Annual Report 2009

University of Notre Dame

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2009

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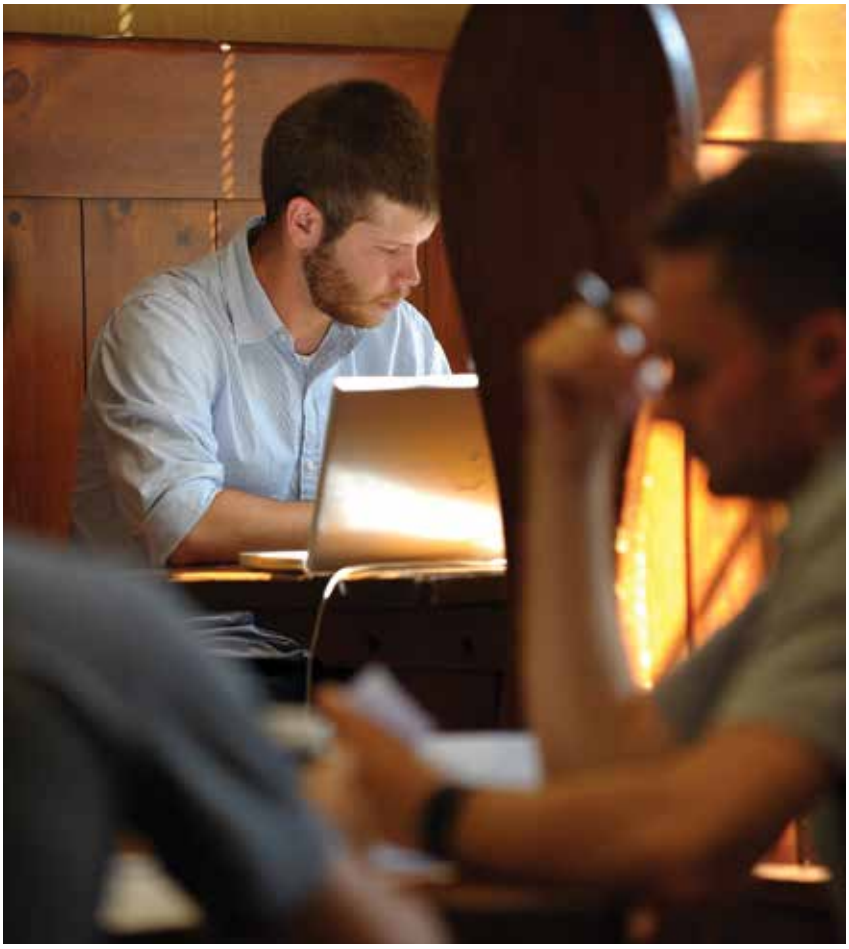



DAME

Statistical Highlights

	Academic Years Ending May				
	2009	2008	2007	2006	2005
Students					
Undergraduate	8,363	8,371	8,352	8,275	8,332
Graduate and professional	3,368	3,362	3,251	3,142	3,147
Total fall enrollment	11,731	11,733	11,603	11,417	11,479
Undergraduate Admissions					
Applications	13,945	14,508	12,798	11,316	11,490
Offers of admission	3,727	3,548	3,492	3,581	3,488
Enrolled	2,000	1,999	2,039	1,995	1,985
Selectivity ratio	26.7%	24.5%	27.3%	31.6%	30.4%
Matriculation ratio	53.7%	56.3%	58.4%	55.7%	56.9%
Degrees Conferred					
Baccalaureate	2,102	2,087	2,073	2,072	2,167
Master's	871	901	828	848	862
First professional	209	196	195	182	206
Doctoral	165	185	159	160	133
Total degrees conferred	3,347	3,369	3,255	3,262	3,368
Undergraduate tuition rate	$36,340	$34,680	$32,900	$31,100	$29,070
Percent increase over prior year	4.8%	5.4%	5.8%	7.0%	7.0%

From the President

"We filled open teaching positions, increased salaries, completed building projects, and bolstered student financial aid against a predictable jump in need."

In these difficult economic times, I am thankful for the wisdom and tradition of a cautious approach to financial management at Notre Dame. Our talented financial team has maintained a sustainable rate of payout on the endowment and continued a conservative building policy that requires full funding before we begin construction. Despite the economic crisis, we have not had to freeze new initiatives or make cuts across the board. Instead, we have been able to continue pursuing our priorities. Our good fortune is a blessing and a responsibility.

The University is a steward of substantial financial resources, but our first duty is to the dreams and aspirations of the people who see a Notre Dame education as their means to a better life for themselves and their children. Ultimately, those dreams coincide with our own goals of making a difference in the world through research that addresses today's challenges and teaching that produces graduates grounded in faith and reason.

Rather than cut back on our investment, Notre Dame was able to push forward in the 2008-09 academic year toward the dual goals of strengthening our research enterprise while continuing to offer a superb undergraduate education. We filled open teaching positions, increased salaries, completed building projects, and bolstered student financial aid against a predictable jump in need.

We also announced in July 2009 that we had exceeded our $1.5 billion dollar goal in the Spirit of Notre Dame fundraising campaign, making it the largest capital campaign for any Catholic institution anywhere. While the overall campaign goal has been met, the University remains in pursuit of its $250 million target for undergraduate financial aid; as of October 2009, we are at 77 percent

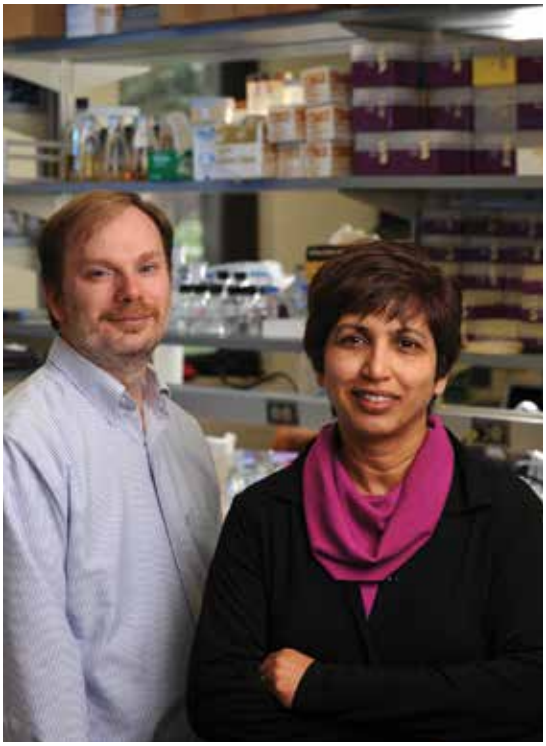
of goal. An unprecedented number of students requesting new or additional financial assistance as a result of the recession underscored the critical nature of this undertaking over the past year. For the 2009-10 academic year, Notre Dame is on track to award the highest financial aid payout in its history.

Although blessed with generous benefactors and sound fiscal stewardship, we have a responsibility to target our resources strategically to maximize their impact. We have a leadership team that is focused not only on realizing our priorities, but also on saving money wherever we can. While we enjoy a favorable financial position compared to many of our peers, the University also has felt the pain of the global economic crisis and responded. We have implemented voluntary savings measures and created contingency plans to prepare for the unexpected. We are not out of the financial woods yet, but we believe we are on the right path.

