. However, shortly into my first year as provost, I realized that I was seeing the University in a way that I could only experience during my first few months. Witnessing the day-to-day life of the University brought an entirely new perspective. As my first year drew to a close, I savored this view, because it allowed me to see clearly many of the University's distinctive strengths.

This past year has convinced me that Notre Dame is poised to do something that no university in the last two centuries has achieved: to be associated with a faith-based tradition in a meaningful way while being, and being regarded as, a preeminent research university.

Self-confident universities measure themselves primarily by their own priorities and goals, not those imposed by magazines or pollsters. However, such universities also are not afraid to benchmark themselves by the industry standards. Notre Dame does both. It sets high academic standards for itself and judges its progress according to accepted measures of excellence. It is also committed to preserving and strengthening its Catholic character, and to providing its students not only with an excellent education but also with opportunities to grow spiritually and as ethical, responsible, and caring leaders.

Notre Dame is and has been for many years an exceptionally well-run university. Its success is evident to any visitor on campus, but also in its spreadsheets and in the stories you read on these pages. My predecessor, Nathan Hatch, worked to ensure this, as did former President Rev. Edward A. Malloy, C.S.C. The standard measures of success bear this out, but unexpected and unusual factors also flesh out how integrally every part of the enterprise works to further the University's mission. Consider, for example, the financial contribution the athletics program makes to the academic endeavor—be it to student scholarships, equipment for the new Jordan Hall of Science, or materials for the University Libraries.

Throughout my first year, I realized that Notre Dame's institutional strengths are matched by remarkable individual dedication. One of my pleasures was to come to know the faculty's deep commitment to undergraduate students, their involvement with the life of the University, and their ability to deal with controversial issues in a civil, thoughtful, probing manner.

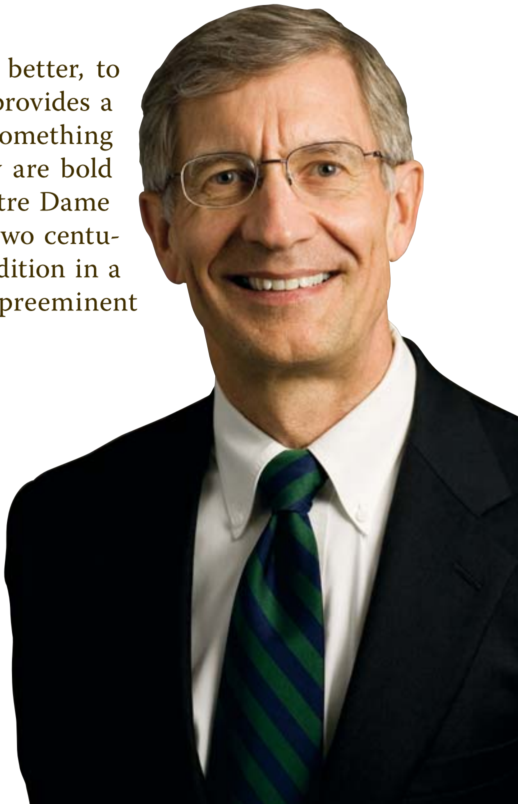
Before my arrival, I had been acquainted with various statistics of student achievement: the remarkable number who study overseas, the increasing number involved in research, the stellar GPAs, class placements, and board scores of our incoming freshmen. Until I entered the daily life of Notre Dame, I did not understand how passionately and vibrantly our students seek to integrate their intellectual powers with their spirituality. They demand that we teach not just values, but virtues. In doing so, they feed our will to create a place where they not only learn, but also experience their education as people of faith.

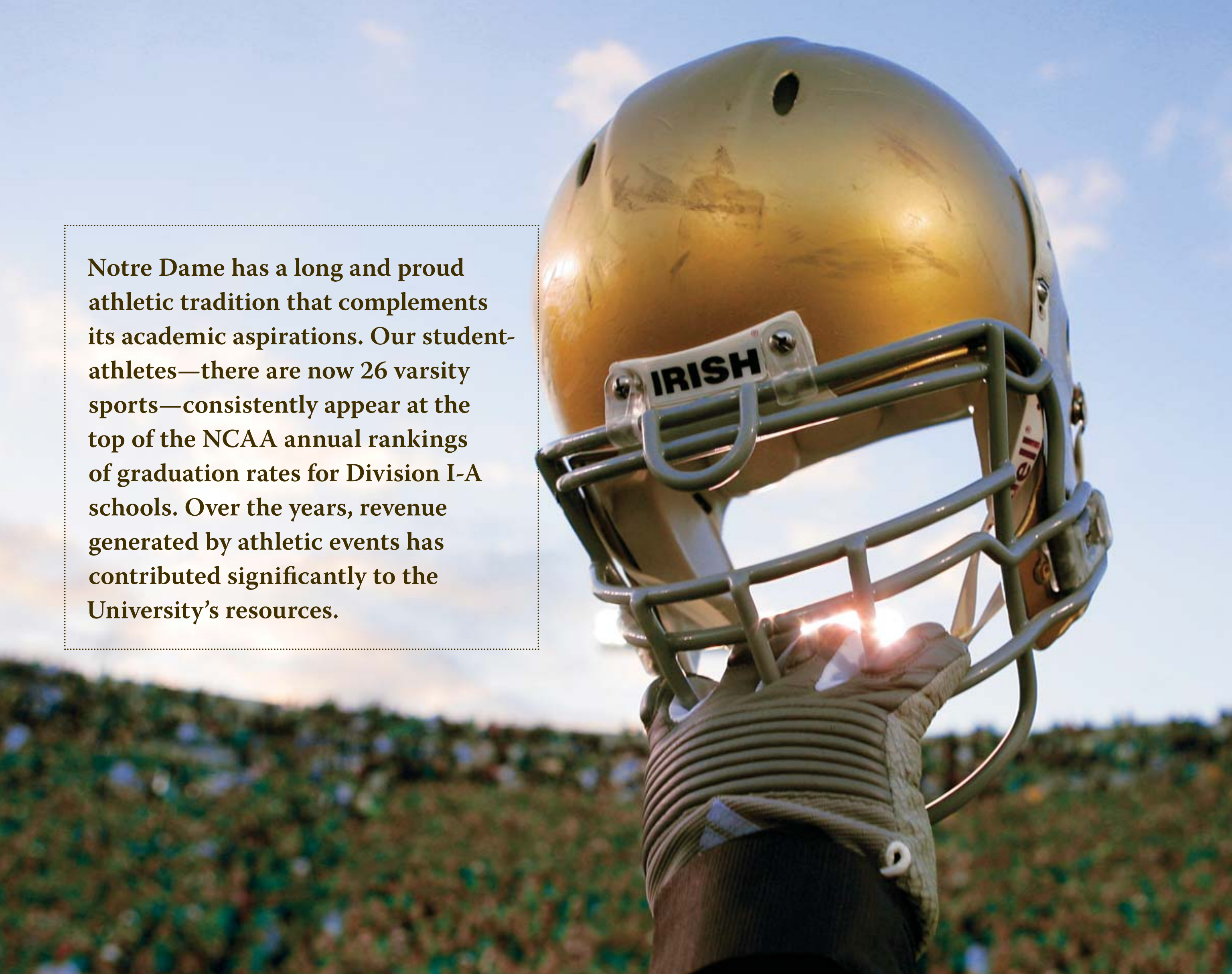
Finally, Notre Dame is ambitious. Its passion to be better, to constantly improve, creates intellectual excitement and provides a forceful momentum. Enduring institutions don't just do something well, they do something important and distinctive. They are bold in their vision. This past year has convinced me that Notre Dame is poised to do something that no university in the last two centuries has achieved: to be associated with a faith-based tradition in a meaningful way while being, and being regarded as, a preeminent research university.

It is a gift to be part of this effort.

Thomas G. Burish

Provost





Notre Dame has a long and proud athletic tradition that complements its academic aspirations. Our student-athletes—there are now 26 varsity sports—consistently appear at the top of the NCAA annual rankings of graduation rates for Division I-A schools. Over the years, revenue generated by athletic events has contributed significantly to the University's resources.

2006 FIESTA BOWL

$11.2 MILLION

ALLOCATED TOWARD:

- Undergraduate Financial Aid
- Graduate Financial Aid
- Library Acquisitions
- Scientific Instruments




Case in Point:

Notre Dame's January 2006 appearance in the Fiesta Bowl netted $11.2 million for the University, which was allocated toward undergraduate and graduate financial aid, library acquisitions, and scientific instruments for the new Jordan Hall of Science.

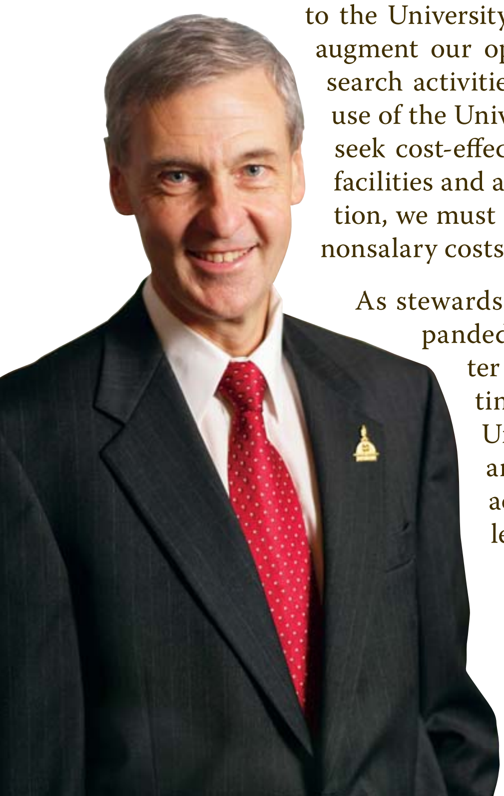
Bowl game revenue has produced in excess of $68 million in the past 25 years. These funds, along with a substantial portion of the proceeds from the University's television contract with NBC, have been used to support student financial aid, and together have provided more than 2,000 scholarships.

Sound Financial Principles Support *a* Robust Academic Mission

The University experienced another fiscally successful year in 2006. Total operating revenues for the year exceeded $580 million, the endowment earned a return of 19.4 percent, and several major construction projects were completed. Not coincidentally, our long-term commitment to fiscal prudence continues to provide the stable financial foundation necessary to support further growth in areas central to our core academic mission.

As stewards of this University we possess a dual responsibility: to provide the best possible learning and research environment for our talented faculty and students while at the same time ensuring that Notre Dame will be in a position to sustain this unique experience for future generations. One of the most important aspects of this responsibility is the stewardship of our financial resources. The sidebar of fiscal results highlights, among other things, the growth in the University's investment portfolio. Also of note is the continued generosity of our donors who contributed a record $180.7 million in cash gifts to the University this past fiscal year. Investment returns and contributions augment our operating budget and contribute to the expansion of our research activities; however, effective stewardship also demands the prudent use of the University's financial resources. To that end, we must continue to seek cost-effective strategies for building and maintaining state-of-the-art facilities and attracting and retaining high-quality faculty and staff. In addition, we must continue to control the growth in central and administrative nonsalary costs, which increased 3 percent in fiscal 2006.

As stewards of a Catholic university, our responsibilities are further expanded to include a service component. Fr. Jenkins notes in his letter at the beginning of this report that Notre Dame must continue to engage with external communities. In recent years, the University has made a conscious effort to enhance its presence and participation in the higher education community through active involvement with the National Association of College and University Business Officers (NACUBO) as well as



through dialogue with standard-setting organizations and regulatory agencies, including the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), the National Collegiate Athletics Association (NCAA), and the Internal Revenue Service (IRS). This formal engagement is complemented by the informal networks our financial officers have developed with their peers at public and private universities across the country. These interactions not only enhance the visibility of the University in the higher education community, but they also help us fulfill our fundamental responsibility as stewards of the University's resources. As with academic and service initiatives carried out in a "wider world," it is our duty to share knowledge, understand and comment on current practices, and report the results of University operations accurately and transparently.

2006

FISCAL RESULTS

The University's financial position remained strong during fiscal 2006. Total investments grew $1.0 billion to $5.3 billion at June 30, 2006, as a result of a 19.4 percent return on the unitized investment pool. Total assets grew to $6.37 billion compared to $5.26 billion reported at June 30, 2005. Total net assets of $5.57 billion reflect an increase of $932.2 million from June 30, 2005, or 20.1 percent.

During fiscal 2006, unrestricted net assets increased $597.3 million due primarily to net gains on investments of $467.4 million. Operating revenues increased 9.8 percent, or $51.8 million, while operating expenses increased 4.6 percent, or $28.0 million over fiscal 2005.

Temporarily restricted net assets increased by $249.9 million due to net gains on investments of $320.3 million and contributions of $88.7 million offset by the release of restrictions on temporarily restricted net assets of ($192.6) million. Permanently restricted net assets increased $85.0 million as a result of contributions received for endowment. Capital spending in fiscal 2006 totaled $92.4 million compared to $74.6 million in fiscal 2005.

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

In the past year, the University has collaborated with standard setters, public accounting firms, and peer institutions in developing or commenting on issues related to emerging reporting standards. We have also ensured that the University is fully compliant with all of these new standards. Examples of these collaborative initiatives include the AICPA's newly issued practice aid, Alternative Investments—Audit Considerations, which provides guidance to auditors of investors related to the existence and valuation of alternative investments, as well as FASB Interpretation 47, Accounting for Conditional Asset Retirement Obligations

(FIN 47), which requires entities to record liabilities for those asset retirement activities that, while uncertain in terms of timing method, represent legal obligations.

In initiatives related to other aspects of financial reporting, University representatives have in the past year met with IRS representatives and provided feedback on proposed changes to the Form 990. In addition, members of the Controller's Office and the Athletics Department met with officials from the NCAA in Indianapolis to discuss implementation and communication considerations related to changes in filing formats. Finally, the University provided comments to the FASB on an exposure draft related to proposed changes in the reporting of pension obligations. The University makes it a priority to respond to such exposure drafts on a timely basis to ensure that the perspective of Notre Dame and the higher education community in general is appropriately presented.

One of my predecessors, Rev. Edmund Joyce, C.S.C., long-time executive vice president for Rev. Theodore Hesburgh, C.S.C., maintained that being stewards of Notre Dame means more than just being responsible for and reporting on our financial resources. It also means being caretakers of our physical assets, especially the grounds and buildings, which are home to our students, faculty, and staff, and places of visitation for our alumni, friends, and visitors. It is, therefore, our responsibility to maintain and preserve our cherished history while at the same time appropriately expand and develop the campus to meet the challenges of today's ever-changing higher education environment.

Accordingly, this past year the campus experienced several notable and positive changes. The 201,782-square-foot Jordan Hall of Science was completed in June 2006 and will serve as the largest building devoted solely to undergraduate science education at the University of Notre Dame. Truly a 21st-century building, Jordan Hall contains the most advanced scientific and educational teaching instrumentation of any undergraduate facility in the nation. We are also nearing completion on a 25,000-square-foot engineering research facility that will support multidisciplinary research in nanotechnology and bioengineering. Finally, in cooperation with several local government agencies, the University closed Juniper Road, which previously bifurcated the heart of our campus. In conjunction with the closure of Juniper Road, the University assumed responsibility for improving the road network surrounding campus. This three-year, $24-million project is scheduled to be completed in December 2007.

Through sound financial stewardship, visionary leadership, and continued commitment to core values, Notre Dame is poised to become the preeminent faith-based research university of the 21st century. Not only will our fiscal efforts continue to advance the University's academic mission, they will also preserve and maintain its physical assets—thus allowing future generations of students and scholars to study and learn within the Catholic intellectual tradition.

John F. Affleck-Graves
Executive Vice President

STATISTICAL HIGHLIGHTS

ACADEMIC YEARS ENDED JUNE 30

	2006	2005	2004	2003	2002
Students					
Undergraduate	8,275	8,332	8,311	8,261	8,208
Graduate and professional	3,142	3,147	3,104	3,050	2,846
Total fall enrollment	11,417	11,479	11,415	11,311	11,054
Undergraduate Admissions					
Applications	11,316	11,490	12,095	9,744	9,378
Offers of admission	3,581	3,488	3,524	3,336	3,338
Enrolled	1,995	1,985	1,996	1,946	2,036
Selectivity ratio	31.6%	30.4%	29.1%	34.2%	35.6%
Matriculation ratio	55.7%	56.9%	56.6%	58.3%	61.0%
Degrees Conferred					
Baccalaureate	2,072	2,167	2,052	2,111	1,985
Master's	848	862	940	841	725
First professional	182	206	176	188	180
Doctoral	160	133	149	135	116
Total degrees conferred	3,262	3,368	3,317	3,275	3,006
Undergraduate Tuition Rate	$31,100	$29,070	$27,170	$25,510	$24,320
Percent increase over prior year	7.0%	7.0%	6.5%	4.9%	4.9%

University Highlights

University News

Notre Dame experienced its first leadership change in 18 years when **Rev. John I. Jenkins, C.S.C.,** became the **University's 17th president** on July 1, 2005, succeeding **Rev. Edward A. Malloy, C.S.C.** A professor of philosophy, Fr. Jenkins had previously served as a vice president and associate provost. He earned his bachelor's and master's degrees from Notre Dame and other advanced degrees from Oxford and the Jesuit School of Theology. He was inaugurated in ceremonies on campus Sept. 22 and 23.