Our pursuit of knowledge has a sense of direction because we are inspired by the mission handed down to us from Rev. Edward Sorin, C.S.C., our founding father. Motivated by faith and guided by reason, we aim to be a powerful source of doing good for the country and the world. The means of achieving this goal may change over time as we adapt to new circumstances, but this enduring mission continues to be the cornerstone on which we will build.

—

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



TOP LEFT As a volunteer in the Center for Social Concerns' Summer Service Learning program, engineering undergraduate Pablo DeLuna '10 participated in the center's inaugural Latino Leadership Intern program in the inner city of Chicago during summer 2009. | **TOP RIGHT** In May 2009, the University of Notre Dame received two $100,000 Grand Challenges Explorations grants from the Bill & Melinda Gates Foundation to support innovative global health research projects conducted by Kasturi Haldar, Julius Nieuwland Professor of Biological Sciences and director of the Center for Rare and Neglected Diseases, and Jeffrey Schorey, associate professor of biological sciences and associate director, Eck Institute for Global Health. | **BELOW** Undergraduate biology major Katie Washington has benefited from several scholarships and grants during her time at Notre Dame. Expected to graduate with a 4.0 grade point average, Washington participated in undergraduate research in the University's infectious disease and cancer research programs, and spends some of her free time as director of the Voices of Faith Gospel Choir.

"While we know that the financial crisis is not yet behind us, we are confident in our ability to continue the expansion of the University's research enterprise while maintaining our Catholic character and excellence in undergraduate education."

Fiscal 2009 brought turmoil to the world economy and difficult financial conditions to higher education. Notre Dame faces challenges similar to those of other institutions: significant decreases in the value of assets held by our endowment, unprecedented levels of student financial need, rising demand for graduate stipends, and increased pressure on federal research funding.

In the face of these challenges, demand remains strong for a Notre Dame education. This year's undergraduate applicant pool, consisting of 14,357 students, was the second largest in University history and the most academically competitive on record. Enrolled students had an average SAT score of 1411 and 89% ranked within the top 10% of their high school graduating classes. The composition of the Class of 2013 also reflects Notre Dame's strong commitment to diversity, with 23% of the class coming from historically underrepresented groups.

As the depth and extent of the unfolding financial crisis became apparent, Notre Dame implemented a mid-year effort to contain costs, allowing us to end the year with expenditures below budget. Over the course of the winter months, University officers created several contingency plans to further modify our budget if the endowment value fell below critical thresholds. While we have not had to execute these contingency plans, they remain an integral part of our future planning efforts. We also called upon all faculty and staff to exercise prudent judgment and restraint in all expenditures. Notre Dame did not implement a hiring freeze, but did require that the President, Provost, or Executive Vice President approve all positions prior to hiring. This flexibility allowed us to complete several significant faculty hires that will play a pivotal role in advancing our academic enterprise.

Notre Dame faces many challenges due to tremendous market volatility. We are thankful that the cautious, yet substantial, increases in endowment spending taken during periods of strong investment returns allowed us to maintain spending throughout fiscal 2009 and also gave us the flexibility to budget further increases for fiscal 2010.

The University continues to make judicious use of debt, in line with our overall policy of fiscal conservatism. Moody's Investors Service once again reaffirmed Notre Dame's strongest possible "Aaa" bond rating in connection with a recent bond offering. The underpinning of the University's financial strength is the continued prudent use of long-term debt of approximately $559 million, a modest amount when compared to Notre Dame's endowment pool value of $5.5 billion. The state of the economy also presented us with the opportunity to convert variable rate debt to historically low fixed rates in fiscal 2009, providing additional protection in a period of uncertainty.

The University's construction funding policy requires that we have 100 percent of the funds pledged and 75 percent of the funds in hand, with the remainder pledged to arrive within five years, before breaking ground. This conservative policy has served us well, allowing all campus construction projects to continue as planned.

While external economic pressures certainly impact Notre Dame, we believe that our historically conservative fiscal policies have positioned Notre Dame uniquely among our peers to weather the storm. We will continue to tightly manage the University budget and grow programs and expenditures only when we believe growth will both substantially contribute to the institution's core mission and be fiscally sustainable.

Our generous benefactors provided $246 million in outright gifts, pledges, and deferred gifts to the Spirit campaign this year, bringing the campaign total to $1.54 billion as of June 30th, surpassing our $1.5 billion goal in less than five years. Fiscal year cash receipts totaled $197 million, down 32% from last year but still marking the third strongest year in University history. We also benefitted from $29 million of unrestricted gifts that permitted us to respond flexibly to both critical needs and emerging opportunities. The growing membership of our President's Circle giving society accounted for a record $5 million of those unrestricted gifts.

We look forward to another challenging year at Notre Dame. While we know that the financial crisis is not yet behind us, we are confident in our ability to continue the expansion of the University's research enterprise while maintaining our Catholic character and excellence in undergraduate education.

—

John F. Affleck-Graves
EXECUTIVE VICE PRESIDENT

▼ THE ECK HALL OF LAW opened it doors in January 2009 and nearly doubles the square footage of the Law School facility.

▼ Newly constructed RYAN HALL, a 74,000-square-foot women's residence hall, houses 248 students.

▼ GEDDES HALL, new home of the Institute for Church Life, is the first Notre Dame building that can be called "green"—designed to meet national certification standards combining environmental sustainability and energy efficiency.

"The University's investment returns over longer periods rank among the highest of all institutional investors, and the 10-year return of 9.4 percent during a decade when the S&P 500 declined speaks to the favorable risk-return profile of the endowment pool portfolio."

The Notre Dame Endowment Pool returned (20.8) percent net of investment management fees for the 2009 fiscal year, and ended the year with a market value of $5.52 billion compared to $7.06 billion at June 30, 2008. The global financial crisis that began early in the fiscal year battered global investors in all asset classes except fixed income. The S&P 500 Index and MSCI EAFE Index (international stocks), for example, declined 26 and 31 percent, respectively, while commodity and real estate indices fell nearly 50 percent. Hedge funds in particular, both in long/short equities where the University was overweight and other strategies, provided value compared to these markets. Strong performance by the University's emerging markets managers relative to benchmarks also added support.

Annualized Returns as of June 30, 2009

	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Notre Dame Endowment Pool	-20.8%	1.8%	8.4%	9.4%
Strategic Policy Portfolio	-19.5%	0.1%	6.0%	4.9%
TUCS Large Fund Median	-18.2%	-2.7%	2.5%	3.3%

The Strategic Policy Portfolio is Notre Dame's internal benchmark representing a passive index portfolio. The Trust Universe Comparison Service (TUCS) Large Fund (greater than $1 billion) Median return is a compilation of endowment, pension, and foundation returns and thus represents investment performance for large institutional investors generally.

While developments in the capital markets during the year were both severe and unique, the focus of endowments as the ultimate long-term investors remains on performance over time. The University's investment returns over longer periods rank among the highest of all institutional investors, and the 10-year return of 9.4 percent during a decade when the S&P 500 declined speaks to the favorable risk-return profile of the endowment pool portfolio. That performance difference added $3.7 billion of value to the endowment pool over the decade and highlights the benefits of our historical emphasis on diversification and manager selection. The events of the past year will not change that overall approach.

Fortunately, due to appropriately cautious spending policies during the previous four-year period of strong capital markets, the University was able to maintain the spending increase budgeted for the fiscal year. As shown in the accompanying chart, endowment pool spending in fiscal 2009 increased in excess of 18 percent, or $33 million more than the prior year, rising to $215 million. Financial aid continues to be the largest portion of spending. Total endowment pool spending over the 10-year period shown was more than $1.4 billion.