Mary McAleese, president of Ireland, became the fifth foreign head of state to serve as the University's Commencement speaker. Also at Commencement, jazz legend **Dave Brubeck** received the Laetare Medal and Pulitzer Prize-winning author **Harper Lee** was among the honorary degree recipients.

Notre Dame also welcomed a new provost in 2005. **Thomas G. Burish,** formerly the president of Washington and Lee University, was elected by the Board of Trustees to replace **Nathan O. Hatch,** who became president of Wake Forest University. Burish, also a Notre Dame graduate, is a professor of psychology.

Hispanic Magazine ranked Notre Dame **13th on its most recent list of Top 25 Colleges for Latinos.**

Alumnus **Frank E. Eck** made a **$21 million gift** to fund construction of a second building for the **Notre Dame Law School,** as well as an archway that will link the new structure to the existing building. **The gift is the fifth largest in University history,** the largest ever to the Law School, and one of the largest in the history of American legal education.

The Ernestine Raclin and O. C. Carmichael Jr. Hall was dedicated in October. The facility on the corner of Angela Boulevard and Notre Dame Avenue houses the **Indiana University School of Medicine-South Bend and Notre Dame's W. M. Keck Center for Transgene Research,** as well as other research faculty.

In a *Princeton Review* survey, Notre Dame was ranked **fourth among parents as the "dream college"** for their children.

Notre Dame netted **$11.2 million** from the Fiesta Bowl in January 2006. Proceeds were **dedicated to three academic priorities**—undergraduate and graduate financial aid, library acquisitions, and scientific instruments for the new **Jordan Hall of Science.**

Gray Television Inc. purchased Michiana Telecasting Corporation, the University-owned company that operates WNDU-TV, for **$85 million** in cash. **John F. Affleck-Graves,** the University's executive vice president, said the $85 million will be used for student and academic initiatives, with most of the money to be invested in the University's endowment.

Among American research universities, Notre Dame has the **fifth-highest** percentage of students participating in **study abroad programs,** according to the Institute of International Education.

Allan Greenberg, an eminent practitioner of progressive architecture that advances classical ideals, received the fourth annual **Richard H. Driehaus Prize for Classical Architecture.** The University of Notre Dame School of Architecture presented the $100,000 Driehaus Prize to Mr. Greenberg in recognition of built work and scholarship that has enriched the American architectural and cultural landscape. Richard H. Driehaus, the founder and chairman of Driehaus Capital Management in Chicago, established the prize in recognition of the School of Architecture's reputation as a national leader in incorporating the ideals of traditional and classical architecture into the task of modern urban development.

A collection for the **relief of victims of Hurricane Katrina** that was taken up at Notre Dame's home football game September 17 against Michigan State raised **$195,871.** Other collections on and off campus—in residence hall chapels, the Basilica of the Sacred Heart, dining halls, departmental fund-raisers and through the mail—brought the total contribution from members of the Notre Dame family to more than **$314,000.** The funds were distributed to Catholic Charities USA, Congregation of Holy Cross ministries in Louisiana, and Alliance for Catholic Education schools in affected areas. Notre Dame also housed **Xavier University of New Orleans' Institute for Black Catholic Studies** during the summer of 2006.

The University's Board of Trustees held its winter and spring meetings off campus. In February, the Board gathered in Rome to meet as a body, interact with Vatican officials, and hold an academic convocation. **Fr. Jenkins** met briefly with **Pope Benedict XVI** following a general audience. During the board's May meeting in Washington, D.C., Fr. Jenkins, Board Chair **Patrick McCartan,** and several other University representatives met with **President Bush.**

In its inaugural survey of undergraduate business programs, *BusinessWeek* magazine ranked Notre Dame's **Mendoza College of Business No. 3** in the nation. The magazine also ranked Mendoza's **Executive MBA Program 20th among 241 programs** worldwide, and the Aspen Institute rated the **MBA Program fifth worldwide** for its commitment to issues related to social and environmental stewardship.

Students

Anthropology major **Michael McKenna** earned a Thomas R. Pickering Foreign Affairs Fellowship from the Woodrow Wilson National Fellowship foundation.

Daniel Colon, a graduate student in the Ph.D. in Literature Program, received a **Fulbright U.S. Student Scholarship** to study in Chile.

Seniors **Patricia Engel** and **Leonidas Stellakis** were awarded scholarships from the Barry M. Goldwater Scholarship and Excellence in Education Foundation.

Peter Quaranto, a political science major and peace studies minor, was one of just 43 Marshall Scholarship winners for 2006. He was selected from among 800 candidates.

The Public Service Law Network Worldwide presented its Pro Bono Publico Award to Notre Dame Law School student **Adrienne Lyles-Chockley** for her work to establish Social Justice Services, a nonprofit legal aid clinic in Benton Harbor, Michigan.

Grant Van Eaton, a philosophy and theology double major with a supplementary major in German, received a DAAD Undergraduate Scholarship in support of 10 months of study at Eberhard Karls Universität Tübingen in Germany.

Theology major **Catherine Herman,** who also minors in peace studies, was awarded a $40,000 William E. Simon Fellowship for Noble Purpose to start a community home for the elderly in New York City.

Mike Molenda, John Klein, Dan Bulger, Noble Robinette, Mikala Engel, Erin Westcott, Emily Gorski, and **Corey Baggett** received awards for their work as presented at the Columbia University National Undergraduate Film Festival.

Honors

Indiana Governor **Mitch Daniels** honored **Rev. Theodore M. Hesburgh, C.S.C.,** president emeritus of the University, with the Sachem, the state's highest honor.

The American Institute of Chemical Engineers presented its 2006 Professional Progress Award to **Joan Brennecke** for her "fundamental scientific and technological contributions to the development of ionic liquids as separation and reaction solvents."

CIO magazine presented Notre Dame with a **CIO 100 Award,** which recognizes organizations that exemplify the highest level of operational and strategic excellence in information technology.

Ahsan Kareem received the Robert H. Scanlan Medal from the Engineering Mechanics Division of the American Society of Civil Engineering.

David Mayernik, associate professor of architecture, received a 2005 Palladio Award for his design of the M. Crist Fleming Library at The American School in Switzerland.

Sylvia Puente, director of the Metropolitan Chicago Initiative within the Institute for Latino Studies, was named among *Hispanic Business* magazine's **"100 Most Influential Hispanics"** in the United States.

Honorary degrees were presented to several Notre Dame faculty members, including: **Father John Jenkins,** Benedictine College; **Father Edward Malloy,** Fordham University, King's College, and Fontbonne University; **Lawrence Cunningham,** Bellarmine University; **Carolyn Woo,** Providence College; and **Scott Appleby,** Saint John's University.

The Air Force Institute of Technology presented its Distinguished Alumnus Award to **Anthony K. Hyder,** associate vice president for graduate studies and research and professor of physics.

Catherine Perry, associate professor of Romance languages and literatures, was appointed a Chevalier ("knight") in the Ordre des Palmes Academiques by the French Ministry of National Education.

Research, Scholarship, Creativity

The College of Engineering has created the **Notre Dame Energy Center,** an initiative that unites researchers devoted to developing new energy technologies to meet a compelling national and international challenge.

Purdue University and Notre Dame partnered to create a sophisticated, **high-performance computer grid**—a network of fiber optics—that connects Purdue's campuses in West Lafayette and Hammond, Ind., the Notre Dame campus, and Argonne National Laboratory in Chicago. The grid will eventually be a gateway to other high-performance supercomputer grids throughout the country.

Among many books published by Notre Dame faculty were: *War and the Engineers: the Primacy of Politics over Technology,* by **Keir Lieber;** *Guadalupe and Her Faithful: Latino Catholics in San Antonio, from Colonial Origins to the Present,* by **Timothy Matovina;** *Democracy at Risk: How Political Choices Undermine Citizen Participation, and What We Can Do About It,* by **David Campbell** and a committee of political science scholars; *Foreign Affections: Essays on Edmund Burke* by **Seamus Deane;** *Migration and Vodou,* by **Karen Richman;** *The Architecture of Roman Temples: The Republic to the Middle Empire,* by **John Stamper;** *Polite Protest: The Political Economy of Race in Indianapolis, 1920–1970,* by **Richard Pierce;** and *Evangelization of Slaves and Catholic Origins in Eastern Africa* by **Rev. Paul Kollman, C.S.C.**

A study by political scientists **David Campbell** and **Christina Wolbrecht** shows that the more women politicians are made visible in national news coverage, the more likely young women are to become politically active.

Clive Neal, in civil engineering and geological sciences, and a team of 15 other planetary geologists reexamined data from seismometers left on the moon by Apollo astronauts and found a surprising number of relatively large "moonquakes." The discovery is problematic for NASA, which has plans to build permanent bases on the moon.

In the **College of Science,** several new initiatives were established: the **Center for Aquatic Conservation,** which will attempt to focus greater attention on the environmental risks of diminishing water; a joint project between the **Department of Physics** and the physics division at **Argonne** to seek a new understanding of the nuclei present in the evolution of our galaxy; and a summer environmental program in Montana that is designed to mirror the **Hank University of Notre Dame Environmental Research Center** in northern Michigan.

An international collaboration of astronomers that includes physicist **David Bennett** of Notre Dame discovered a "super-Earth" orbiting in the cold outer regions of a distant solar system roughly 9,000 light-years away from our planet. The planet has a mass about 13 times that of Earth and a temperature of about -330 degrees Fahrenheit.

The **Global Linkages of Biology, the Environment and Society (GLOBES)** was created by the **Colleges of Science and Arts and Letters** in an effort to find solutions to pressing problems in global health.

Dr. Rudolph Navari, director of Notre Dame's **Walther Cancer Research Center,** found further evidence that the antipsychotic drug olanazapine may help prevent nausea and vomiting caused by chemotherapy.

Faculty

Over the past seven years, Notre Dame professors in the **College of Arts and Letters** have earned 24 fellowships from the National Endowment for the Humanities, more than for any other university in the nation. The 2006 recipients were historians **Olivia Constable** and **Margaret Meserve,** political scientist **Mary Keys,** and **Robert Goulding** from the Program of Liberal Studies.

Four Notre Dame faculty members—**Nora Besansky, Roger Bretthauer, Frank Incropera,** and **Wolfgang Porod**—were named fellows of the **American Association for the Advancement of Science** in recognition of their work in the fields of biological sciences and engineering.

The internationally renowned Shakespearean scholar **Peter Holland** was elected vice president and president-elect of the **Shakespeare Association of America.**

J. Nicholas Laneman, assistant professor of electrical engineering, and **Christian Poellabauer,** assistant professor of computer science and engineering, were each selected to receive a 2006 CAREER award from the National Science Foundation (NSF). Considered a prestigious award in support of junior faculty, the NSF CAREER award honors teacher-scholars who creatively and effectively integrate research and education.

Political scientist and law professor **Donald Kommers** was elected to the board of directors of the **Alexander von Humboldt Association of America,** a foundation that supports research and scholarship in Germany.

Provost **Thomas Burish** was elected to the board of directors of BioCrossroads, an Indianapolis-based life sciences initiative.

The Guggenheim Memorial Foundation awarded 2006–07 fellowships to 187 artists, scholars and scientists, including **Julia Douthwaite** and **Paul Cobb** of Notre Dame.

Michael Etzel, Kristine Ibsen and **Gordon Hug** received Fulbright Scholar grants for study abroad.

Clark Power, associate director of the Center for Ethical Education, participated in a seminar at the Vatican titled **"The Christian Mission Within the Field of Sport Today."** He described the center's Play Like a Champion Educational Series, a research-based curriculum designed to assist Catholic parishes, schools, and dioceses in nurturing character and spiritual development in young people through athletics.

Joe Kernan, a Notre Dame graduate and former governor of Indiana and former mayor of South Bend, returned to his alma mater to teach a political science course titled "The Executive Branch and Public Policy."

Athletics

The most successful year in the long history of Irish athletics included a 9-3 record and Fiesta Bowl berth for the football team under first-year coach and alumnus **Charlie Weis.** The season included record-breaking performances by quarterback **Brady Quinn** and wide receiver **Jeff Samardzija.**

Men's cross country, men's and women's fencing, and **women's lacrosse** finished in the top four of their respective NCAA championships.

On the way to a school-high sixth-place finish in the Directors' Cup standings, a conference-record 13 teams from Notre Dame won **BIG EAST championships**, 24 of the University's 26 programs qualified for post-season competition, nine teams achieved top-10 end-of-the-year rankings, 13 finished in the top 15, and 16 teams earned final top-25 rankings.

Charlie Weis, women's tennis coach **Jay Louderback** and women's lacrosse coach **Tracy Coyne** received national coach of the year honors in their sports.

A school-record 44 Irish athletes were selected **All-Americans.**

Fourteen Notre Dame student-athletes were selected **Academic All-Americans.**

Thirteen athletics programs earned a **perfect 1,000 score** when the NCAA issued its first **Academic Performance Rate.**

The **combined grade point average** of all Irish teams was **3.226** in the fall semester and **3.224** in the spring.

Student-athletes completed more than **2,300 hours of community service,** leading to Notre Dame's selection to the Community Service Honor Roll of the National Consortium on Academics and Sports Outreach for the third time in four years.


VITA






Record Year Reflects Excitement *for* Future

Breaking University records for charitable giving, Notre Dame's benefactors reacted with vigor during President Jenkins' first year in office.

A total of 64,532 donors gave a record $180.7 million in cash for fiscal year 2006, surpassing the previous high set in 2004 of $173.7 million, which included a $50 million bequest from the estate of Joan B. Kroc.

The bonds of Notre Dame's alumni are stronger than ever—53.2 percent of undergraduate alumni contributed to the University last year, an all-time high surpassing the previous record of 53 percent in 1994.

Unrestricted giving reached an all-time high of $25.4 million, exceeding last year's record total of $23.0 million. Many of those dollars—$17.6 million—were contributed by members of the Edward Frederick Sorin Society, which has been providing invaluable support for more than 30 years. The newer President's Circle, established in fiscal year 2004, continued to show strong support for Father Jenkins, contributing $2.6 million of the unrestricted total, up from $1.75 million last year.

The bonds of Notre Dame's alumni are stronger than ever—53.2 percent of undergraduate alumni contributed to the University last year, an all-time high surpassing the previous record of 53 percent in 1994.

Bolstered by the ongoing efforts to raise funds for the renovation and expansion of the Law Building, contributions to Law School advancement totaled $14.8 million, exceeding the previous record of $9.6 million established in 2004.

Partnerships with corporations and foundations thrived in fiscal year 2006 as well, resulting in $38.7 million in contributions, up from $34.9 million last fiscal year. Gift planning continued to be a strong source of funding, contributing $24.2 million through bequests, lead trusts, charitable remainder trusts, charitable gift annuities, life insurance, and other gift planning vehicles.

Yet another record: Reflecting excitement for the future, new pledges rose to $132.4 million, exceeding last year's total by more than $50 million. Of special note, five of these new pledges were for $10 million or more.

Thus, as Fr. Jenkins continues his tenure with a bold vision for Notre Dame, the loyalty and devotion of our alumni, parents, and friends remain exceptionally strong. Indeed, Notre Dame's benefactors are our co-creators in this venture, advancing the mission and tradition of the University in bold and exciting ways.

Louis M. Nanni

Vice President for University Relations

GIFT WILL TRANSFORM JOINT HONORS PROGRAM

John W. Glynn '62 and his wife, Barbara, made a $10 million gift in fiscal 2006 that promises to transform the current joint honors program, established in 1983 in the College of Arts and Letters and the College of Science.

Starting in academic year 2007–08, the Glynn Family Honors Program will admit 100 students per year (50 from Arts and Letters and 50 from Science), an increase from the current honors classes of 60 to 80 students. Every student in the program is eligible for a wide range of rich academic opportunities, including summer fellowships to support original research projects at Notre Dame or other universities around the world. Special seminars form the signature core of the program and are taught by Notre Dame's best scholar-teachers who create a learning environment that is at once nurturing and challenging.

Such a program brings talented undergraduates into sustained and life-changing contact with distinguished scholars who inspire and prepare them for premier graduate and doctoral programs, for successful careers, and for lives of service. "Personal attention in small seminars with top professors coupled with early involvement in serious research in state-of-the-art labs is an ideal introduction to the life of the mind," says program director and professor of philosophy Neil Delaney.

The students concur. Kristina Sault, a first-year student from Hawaii who plans to double major in physics and philosophy, says of her educational experience so far, "The people that surround me are among the most fascinating I've encountered. The variety of interests among professors and students is outstanding, but all share a common passion for learning and bettering themselves." She adds that the rigor of the classes she is now taking, based on recommendations from her honors program advisor, "trumps all other intellectual endeavors" she has undertaken.

By supporting programs to enhance the intellectual and moral development of our students, benefactors such as the Glynns help Notre Dame fulfill part of its mission "to create a sense of human solidarity and concern for the common good that will bear fruit as learning becomes service to justice." (University Mission Statement)

To read more about the Glynn Family Honors Program
visit the website at **glynnhonors.nd.edu**

"The people that surround me are among the most fascinating I've encountered. The variety of interests among professors and students is outstanding, but all share a common passion for learning and bettering themselves."