Looking ahead, we will continue to take steps to enhance our liquidity position so that the endowment pool portfolio is positioned to capitalize on compelling future opportunities. As much as ever in these uncertain times, the endowment will lie at the core of the University's financial position, and outstanding stewardship on both the investment and spending sides of the equation will be key to the University's success. We will continue to work as hard as ever to achieve that success.

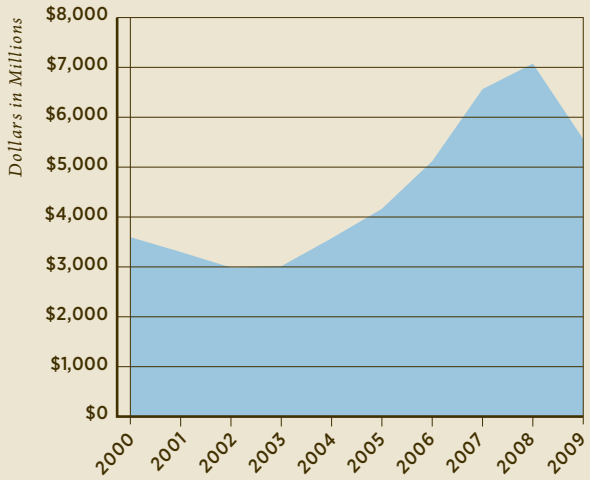
—

Scott C. Malpass

VICE PRESIDENT AND CHIEF INVESTMENT OFFICER

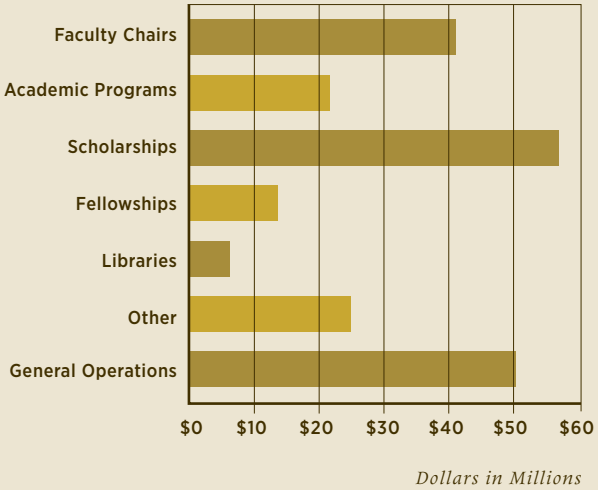
Endowment Pool Market Value (2000–2009)

FISCAL YEARS ENDING JUNE 30



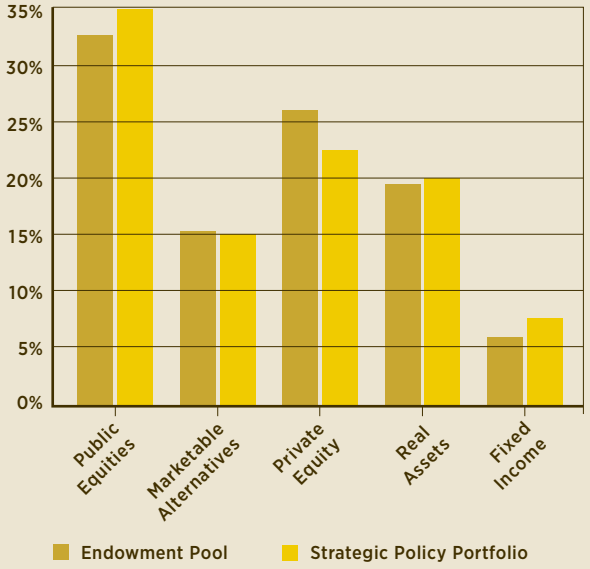
Endowment Pool Spending Purposes

FISCAL YEAR ENDING JUNE 30, 2009



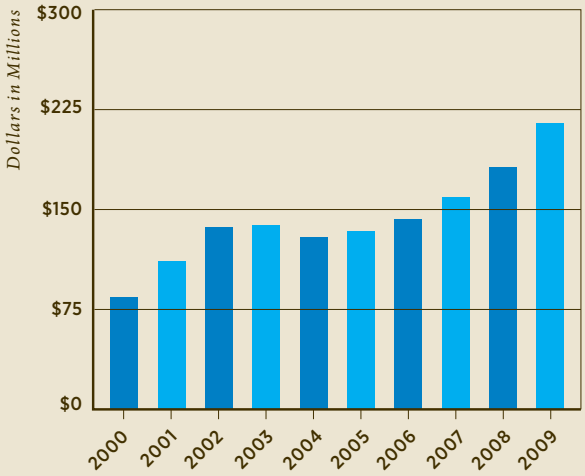
Asset Allocation

JUNE 30, 2009

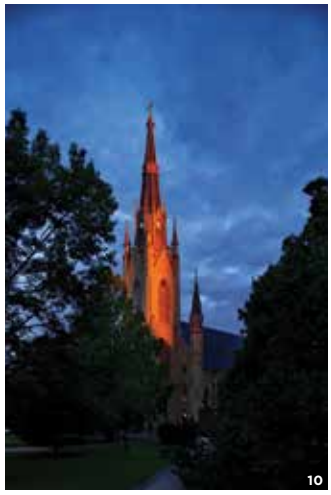


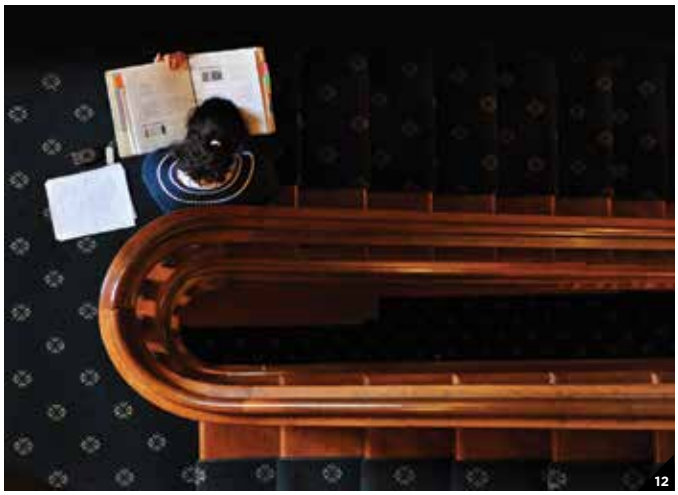
Endowment Pool Spending (2000–2009)

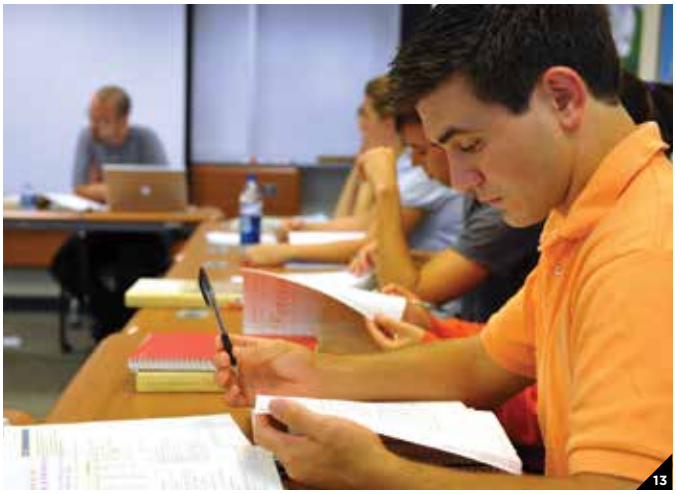
FISCAL YEARS ENDING JUNE 30

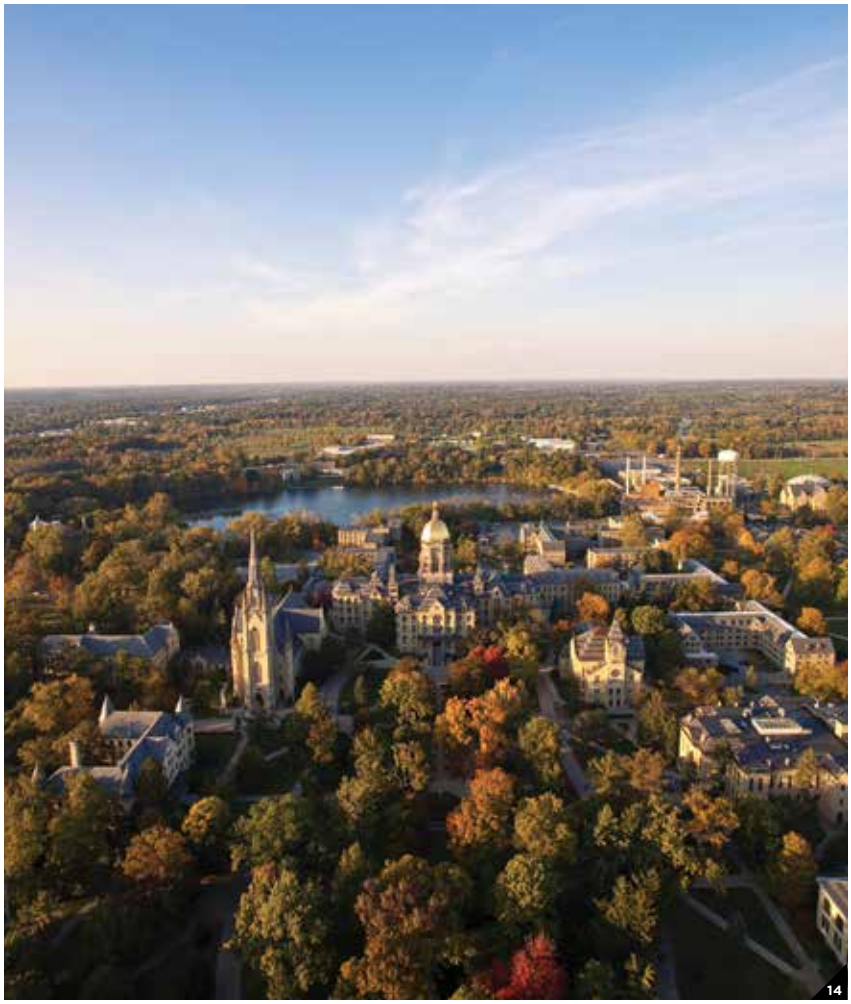


1. Students move into the dorms to begin the 2008–09 school year.
2. Prof. Linda Przybyszewski teaches an undergraduate history course.
3. Aerial of the Dome and Basilica, at the heart of Notre Dame's campus.
4. Innovation Park, on the southern edge of Notre Dame's campus, facilitates the transformation of innovations into viable marketplace ventures (innovationparknd.com).
5. Christina Shaheen, a master's student at the Kroc Institute for International Peace Studies, stands near Bethlehem, in the West Bank.
6. Students traverse campus in an early winter snow.
7. Becca Bruszewski (32) shoots for the Irish against Louisville.





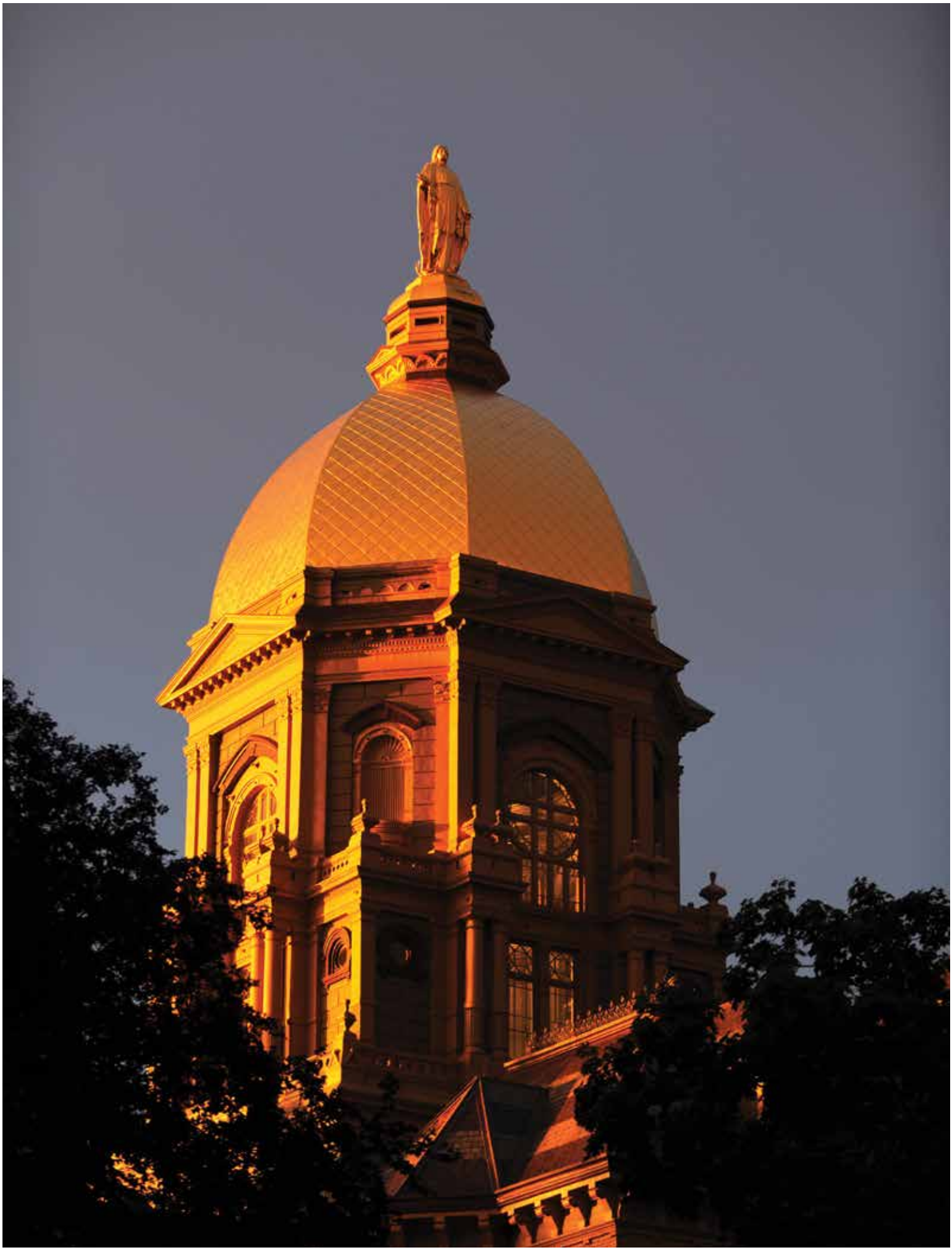




8. New engineering building, Stinson-Remick Hall, under construction.
9. Entrance to Ryan Hall, a new west quad women's residence hall.
10. The Basilica at sunrise.
11. Carolyn Leary '11 walks with students from Loreto Sealdah School in Kolkata, India, on their way to a rural school outside of Kolkata. Leary was in India with other Notre Dame students as part of an Undergraduate Action Research Seminar studying child poverty and educational development.
12. Students study in the oddest places: on the stairs in the Main Building.
13. Undergraduate students studying in the Center for the Study of Languages and Cultures in DeBartolo Hall.
14. Aerial photo shows the beauty of campus.