—Kristina Sault '10

Pioneering Investment Strategy Yields Leading Results

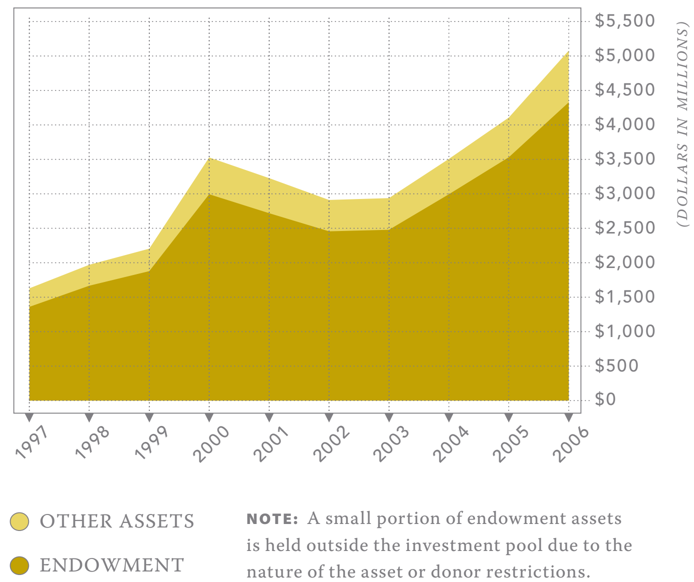
Notre Dame's many strengths, particularly as they relate to the student experience, are highlighted throughout this annual report. Yet another area of institutional commitment to excellence, on the administrative side, is investment management.

In a way, it has to be, particularly at a private institution like Notre Dame that is heavily reliant on private donations and growth of those funds. It is often said the finest schools are the ones with the largest endowments, and in fact there is a significant correlation between endowment size and the published rankings of colleges and universities.

The investment return for the year, net of investment management charges, was 19.42 percent, ranking among the highest in the country for college and university endowments for the third consecutive year.

Fueled by cumulative investment returns over the past three years in excess of 70 percent, the Notre Dame endowment experienced the most extraordinary period of growth in its history, and crossed the $4 billion threshold for the first time in fiscal 2006. Endowment market value at year-end was $4.488 billion, up from $3.691 billion at the end of fiscal 2005. Similarly, the total investment pool (which includes shorter-term funds) reached the $5 billion milestone, growing from $4.107 billion at the prior year-end to $5.078 billion at June 30, 2006.

Investment Pool Market Value [1997–2006]
Fiscal Years Ending June 30



NOTE: A small portion of endowment assets is held outside the investment pool due to the nature of the asset or donor restrictions.

Strategy:

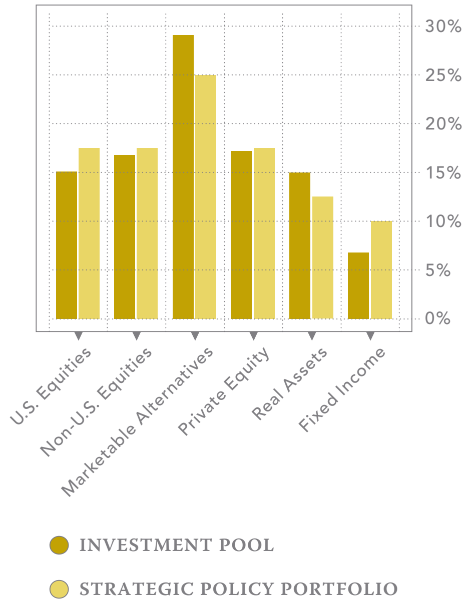
Notre Dame's asset allocation has changed markedly over the last decade. Reflective of the trend among institutional investors, the proportion of alternative investments doubled over that period from roughly one-third to two-thirds of the portfolio. Today, the University's portfolio has one of the highest allocations to alternative investments in the endowment community. Alternative investments broadly speaking are investments other than traditional stocks and bonds, and include venture capital, buyouts, real assets, and a variety of hedge fund strategies.

The latest development in asset management is convergence, a blurring of the lines between asset classes. For example, many buy-side public equities managers now short stocks, a technique generally associated with hedge funds. Going forward, diversification will be achieved more from in-depth analysis of individual manager strategies and their correlations and less from traditional asset class distinctions.

The investment return for the year, net of investment management charges, was 19.42 percent, ranking among the highest in the country for college and university endowments for the third consecutive year. Major contributors to investment performance were buyout funds, emerging markets, and real assets, particularly the energy sector.

By comparison, the University's Strategic Policy Portfolio (SPP), an internal benchmark consisting of a weighted average of various indices representative of the target investment portfolio, returned 16.72 percent for the year. The Trust Universe Comparison Service (TUCS) Large Fund (greater than $1 billion) Median return, a common benchmark of investment performance for large institutional investors generally, was 10.81 percent.

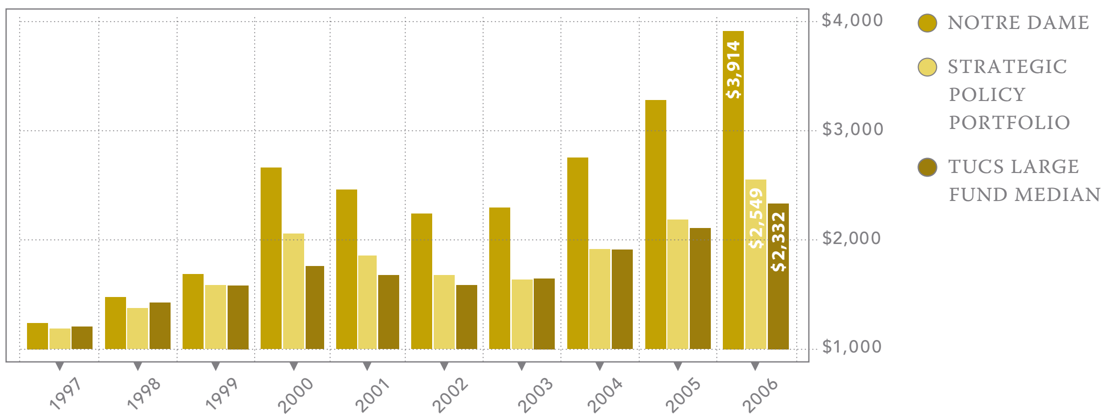
Asset Allocation [June 30, 2006]



Investment Performance Profile [1997–2006]

Fiscal Years Ending June 30

Change in Value of $1,000 Invested on July 1, 1996



Of course, endowments are long-term investors, and sustained performance over time is the best way for endowed funds to meaningfully impact University life. For the 10-year period ended June 30, 2006, the investment pool's annualized return was 14.62 percent, significantly outperforming the SPP return of 9.81 percent and the TUCS Large Fund Median return of 8.69 percent.

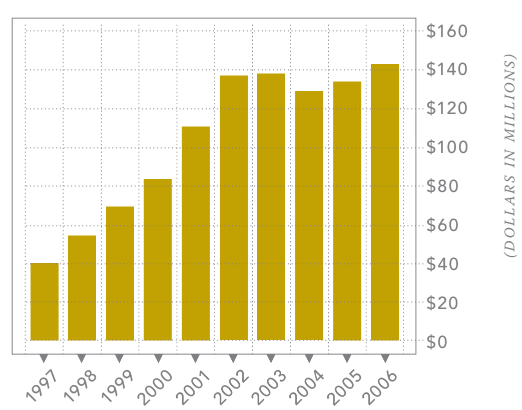
Naturally, the importance of all this lies in the support provided to the University by spending from the investment pool, which over the last 10 years totaled $1.04 billion

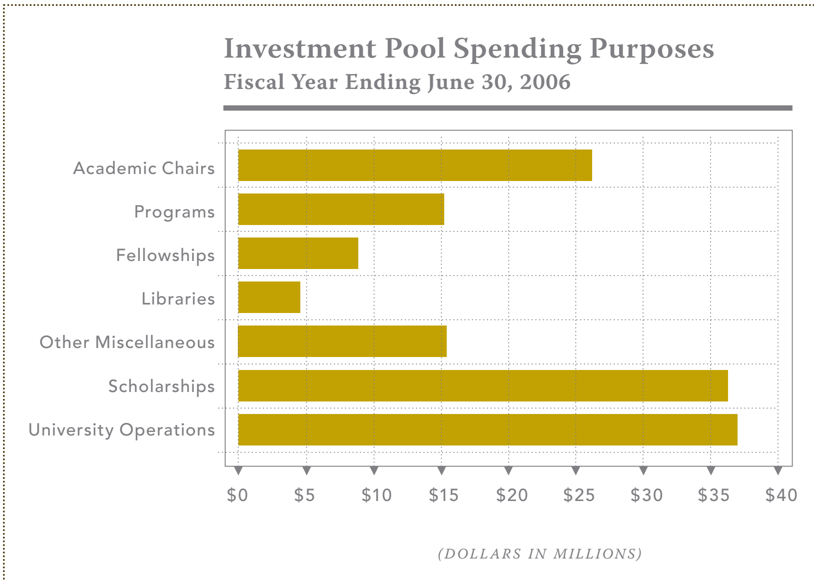
The chart above shows the impact of these returns in dollar terms, depicting growth in value of a $1,000 donation made 10 years ago at Notre Dame's actual investment returns, compared to what growth of that gift would have been had investment performance equaled the returns on the SPP or the TUCS Large Fund Median. These value-added excess returns compared to the benchmarks result from strategic asset allocation decisions, and manager selection, which lies at the core of our work in the University's Investment Office.