15. Engineering graduate student conducting research in the radiation research lab.
16. Rev. William M. Lies, C.S.C., executive director of the Center for Social Concerns, engages with students at the University's second annual Green Summit.
17. Quarterback Jimmy Clausen (7) celebrates with offensive lineman Eric Olsen (55) after a touchdown pass in the third quarter against the Purdue Boilermakers at Notre Dame Stadium, Sep. 20, 2008.
18. Sarah Wanek '11 with students from Loreto Sealdah School in Kolkata, India. Wanek was in India with other Notre Dame students as part of an Undergraduate Action Research Seminar studying child poverty and educational development.
19. Students participating in an undergraduate biology lab at Isaac Walton League.
20. Student engages with the community at the 2009 Robinson Community Learning Center block party.
21. Athletics complex on the east side of campus, showing Melissa Cook Softball Stadium, the outdoor track, Eck Baseball Stadium, Arlotta Lacrosse Stadium, Alumni Soccer Stadium, and the LaBar Football Practice Complex.
22. Construction continues to progress on the Joyce Center's Purcell Pavilion addition (May 2009).

23. An undergraduate Aerospace Engineering class works on building radio-controlled airplanes in spring 2009.
24. David Moss, assistant vice president for student affairs, chats with students at the 2009 Robinson Community Learning Center block party.
25. Students walk through the Mendoza College of Business atrium.
26. Prof. Ken Milani teaching an accounting class in the Mendoza College of Business.
27. The Basilica in spring, April 2009.
28. Workers install one of the four copper crosses atop the Eck Hall of Law, which was completed in January 2009.
29. Valedictorian Brennan Bollman shares her excitement at the 2009 Notre Dame Commencement ceremony.



UNIVERSITY OF NOTRE DAME DU LAC

Consolidated Financial Statements for the years ended June 30, 2009 and 2008

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated statements of financial position and the related consolidated 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, 2009 and 2008, 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 1, effective July 1, 2008 the University adopted the provisions of SFAS No. 157 "Fair Value Measurements" and changed the manner in which it evaluates the fair value of financial assets and liabilities. Also, as discussed in Note 11, effective July 1, 2007 the University adopted the provisions of FASB Staff Position FAS 117-1 and changed the manner in which it classifies donor-restricted endowment funds.

PricewaterhouseCoopers LLP

Chicago, Illinois

November 23, 2009

Consolidated Statements of Financial Position

(IN THOUSANDS)

	AS OF JUNE 30	
	2009	2008[1]
Assets		
Cash and cash equivalents	$ 127,648	$ 41,957
Accounts receivable, net	23,540	34,811
Deferred charges and other assets	56,762	30,675
Contributions receivable, net	194,587	187,854
Notes receivable, principally for student loans, net	32,891	31,346
Investments	5,640,727	7,233,718
Land, buildings and equipment, net of accumulated depreciation	1,053,919	907,400
Total assets	$ 7,130,074	$ 8,467,761
Liabilities		
Accounts payable	$ 46,779	$ 12,965
Short-term borrowing	75,036	94,810
Deferred revenue and refundable advances	81,624	81,495
Deposits and other liabilities	88,710	73,713
Liabilities associated with investments	216,820	196,011
Obligations under split-interest agreements	49,611	59,286
Bonds and notes payable	558,975	411,405
Conditional asset retirement obligations	21,131	21,031
Pension and other postretirement benefits	111,578	79,030
Government advances for student loans	29,771	29,391
Total liabilities	1,280,035	1,059,137
Net Assets		
Unrestricted:		
Funds functioning as endowment	1,854,566	2,451,064
Invested in land, buildings and equipment	595,386	489,797
Other unrestricted net assets	22,210	225,263
Total unrestricted	2,472,162	3,166,124
Temporarily restricted	2,156,661	3,074,151
Permanently restricted	1,221,216	1,168,349
Total net assets	5,850,039	7,408,624
Total liabilities and net assets	$ 7,130,074	$ 8,467,761

See accompanying notes to consolidated financial statements.

[1]*As adjusted following the adoption of FASB Staff Position 117-1, described in Note 11 to the consolidated financial statements.*

Consolidated Statements of Changes in Unrestricted Net Assets

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2009	2008[1]
Operating Revenues and Other Additions		
Tuition and fees	$ 399,280	$ 382,132
Less: Tuition scholarships and fellowships	(141,483)	(131,656)
Net tuition and fees	257,797	250,476
Grants and contracts	77,230	76,681
Contributions	36,569	43,654
Accumulated investment return distributed	82,647	70,180
Sales and services of auxiliary enterprises	173,893	178,687
Other sources	41,804	44,410
Total operating revenues	669,940	664,088
Net assets released from restrictions	138,028	117,477
Total operating revenues and other additions	807,968	781,565
Operating Expenses		
Instruction	289,695	276,132
Research	74,820	69,673
Public service	23,307	16,175
Academic support	44,197	44,816
Student activities and services	32,160	28,934
General administration and support	158,087	149,531
Auxiliary enterprises	150,940	144,934
Total operating expenses	773,206	730,195
Increase in unrestricted net assets from operations	34,762	51,370
Non-Operating Changes in Unrestricted Net Assets		
Contributions	956	8,997
Investment income	11,196	18,258
Net gain/(loss) on investments	(700,712)	140,125
Accumulated investment return distributed	(82,647)	(70,180)
Net gain/(loss) on other financial instruments	9,376	(12,350)
Net assets released from restrictions	65,279	6,461
Net pension and postretirement benefits-related changes other than net periodic benefits costs	(29,989)	1,227
Other non-operating changes	(2,183)	96
Increase/(decrease) in unrestricted net assets from non-operating activities	(728,724)	92,634
Increase/(decrease) in unrestricted net assets before effect of change in accounting principle	(693,962)	144,004
Effect of adopting FASB Staff Position FAS 117-1	–	(749,805)
Decrease in unrestricted net assets	$ (693,962)	$ (605,801)

See accompanying notes to consolidated financial statements.

[1]*As adjusted following the adoption of FASB Staff Position 117-1, described in Note 11 to the consolidated financial statements.*

Consolidated Statements of Changes in Net Assets

(IN THOUSANDS)

	YEARS ENDED JUNE 30	
	2009	2008[1]
Unrestricted Net Assets		
Operating revenues and other additions	$ 807,968	$ 781,565
Operating expenses	(773,206)	(730,195)
Increase in unrestricted net assets from operations	34,762	51,370
Increase/(decrease) in unrestricted net assets from non-operating activities	(728,724)	92,634
Increase/(decrease) in unrestricted net assets before effect of change in accounting principle	(693,962)	144,004
Effect of adopting FASB Staff Position FAS 117-1	–	(749,805)
Decrease in unrestricted net assets	(693,962)	(605,801)
Temporarily Restricted Net Assets		
Contributions	60,266	80,983
Investment income	12,909	23,175
Net gain/(loss) on investments	(783,770)	185,448
Change in value of split-interest agreements	(3,634)	184
Net assets released from restrictions	(203,307)	(123,938)
Other changes in temporarily restricted net assets	46	8,303
Increase/(decrease) in temporarily restricted net assets before effect of change in accounting principle	(917,490)	174,155
Effect of adopting FASB Staff Position FAS 117-1	–	749,805
Increase/(decrease) in temporarily restricted net assets	(917,490)	923,960
Permanently Restricted Net Assets		
Contributions	55,282	138,393
Investment income	450	1,027
Net gain/(loss) on investments	(1,114)	73
Change in value of split-interest agreements	(3,264)	286
Other changes in permanently restricted net assets	1,513	(7,080)
Increase in permanently restricted net assets	52,867	132,699
Increase/(decrease) in net assets	(1,558,585)	450,858
Net assets at beginning of year	7,408,624	6,957,766
Net assets at end of year	$ 5,850,039	$ 7,408,624

See accompanying notes to consolidated financial statements.

[1]*As adjusted following the adoption of FASB Staff Position 117-1, described in Note 11 to the consolidated financial statements.*

Consolidated Statements of Cash Flows

(IN THOUSANDS)	YEARS ENDED JUNE 30	
	2009	2008
Cash Flows from Operating Activities		
Increase/(decrease) in net assets	$ (1,558,585)	$ 450,858
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	39,311	39,017
Loss on disposition of land, buildings and equipment	1,973	2,296
Change in obligations under split-interest agreements	(9,675)	22,205
Change in conditional asset retirement obligations	100	751
Change in pension and other postretirement benefits	32,548	2,973
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	(14,816)	(680)
Contributions receivable	(6,733)	(41,817)
Accounts payable, deferred revenue and refundable advances, and deposits and other liabilities	48,940	(3,000)
Contributions for investments and physical facilities	(69,508)	(76,968)
Contributed securities	(20,914)	(88,456)
Investment income restricted for reinvestment	(450)	(1,027)
Net loss/(gain) on investments	1,485,596	(325,646)
Other, net	(10,866)	2,885
Net cash used by operating activities	(83,079)	(16,609)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,881,314	2,740,039
Purchases of investments	(1,808,620)	(2,833,473)
Purchases of land, buildings and equipment	(158,640)	(97,065)
Student loans granted	(5,631)	(5,614)
Student loans repaid	2,766	3,793
Other changes in notes receivable	1,320	61
Net cash used by investing activities	(87,491)	(192,259)
Cash Flows from Financing Activities		
Contributions for investments and physical facilities	69,508	76,968
Investment income restricted for reinvestment	450	1,027
Proceeds from short-term borrowing	670,011	1,129,119
Repayment of short-term borrowing	(689,785)	(1,074,309)
Proceeds from bonds and notes issued	150,000	75,000
Repayment of bonds and notes	(2,430)	(55,020)
Government advances for student loans	380	486
Net cash accepted for investment on behalf of religious affiliates	58,127	41,938
Net cash provided by financing activities	256,261	195,209
Net change in cash and cash equivalents	85,691	(13,659)
Cash and cash equivalents at beginning of year	41,957	55,616
Cash and cash equivalents at end of year	$ 127,648	$ 41,957
Supplemental Data		
Interest paid	$ 8,969	$ 15,784

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

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

Net assets and changes therein associated with donor-restricted endowment funds are classified in accordance with Financial Accounting Standards Board ("FASB") Staff Position FAS 117-1, as described further in Note 11 to the financial statements.

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

Non-operating activities presented in the consolidated statements of changes in unrestricted net assets include unrestricted contributions designated by the University for endowment or investment in buildings and equipment, investment return in excess of or less than the amount distributed for operations under the spending policy, any gains or losses on other financial instruments, and other activities considered to be more of an unusual or non-recurring nature. Non-operating net assets released from restrictions generally reflect the expenditure of net assets restricted to investment in land, buildings and equipment.

Fair Value Measurements

The University adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," effective July 1, 2008. SFAS No. 157 establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

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

Grants and Contracts

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

Auxiliary Enterprises

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, intercollegiate athletics and college stores. Auxiliary enterprise revenues and related 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. Substantially all cash and cash equivalents are concentrated in accounts in which balances exceed Federal Deposit Insurance Corporation limits.

Contributions Receivable

Unconditional promises to give are recognized at fair value as contributions—either temporarily restricted or permanently restricted—in the period such promises are made by donors. Contributions recognized as such during the year ended June 30, 2009 are discounted at a risk-adjusted rate commensurate with the duration of

the donor's payment plan. Contributions recognized in prior periods under such commitments were recorded at a discount based on a U.S. Treasury rate. Amortization of the discounts is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management's expectations regarding collection of outstanding promises to give and past collection experience. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Notes Receivable

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

Investments

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

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

Investments Held on Behalf of Other Entities

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

Other Financial Instruments

The University utilizes derivative instruments in a limited manner outside of its investment portfolio to manage interest rate risk associated with variable rate bond obligations. These instruments, primarily interest rate swap agreements, are reported in the consolidated statements of financial position at fair value. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. Any gains or losses resulting from

changes in the fair value of these instruments or periodic net cash settlements with counterparties 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.

Conditional Asset Retirement Obligations

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

Split-Interest Agreements

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

Use of Estimates

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

Subsequent Events

The University has evaluated subsequent events through November 23, 2009, the date the financial statements were available to be issued.

Tax Status

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

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation, principally with respect to donor-restricted endowment funds as described further in Note 11.

Note 2. Accounts and Notes Receivable

At June 30, 2009, accounts and notes receivable are stated net of allowances of $1,073,000 and $1,103,000, respectively. At June 30, 2008, these allowances were $686,000 and $1,103,000, respectively.

Note 3. Contributions Receivable

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

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	$ 63,546	$ 50,787
One year to five years	138,100	143,190
More than five years	91,302	93,299
	292,948	287,276
Less:		
Unamortized discount	70,752	67,326
Allowance for uncollectible amounts	27,609	32,096
	98,361	99,422
	$ 194,587	$ 187,854

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

	2009	2008
Temporarily restricted for:		
Operating purposes	$ 37,874	$ 18,677
Investment in land, buildings and equipment	31,273	43,010
Funds functioning as endowment	7,669	8,111
	76,816	69,798
Permanently restricted for endowment	117,771	118,056
	$ 194,587	$ 187,854

Contributions receivable are discounted at rates ranging from 1.11 percent to 6.91 percent at June 30, 2009.

As of June 30, 2009, the University had received documented conditional pledges of $53,500,000 which are not reflected in the accompanying consolidated financial statements.