Looked at another way, the University's investment management program added more than $1.8 billion in market value to the investment pool over the 10 years ended June 30, 2006,

Investment Pool Spending [1997–2006]

Fiscal Years Ending June 30





compared to what the market value would have been if investment performance equaled the SPP returns over that period.

Naturally, the importance of all this lies in the support provided to the University by spending from the investment pool, which over the last 10 years totaled $1.04 billion. These revenues to the University amounted to $143 million in fiscal 2006, up from $133 million in fiscal 2005, which equates to nearly $12,500 per student.

The largest single component of spending in fiscal 2006 once again was financial aid (scholarships and fellowships), accounting for more than 31 percent of total spending. Overall, investment spending equaled nearly 20 percent of the University's total expenditures for the year, providing a crucial supplement to tuition and other operating revenues.

The milestones of the past year reported above are significant. Investment management is a dynamic business, however, and we must think ahead more than we look back. With growth comes the opportunity for even more sophisticated portfolio construction strategies to enhance returns in a risk-controlled environment.

Because of its direct impact on academic life, the University's investment management program will be an important part of Notre Dame's future. Thus, we will remain committed to the highest standards of excellence in our profession, knowing that anything less is not good enough!

Scott C. Malpass

Vice President and
Chief Investment Officer

* * *

ENDOWED PROFESSORSHIPS ENHANCE TRADITION OF ACADEMIC EXCELLENCE

While financial aid in the form of scholarships and fellowships remains the largest expenditure from the endowment, the funding of academic chairs accounts for a significant portion as well. The University now maintains over 200 endowed professorships and directorships, with each chairholder bringing immeasurable strength to Notre Dame's academic endeavor.

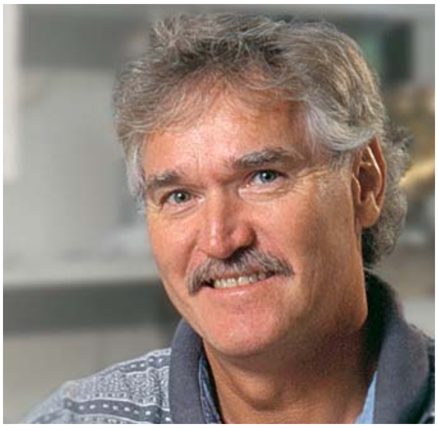
The history of endowed professorships is intimately connected to the development of the western university. The earliest western European universities, beginning with the universities of Paris and Bologna and including Oxford and Cambridge, served as models for the American concept of a university. Not long after the first universities were founded, the notion of endowed chairs took root as a way of ensuring the permanence and distinction of faculty appointments.

An individual who holds an endowed professorship at Notre Dame almost by definition embodies the highest standards of scholarship and ethics and contributes not only to his or her academic discipline through teaching and research, but also to the moral and intellectual growth of our students. Take, for example, Ikaros Bigi, the Grace-Rupley Chair in Physics, a physicist who is helping to uncover fundamental and heretofore unknown truths about the existence of our universe; the Rev. Virgilio Elizondo, the Notre Dame Chair in Pastoral and Hispanic Theology, whose extensive writings on Latino theology have promoted understanding and brought renewed attention to the Latino experience in the United States; or Susan Youens, the J. W. Van Gorkom Chair in Music, a Harvard-trained pianist whose research on the social implications of song has garnered four of the highly sought-after National Endowment for the Humanities Fellowships.

These and the many other faculty members who hold appointments in Arts and Letters, Business, Science, Engineering, Law, and Architecture continue to uphold the tradition of academic excellence for which Notre Dame is known. Through the generosity of our benefactors and the wisdom of our investment team, that tradition promises to grow ever stronger.

IMDAT AS

The James A. and Louise F. Nolen Chair in Architecture. A relatively new member of Notre Dame's faculty, Prof. As has a doctorate in design from Harvard Design School and studies emerging responsive architectural spaces from a socio-aesthetic perspective, focusing particularly on the application of these technologies in the development of hybrids of virtual and physical spaces. He also researches ways to creatively integrate augmented reality applications within real-world contexts, primarily for the preservation and study of significant buildings and artifacts in architectural history.



FRANK COLLINS

The George and Winifred Clark Chair in Biological Sciences, College of Science. As one of the key figures in the 2002 sequencing of the genome of *Anopheles gambiae,* the primary mosquito species that transmits *plasmodium falciparum* (the malaria parasite) to humans, Collins is marshalling researchers from all over the world to genetically engineer *Anopheles gambiae* and *plasmodium falciparum* in a way that finally cuts the link between pathogen, mosquito, and man. An accomplished author, Collins has had his research published in a number of scholarly publications, including *Science, Proceedings of the National Academy of Science,* and *Genetics.*

MAUREEN T. HALLINAN

The William P. and Hazel B. White Professor of Sociology, College of Arts and Letters. Prof. Hallinan's research on such topics as academic tracking and the effects of school characteristics on student achievement has been supported by the National Science Foundation, the National Institute of Child Health and Human Services, and the US Department of Education. She is presently the lead researcher on a study titled "Comparative Analysis of Best Practices in Public and Private Elementary and Secondary Schools," the only federally funded educational research project to compare Catholic and public school achievement.

ROGER HUANG

The Meyer Professor of Global Investment Management, Mendoza College of Business. Prof. Huang's areas of expertise are financial markets and international finance. In the last decade, he has focused his research in the area of the organization and operation of financial trading systems and has received numerous funding awards for his research projects. His articles have appeared in the *Journal of Finance,* the *Journal of Financial Economics,* the *Review of Financial Studies,* and the *Journal of Financial and Quantitative Analysis,* among many others.

M. CATHLEEN KAVENY

The John P. Murphy Foundation Professor of Law, the Law School. A scholar who focuses on the relationship between law and morality, Prof. Kaveny has published over 50 articles on issues that lie at the intersection of law, morality, and religion in academic journals such as *The Hastings Center Report, Theological Studies,* and the *Law Quarterly Review.* She also regularly publishes in more popular venues, such as *Commonweal,* where she is on the masthead as a regular columnist. A faculty member since 1995, Prof. Kaveny has a joint appointment in the Department of Theology.

WOLFGANG POROD

The Frank M. Freimann Professor of Electrical Engineering, College of Engineering. A faculty member since 1986, Prof. Porod also is director of the Center for Nano Science and Technology and the co-inventor of the Quantum-Dot Cellular Automata (QCA), a transistorless approach to computing. Porod is a fellow of IEEE and has authored 270 publications and presentations. He serves on the advisory and program committees of several international meetings and is a reviewer of proposals to the National Science Foundation and NASA.