Note 4. Investments

Investment holdings at fair value were comprised of the following at June 30 (in thousands):

	NOTRE DAME ENDOWMENT POOL	OTHER INVESTMENTS	2009 TOTAL	2008 TOTAL
Endowment and funds functioning as endowment	$ 4,730,501	$ 31,490	$ 4,761,991	$ 6,181,011
Working capital and other assets	566,548	20,370	586,918	766,616
Student loan funds	4,140	–	4,140	5,274
Split-interest agreements	64,652	6,583	71,235	86,071
Investments held on behalf of:				
Religious affiliates	136,513	–	136,513	96,206
Revocable charitable trusts	–	2,103	2,103	3,191
Defined benefit pension plan	–	77,827	77,827	95,349
	$ 5,502,354	$ 138,373	$ 5,640,727	$ 7,233,718

Investments totaling $5.5 billion at June 30, 2009 and $7.0 billion at June 30, 2008 are pooled on a fair value basis with each participating fund owning units in the Notre Dame Endowment Pool ("NDEP"). Transactions constituting additions or withdrawals are unitized on a quarterly basis based on the estimated fair value of the pooled investments. Certain investments are held in specific instruments outside the NDEP to comply with donor requirements or other considerations.

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

Investment assets at fair value are summarized as follows at June 30 (in thousands):

	NOTRE DAME ENDOWMENT POOL	OTHER INVESTMENTS	2009 TOTAL	2008 TOTAL
Short-term investments	$ 117,167	$ 1,815	$ 118,982	$ 162,023
Public equities:				
U.S.	316,852	42,436	359,288	631,222
Non-U.S.	599,781	970	600,751	867,241
Long/short strategies	901,043	–	901,043	1,112,741
Fixed income securities	257,070	10,557	267,627	321,900
Marketable alternatives	843,887	4,719	848,606	1,095,211
Private equity	1,420,074	–	1,420,074	1,545,118
Real estate	402,944	49	402,993	509,101
Other real assets	643,536	–	643,536	893,812
	5,502,354	60,546	5,562,900	7,138,369
Defined benefit pension plan assets	–	77,827	77,827	95,349
	$ 5,502,354	$ 138,373	$ 5,640,727	$ 7,233,718

Short-term investments held in the NDEP consist primarily of cash equivalents held by external managers.

Fair value measurements of investment assets at June 30, 2009 were based on the following (in thousands):

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Short-term investments	$ 61	$ 118,921	$ –	$ 118,982
Public equities:				
U.S.	100,343	–	258,945	359,288
Non-U.S.	56,847	54,954	488,950	600,751
Long/short strategies	–	–	901,043	901,043
Fixed income securities	52,289	157,130	58,208	267,627
Marketable alternatives	–	–	848,606	848,606
Private equity	–	–	1,420,074	1,420,074
Real estate	49	–	402,944	402,993
Other real assets	130,529	2,856	510,151	643,536
	340,118	333,861	4,888,921	5,562,900
Defined benefit pension plan assets	18,523	19,916	39,388	77,827
	$ 358,641	$ 353,777	$ 4,928,309	$ 5,640,727

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on significant unobservable (Level 3) inputs are summarized below for the year ended June 30, 2009 (in thousands):

	BEGINNING OF THE YEAR	NET ACQUISITIONS/ (DISPOSITIONS)	NET REALIZED GAINS/(LOSSES)	NET CHANGE IN UNREALIZED GAINS/(LOSSES)	END OF THE YEAR
Public equities:					
U.S.	$ 329,412	$ (16,564)	$ (2,935)	$ (50,968)	$ 258,945
Non-U.S.	716,550	(65,965)	(15,342)	(146,293)	488,950
Long/short strategies	1,112,741	(48,363)	27,533	(190,868)	901,043
Fixed income securities	60,768	(3,951)	184	1,207	58,208
Marketable alternatives	950,479	58,336	54,297	(214,506)	848,606
Private equity	1,545,118	231,545	48,909	(405,498)	1,420,074
Real estate	509,005	88,155	147	(194,363)	402,944
Other real assets	750,948	164	42,498	(283,459)	510,151
	$ 5,975,021	$ 243,357	$ 155,291	$ (1,484,748)	$ 4,888,921

The change in unrealized net losses on investments still held at June 30, 2009 for which fair value is measured using Level 3 inputs was $1,409,034,000. These changes in unrealized net losses are the primary component of total net unrealized losses on investments of $1,493,645,000 for the year ended June 30, 2009 as reflected in the consolidated statements of changes in net assets. Due to the pooled nature of assets held in the NDEP, the remaining portion of such net losses is attributed to NDEP holdings of split-interest agreements and the University's religious affiliates.

The University is committed under contracts with certain external managers, primarily those managing private equity, real assets and marketable alternatives, to periodically advance additional funding as capital calls are exercised. At June 30, 2009, such commitments approximated $2.06 billion. Calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination.

The University's investment strategy incorporates the use of certain financial instruments that bear, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the consolidated financial statements. Market risk in this context represents the potential for changes in the value of financial instruments such as forwards and futures due to events affecting the value of the underlying assets, including those embodied in interest and foreign exchange rate movements and fluctuations in 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 a contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the consolidated statements of financial position and is not represented by the contract or notional amounts of the instruments. The University also bears risk arising from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

Investment Return

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

	2009	2008
Investment income, net	$ 24,555	$ 42,460
Net gain/(loss) on investments:		
Realized gains, net	8,049	488,539
Unrealized losses, net	(1,493,645)	(162,893)
	(1,485,596)	325,646
	$ (1,461,041)	$ 368,106

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2009 TOTAL	2008 TOTAL
Investment income, net	$ 11,196	$ 12,909	$ 450	$ 24,555	$ 42,460
Net gain/(loss) on investments	(700,712)	(783,770)	(1,114)	(1,485,596)	325,646
	$ (689,516)	$ (770,861)	$ (664)	$ (1,461,041)	$ 368,106

Investment income is reported net of related expenses of $16,082,000 and $26,497,000 for the years ended June 30, 2009, and 2008, respectively. Investment-related expenses consist of fees paid to external investment advisors, as well as operating expenses related to internal investment staff.

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

	UNRESTRICTED	TEMPORARILY RESTRICTED	2009 TOTAL	2008 TOTAL
Endowment and funds functioning as endowment	$ 74,473	$ 132,841	$ 207,314	$ 165,106
Working capital and other sources	8,174	–	8,174	12,599
	$ 82,647	$ 132,841	$ 215,488	$ 177,705

Liabilities Associated With Investments

Liabilities associated with investments are comprised of the following at June 30 (in thousands):

	2009	2008
Forward foreign exchange contracts payable	$ 377	$ 1,265
Fair value of investments held on behalf of:		
Religious affiliates	136,513	96,206
Revocable charitable trusts	2,103	3,191
Defined benefit pension plan	77,827	95,349
	216,443	194,746
	$ 216,820	$ 196,011

Note 5. Land, Buildings and Equipment

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

	2009	2008
Land and land improvements	$ 98,809	$ 91,357
Buildings	999,533	927,112
Equipment	209,522	205,019
Construction in progress	173,315	79,641
	1,481,179	1,303,129
Less: Accumulated depreciation	427,260	395,729
	$ 1,053,919	$ 907,400

Depreciation expense was $39,311,000 and $39,017,000 for the years ended June 30, 2009, and 2008, respectively.

The University accrued construction in progress costs of $28,427,000 at June 30, 2009. In addition, the University has commitments to expend approximately $60,840,000 to complete various construction projects as of June 30, 2009.