The Abrams Chair in Jewish Thought and Culture | The Walter H. Annenberg-Edmund P. Joyce Professor of American Studies and Journalism | The Edward H. Arnold Director of University Libraries | The Bayer Corporation Chair in Engineering | The John W. Berry Sr. Chair in Business | The Leonard C. Bettex Chair in Electrical Engineering | The Biolchini Family Chair in Law | The H. Clifford and Evelyn A. Brosey Chair in Electrical Engineering | The H. Clifford and Evelyn A. Brosey Chair in Engineering | The Thomas A. and James J. Bruder Chair in Administrative Leadership | The William T. and Helen Kuhn Carey Assistant Professor of Modern Communication | The Rev. John J. Cavanaugh, C.S.C., Chair in the Humanities (2) | The Clark Equipment Chair in Engineering | The George and Winifred Clark Chair in Biological Sciences | The George and Winifred Clark Chair in Chemistry | The John W. and Maude Clarke Chair in Finance | The Clynes Visiting Chair in Judicial Ethics | The Coleman Chair in Biological Sciences | The Eugene P. and Helen Conley Chair in Political Science | The Eugene P. and Helen Conley Chair in Sociology | The Robert Conway Director of the Medieval Institute | The Crowley-O'Brien Chair in Roman Catholic Theology | The William and Anna Jean Cushwa Director of the Cushwa Center for the Study of American Catholicism | The William and Cassie Daley Chair in Management | The Alfred C. DeCrane Jr. Chair in International Economics | The Packey J. Dee Chair in American Democracy | The Packey J. Dee Chair in Political Science | The Deloitte and Touche Chair in Accountancy | The Nancy Reeves Dreux Chair in Political Science (2) | The Nancy Reeves Dreux Chair in Psychology | The Vincent J. and Annamarie Micus Duncan Chair in Mathematics | The Matthew A. Fitzsimons Chair in Psychology | The Frank M. Freimann Chair in Electrical and Computer Engineering | The Frank M. Freimann Chair in Electrical Engineering | The Frank M. Freimann Chair in Engineering (2) | The Frank M. Freimann Chair in Physics (2) | The Ludmilla F., Stephen J. and Robert T. Galla Associate Professor of Biological Sciences | The David E. Gallo Chair in Business Ethics | The Martin J. Gillen Chair in Biological Sciences | The Martin J. Gillen Dean of the Mendoza College of Business | The Martin J. Gillen Director of the Environmental Research Center | The Joe and Jane Giovanini Chair in Management | The John and Barbara Glynn Family Chair in Literature | The Michael P. Grace II Associate Professor of Art | The Michael P. Grace II Chair in Medieval Studies | The Michael P. Grace II Associate Professor of Latin American Studies | The Grace-Rupley Chair in Chemistry | The Grace-Rupley Chair in Physics | The Dorothy G. Griffin Associate Professor of Early Modern European History | The Bernard J. Hank Chair in Finance | The Viola D. Hank Associate Professor of Accountancy | The Viola D. Hank Associate Professor of Finance | The Viola D. Hank Associate Professor of Management | The Viola D. Hank Chair in Aerospace and Mechanical Engineering (2) | The William J. Hank Family Chair in Mathematics | The Leo and Arlene Hawk Director of the Center for Social Concerns | The Ray W. and Kenneth G. Herrick Chair in Marketing | The Rev. Theodore M. Hesburgh, C.S.C., Chair in Arts and Letters | The Emil T. Hofman Chair in Physics | The Catherine F. Huisking Chair in Theology (2) | The Charles L. Huisking Chair in Chemistry and Biochemistry | The Charles L. Huisking Chair in Mathematics | The Rev. Edmund P. Joyce, C.S.C., Chair in Anthropology | The Rev. Edmund P. Joyce, C.S.C., Chair in German Language and Literature | The Jordan H. Kapson Chair in Jewish Studies | The Keating-Crawford Chair in Chemical Engineering | The Helen Kellogg Chair in Political Science | The William R. Kenan Jr. Chair in English | The William R. Kenan Jr. Chair in Sociology (2) | The Rev. Howard J. Kenna, C.S.C., Memorial Chair in Mathematics (2) | The Rev. Howard J. Kenna, C.S.C., Memorial Director of the Zebrafish Research Center | The Donald and Marilyn Keough Chair in Irish Studies (2) | The Donald R. Keough Family Chair in Irish Studies | The Paul G. Kimball Chair in Arts and Letters | The Kleiderer-Pezold Chair in Biochemistry | The Carl E. Koch Chair in Economics | The Carl E. Koch Assistant Professor of History | The Howard J. and Geraldine F. Korth Chair in Strategic Management | The KPMG Chair in Accountancy | The Rees and Carol LaBar Director of the Office of Academic Services for Student-Athletes | The Judd and Mary Lou Leighton Director for the Performing Arts | The Leo E. and Patti Ruth Linbeck Chair in Engineering | The Vincent and Rose Lizzadro Chair in Accountancy | The Clare Boothe Luce Program Assistant Professor of Chemistry and Biochemistry | The Clare Boothe Luce Program Assistant Professor of Civil Engineering and Geological Sciences | The Clare Boothe Luce Program Professor in Biology | The Clare Boothe Luce Program Professor in Civil Engineering and Geological Sciences | The Henry R. Luce Professorship in Religion, Conflict, and Peacebuilding | The Aurora and Thomas Marquez Chair in Information

There are over 200 endowed chairs, directorships, and deanships at the University of Notre Dame:

Theory and Computer Technology | The Rex and Alice A. Martin Chair in Business Ethics | The Henry Massman Chair in Civil Engineering | The Henry Massman Chair in Civil Engineering and Geological Sciences | The Joseph A. Matson Dean of the Notre Dame Law School | The John N. Matthews Chair in Law | The Francis A. McAnaney Chair in History (2) | The John and Margaret McAndrews Chair in Mathematics | The Matthew H. McCloskey Dean of the College of Engineering | The Ted H. McCourtney Chair in Computer Science and Engineering | The Andrew J. McKenna Family Chair in Psychology | The McMahon-Hank Chair in Philosophy | The McMahon-Hank Visiting Chair in Philosophy | The McMeel Family Chair in Shakespeare Studies | The Melchor Visiting Chair in Engineering | The Kenneth R. Meyer Chair in Global Investment Management | The Francesco Montana Chair in Architecture | The Joseph Morahan Director of the College Seminar Program | The Robert M. Moran Chair in Engineering | The John P. Murphy Foundation Chair in Law | The Aloysius and Eleanor Nathe Chair in Marketing Strategy | The Navari Family Chair in Life Sciences | The Rev. Julius A. Nieuwland, C.S.C., Chair in Science | The William Alexander Nolan Director in Family Business Enterprise | The James A. and Louise F. Nolen Assistant Professor of Architecture | The Notre Dame Alumni/Andersen Chair in Accountancy | The Notre Dame Assistant Professor of Chinese | The Notre Dame Associate Professor of Marketing | The Notre Dame Chair in Applied Mathematics | The Notre Dame Chair in Catholic Education | The Notre Dame Chair in English (3) | The Notre Dame Chair in Film and Culture | The Notre Dame Chair in Finance | The Notre Dame Chair in Pastoral and Hispanic Theology | The Notre Dame Chair in Philosophy | The Notre Dame Chair in Philosophy and Literature | The Notre Dame Chair in Psychology | The Rev. John A. O'Brien Chair in Catholic Theology | The Rev. John A. O'Brien Chair in Philosophy (2) | The Rev. John A. O'Brien Chair in Theology (4) | The Rev. John A. O'Brien Senior Research Chair in Philosophy | The Patrick B. O'Donnell Chair in Irish Studies | The Thomas J. and Kathleen M. O'Donnell Chair in Irish Language and Literature | The John Cardinal O'Hara Chair in Philosophy | The John Cardinal O'Hara Chair in Theology | The O'Malley Director of the University Writing Program | The Arthur F. and Mary J. O'Neil Director in International Business Ethics | The Arthur F. and Mary J. O'Neil Director of the Institute for Ethical Business Worldwide | The O'Neill Family Chair in Philosophy | The Nancy O'Neill Associate Professor of Anthropology | The William J. and Dorothy K. O'Neill Associate Professor of Psychology | The William J. and Dorothy K. O'Neill Chair in Economics | The William J. and Dorothy K. O'Neill Chair in Law | The I. A. O'Shaughnessy Dean of the College of Arts and Letters | The John F. O'Shaughnessy Associate Professor of Family Enterprise | The John and Jean Oesterle Chair in Thomistic Studies | The Albert J. Ravarino Family Director in Dante and Italian Studies | The John M. Regan Jr. Director of the Joan B. Kroc Institute for International Peace Studies | The Joseph and Elizabeth Robbie Chair in Political Science | The Thomas J. and Robert T. Rolfs Assistant Professor of Political Science | The Rooney Family Assistant Professor of Engineering | The Rooney Family Director of the Rome Studies Program | The Francis and Kathleen Rooney Associate Professor of Architecture | The Roth-Gibson Chair in Aerospace and Mechanical Engineering | The Jim and Colleen Ryan Director of ACE Educational Outreach | The Ryan Producing Artistic Director of Summer Shakespeare | The John T. "Jack" Ryan Chair in Business Ethics | The Julian Samora Chair in Latino Studies | The Gilbert F. Schaefer Chair in Economics | The Paul J. Schierl/Fort Howard Corporation Chair in Legal Ethics | The Arthur J. Schmitt Chair in Chemical Engineering | The Dr. Scholl Associate Professor of Romance Languages and Literatures | The Dr. Scholl Chair in International Affairs | The Schubmehl-Prein Family Chair in Computer Science and Engineering | The Franklin D. Schurz Chair in Management | The Eli J. and Helen Shaheen Chair in Classics | The Robert and Marion Short Chair in Law | The George N. Shuster Chair in Philosophy | The Ray and Milann Siegfried Chair in Entrepreneurial Studies | The Ray and Milann Siegfried Director of the Gigot Center for Entrepreneurial Studies | The C. R. Smith Chair in Finance | The C. R. Smith Director of the Institute for Ethical Business Worldwide | The Smurfit Director of the Keough-Naughton Notre Dame Study Centre, Ireland | The Edward Frederick Sorin Society Chair | The Sorin Chair in Law | The Richard G. Starmann Sr. Research Chair in Peace Studies in the Joan B. Kroc Institute for International Peace Studies | The Andrew V. Tackes Chair in History (2) | The Tisch Family Associate Professor of Theology | The J. W. Van Gorkom Chair in Music | The Walter Associate Professor of Theology | The Walther Cancer Institute Associate Professor of Biological Sciences | The William K. Warren Foundation Chair in Psychology | The William K. Warren Foundation Chair in Science | The William K. Warren Foundation Chair in Theology | The William K. Warren Foundation Dean of the College of Science | The W. Harold and Martha Welch Visiting Chair in American Studies | The William P. and Hazel B. White Chair in English | The William P. and Hazel B. White Director of the Center for Ethics and Culture | The William P. and Hazel B. White Chair in Sociology | The Rev. John A. Zahm, C.S.C., Chair in Mathematics | The Rev. John A. Zahm, C.S.C., Chair in Radiation Chemistry

2006 Financial Statements

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying statements of financial position and the related statements of changes in unrestricted net assets, changes in net assets and cash flows present fairly, in all material respects, the financial position of the University of Notre Dame du Lac (the "University") at June 30, 2006 and 2005, 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. Those standards 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.

As discussed in Note 10, the University adopted the provisions of FASB Interpretation No. 47 and changed its method of accounting for conditional asset retirement obligations.

PricewaterhouseCoopers LLP

Chicago, Illinois

November 9, 2006

STATEMENTS OF FINANCIAL POSITION (IN THOUSANDS)

	As of June 30 2006	2005
Assets		
Cash and cash equivalents	$ 38,291	$ 53,112
Accounts receivable, net	26,577	24,615
Deferred charges and other assets	27,604	23,020
Contributions receivable, net	107,330	78,329
Notes receivable, principally for student loans, net	30,066	35,370
Investments	5,307,413	4,303,483
Land, buildings and equipment, net of accumulated depreciation	836,393	737,511
Total assets	$ 6,373,674	$ 5,255,440
Liabilities		
Accounts payable	$ 15,731	$ 16,015
Commercial paper	21,000	—
Refundable advances	16,891	19,967
Deferred revenue	51,705	42,918
Deposits and other liabilities	101,441	70,910
Amounts payable under split-interest agreements	28,619	29,245
Bonds and notes payable	392,265	281,875
Conditional asset retirement obligation	19,481	—
Pension and other postretirement benefits	131,673	132,375
Government advances for student loans	28,283	27,801
Total liabilities	807,089	621,106
Net Assets		
Unrestricted		
Undesignated	293,051	188,687
Designated for specific purposes	116,073	51,464
Invested in land, buildings and equipment	458,211	455,636
Funds functioning as endowment	2,091,021	1,665,249
Total unrestricted	2,958,356	2,361,036
Temporarily restricted	1,689,763	1,439,843
Permanently restricted	918,466	833,455
Total net assets	5,566,585	4,634,334
Total liabilities and net assets	$ 6,373,674	$ 5,255,440

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN UNRESTRICTED NET ASSETS (IN THOUSANDS)

	Years ended June 30 2006	2005
Operating Revenues and Other Additions		
Tuition and fees	$ 331,849	$ 314,673
Less: Tuition scholarships and fellowships	(116,018)	(108,652)
Net tuition and fees	215,831	206,021
Grants and contracts	78,833	68,589
Contributions	27,038	24,027
Investment return distributed	73,430	69,801
Sales and services of auxiliary enterprises	156,424	137,354
Other sources	30,639	24,571
Total operating revenues	582,195	530,363
Net assets released from restrictions for operations	80,043	72,737
Total operating revenues and other additions	662,238	603,100
Operating Expenses		
Instruction	228,208	219,480
Research	63,584	59,000
Public service	15,154	16,374
Academic support	42,966	40,291
Student activities and services	26,054	25,377
General administration and support	136,608	127,495
Auxiliary enterprises	131,311	127,821
Total operating expenses	643,885	615,838
Increase/(decrease) in unrestricted net assets from operations	18,353	(12,738)
Non-Operating Changes in Unrestricted Net Assets		
Contributions	8,138	6,246
Investment return:		
Investment income	49,744	55,396
Net gain on investments	467,383	298,052
Less: Investment return distributed	(73,430)	(69,801)
	443,697	283,647
Net gain/(loss) on other financial instruments	12,020	(14,753)
Net assets released from restrictions for investment and physical facilities	112,513	49,313
Change in additional pension liability	18,040	(11,170)
Cumulative effect of change in accounting principle	(17,683)	—
Other non-operating changes	2,242	—
Increase in unrestricted net assets from non-operating activities	578,967	313,283
Increase in unrestricted net assets	$ 597,320	$ 300,545

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN NET ASSETS (IN THOUSANDS)

	Years ended June 30	
	2006	2005
Unrestricted Net Assets		
Operating revenues and other additions	$ 662,238	$ 603,100
Operating expenses	(643,885)	(615,838)
Increase/(decrease) in unrestricted net assets from operations	18,353	(12,738)
Increase in unrestricted net assets from non-operating activities	578,967	313,283
Increase in unrestricted net assets	597,320	300,545
Temporarily Restricted Net Assets		
Contributions	88,696	54,460
Investment income	39,941	44,380
Net gain on investments	320,307	272,821
Change in value of split-interest obligations	894	806
Net assets released from restrictions	(192,556)	(122,050)
Other changes in temporarily restricted net assets	(7,362)	—
Increase in temporarily restricted net assets	249,920	250,417
Permanently Restricted Net Assets		
Contributions	79,577	33,225
Investment income	2,094	2,173
Net gain on investments	2,883	551
Change in value of split-interest obligations	1,306	738
Other changes in permanently restricted net assets	(849)	—
Increase in permanently restricted net assets	85,011	36,687
Increase in net assets	932,251	587,649
Net assets at beginning of year	4,634,334	4,046,685
Net assets at end of year	$ 5,566,585	$ 4,634,334

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended June 30 2006	2005
Cash Flows from Operating Activities		
Increase in net assets	$ 932,251	$ 587,649
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	34,485	34,575
Cumulative effect of change in accounting principle	17,683	—
Adjustment to carrying value of buildings and equipment	817	5,061
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	(6,546)	(8,402)
Contributions receivable	(29,001)	(18,026)
Accounts payable, refundable advances, deferred revenue, and deposits and other liabilities	35,958	29,191
Amounts payable under split-interest agreements	(626)	3,340
Pension and other postretirement benefits	(702)	24,637
Contributions for investments and physical facilities	(113,499)	(58,454)
Investment income restricted for reinvestment	(2,094)	(2,173)
Net gain on investments	(790,573)	(571,424)
Other, net	(36,580)	(7,981)
Net cash provided by operating activities	41,573	17,993
Cash Flows from Investing Activities		
Proceeds from sales of investments	2,554,342	2,741,488
Purchases of investments	(2,731,202)	(2,764,012)
Purchases of land, buildings and equipment	(92,403)	(74,565)
Student loans granted	(5,369)	(10,202)
Student loans repaid	8,917	6,713
Other changes in notes receivable	1,756	45
Net cash used by investing activities	(263,959)	(100,533)
Cash Flows from Financing Activities		
Contributions received restricted for:		
Investments	93,150	46,260
Physical facilities	20,349	12,194
Investment income restricted for reinvestment	2,094	2,173
Net proceeds from commercial paper issued	21,000	—
Proceeds from bonds issued	185,000	—
Repayment of bonds and notes	(114,510)	(1,680)
Government advances for student loans	482	729
Net cash provided by financing activities	207,565	59,676
Net change in cash and cash equivalents	(14,821)	(22,864)
Cash and cash equivalents at beginning of year	53,112	75,976
Cash and cash equivalents at end of year	$ 38,291	$ 53,112
Supplemental data		
Interest paid	$ 12,285	$ 8,442
Noncash investing and financing activities:		
Assets acquired with note payable	40,000	—
Gifts of securities	10,010	2,818

See accompanying 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 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):

	2006	2005
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
	174,031	140,657
Less:		
Unamortized discount	48,910	31,964
Allowance for uncollectible amounts	17,791	30,364
	66,701	62,328
	$ 107,330	$ 78,329

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

	2006	2005
Temporarily restricted	$ 64,846	$ 49,047
Permanently restricted	42,484	29,282
	$ 107,330	$ 78,329

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):

	2006		2005	
	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
	$ 4,478,594	$ 5,307,413	$ 3,767,134	$ 4,303,483

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):

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

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):

	2006	2005
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
	1,169,522	1,034,001
Less: Accumulated depreciation	333,129	296,490
	$ 836,393	$ 737,511

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
Obligations of the University		
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
Obligation of majority-owned limited liability corporation		
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, trusteed pension plan administered by the University. This plan provides benefits for certain administrative and staff employees who have completed at least five years of service at a minimum of 1,000 hours of service each year. The University funds the plan with annual contributions that meet ERISA minimum requirements. The plan assets and their related actuarially determined benefit obligation are included in investments and pension and other postretirement benefits, respectively, on the statements of financial position as of June 30, 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):

		2006		2005
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
	$	1,689,763	$	1,439,843

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

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

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

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

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.

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*June 30, 2006

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