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

	2009	2008
Conditional asset retirement obligations at beginning of year	$ 21,031	$ 20,280
Obligations settled	(659)	(504)
Accretion expense	759	676
Revisions in estimated cash flows	–	579
Conditional asset retirement obligations at end of year	$ 21,131	$ 21,031

Note 6. Short-Term Borrowing

The University maintains a $200,000,000 commercial paper program under which it may issue either standard or extendible municipal commercial paper through St. Joseph County, Indiana on behalf of the University. Standard municipal commercial paper issues are supported by a $200,000,000 standby credit facility with a major commercial bank. Interest on commercial paper may be either taxable or tax-exempt to investors, depending on the University's intended use of the proceeds. Commercial paper issued to finance the purchase of equipment and improvements to educational facilities is tax-exempt, while those issues that provide funding for operations are subject to taxation. Standard taxable commercial paper in the amount of $70,036,000 and $94,810,000 was outstanding at June 30, 2009 and June 30, 2008, respectively.

The University also maintains unsecured lines of credit with commercial banks in the aggregate amount of $275,000,000 to be utilized primarily for working capital purposes. Termination dates on lines of credit available at June 30, 2009 ranged from October 28, 2009 to March 25, 2010. A $5,000,000 balance on one of the University's lines of credit was outstanding at June 30, 2009. The University had no such outstanding balances at June 30, 2008.

Total interest costs incurred on short-term borrowing were approximately $1,066,000 and $1,927,000 for the years ended June 30, 2009 and 2008, respectively.

Subsequent Events

Subsequent to June 30, 2009, the University amended one of its existing lines of credit to expand the amount available by $25,000,000. Under the terms of the amendment, the termination date for this $125,000,000 credit facility was extended to March 31, 2012 from March 25, 2010.

Note 7. Bonds and Notes Payable

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

	2009	2008
Obligations of the University		
Series 2009 Taxable Fixed Rate Notes	$ 150,000	$ –
Notre Dame du Lac Dormitory Refunding and Construction Bonds	930	1,020
St. Joseph County (Indiana) Educational Facilities Revenue Bonds	368,215	370,385
	519,145	371,405
Obligation of majority-owned limited liability corporation		
Mortgage note payable	39,830	40,000
	$ 558,975	$ 411,405

The fair value of bond and note obligations approximates the aggregate carrying value at June 30, 2009 and 2008. The aggregate scheduled maturities of bonds and notes payable are summarized as follows (in thousands):

	2009
2010	$ 2,901
2011	3,037
2012	3,235
2013	3,190
2014	153,317
Thereafter	393,295
	$ 558,975

The Series 2009 Taxable Fixed Rate Notes bear interest at a fixed rate of 4.141 percent and are due September 1, 2013. The notes constitute unsecured general obligations of the University and the associated interest is taxable to investors. The University incurred $2,623,000 in interest costs on the notes during the year ended June 30, 2009.

Notre Dame du Lac Dormitory Refunding and Construction Bonds bear interest at a fixed rate of 3.00 percent through 2018. These bonds are collateralized by the facilities to which they relate. The University incurred interest costs of $30,000 and $33,000 on these bonds during the years ended June 30, 2009 and 2008, respectively.

The University is the majority owner of an externally managed limited liability corporation, the activities of which are reflected within the University's consolidated financial statements. The corporation's assets consist primarily of real estate, the acquisition of which was financed in part with a note payable bearing interest at 5.68 percent, due in 2016. The note is not a general obligation of the University and is fully collateralized by the property acquired. Interest costs of $1,859,000 and $1,994,000 related to the note are reflected in the consolidated statements of changes in unrestricted net assets for the years ended June 30, 2009 and 2008, respectively.

St. Joseph County (Indiana) Educational Facilities Revenue Bonds

St. Joseph County (Indiana) Educational Facilities Revenue Bonds ("SJC bonds") represent general obligations of the University and are not collateralized by any facilities. Issues outstanding are summarized as follows at June 30 (in thousands):

	OUTSTANDING THROUGH	CURRENT RATE OF INTEREST[1]	2009	2008
Issues bearing variable rates:				
Series 1998	2033	0.100%	$ 43,000	$ 43,000
Series 2003	2038	0.100%	57,325	59,495
Series 2005	2040	0.200%	110,000	185,000
Series 2007	2042	0.150%	75,000	75,000
			285,325	362,495
Issues bearing fixed rates:				
Series 1996	2026	6.500%	7,890	7,890
Series 2005[2]	2040	3.875%	75,000	-
			82,890	7,890
			$ 368,215	$ 370,385

[1] *Variable rates reset weekly. Represents annual percentage rate in effect at June 30, 2009.*
[2] *Converted from variable to a fixed term rate in November 2008. Rate is fixed through February 2012.*

Unexpended proceeds of $14,833,000 from the Series 2007 bonds at June 30, 2008 were fully expended during the fiscal year ended June 30, 2009.

The University maintains standby credit facilities with commercial banks to provide alternative liquidity to support the repurchase of tendered variable rate SJC bonds in the event they are unable to be remarketed. Financing obtained through standby credit facilities to fund the repurchase of such bonds would bear interest rates and maturities different from those associated with the original bond issues. Termination dates for standby credit facilities in effect at June 30, 2009 ranged from December 8, 2010 to December 12, 2014.

The University utilizes interest rate swap agreements as a strategy for managing interest rate risk associated with variable rate SJC bond issues. The use of swap agreements is intended to decrease exposure to fluctuations in interest rates by effectively fixing the variable rates on the associated bonds. Under the terms of swap agreements in effect at June 30, 2009, the University pays fixed rates ranging from 2.01 percent to 5.01 percent and receives variable rates equal to 67 percent or 70 percent of the one-month London Interbank Offered Rate ("LIBOR") on

total notional amounts of $284,390,000. An additional swap agreement under which the University would pay a fixed rate of 2.05 percent and receive 70 percent of the three-month LIBOR on a notional amount of $75,000,000 becomes effective in March 2012, concurrent with the end of the Series 2005 fixed term rate period.

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

	2009		2008	
	INTEREST EXPENSE	NET PERIODIC SETTLEMENTS	INTEREST EXPENSE	NET PERIODIC SETTLEMENTS
Issues bearing variable rates	$ 3,608	$ 6,604	$ 7,953	$ 1,867
Issues bearing fixed rates	2,410	–	3,094	352
	$ 6,018	$ 6,604	$ 11,047	$ 2,219

The University recognized total assets and liabilities for the estimated fair value of its interest rate swap agreements within the consolidated statements of financial position as follows at June 30 (in thousands):

	2009	2008
Deferred charges and other assets	$ 25,644	$ –
Deposits and other liabilities	$ (27,315)	$ (17,651)

The fair values of these instruments were measured utilizing observable inputs that would fall within Level 2 of the hierarchy of fair value inputs.

Subsequent Events

Subsequent to June 30, 2009, the University issued Series 2009 St. Joseph County (Indiana) Educational Facilities Refunding Revenue Bonds in the amount of $146,565,000 with a maturity in 2036. The Series 2009 bonds bear interest at a fixed rate of 5.00 percent and were issued at a premium. Proceeds from the Series 2009 bonds were used to fund the full redemption of the $43,000,000 variable rate Series 1998 bonds and $110,000,000 Series 2005 bonds bearing a variable rate. In conjunction with this refunding, the University terminated five interest rate swap agreements with an aggregate notional amount of $153,000,000. The University made net settlement payments totaling $13,339,000 to its counterparties to terminate these swap agreements. Standby credit facilities associated with variable rate SJC bonds that remain outstanding are effective until December 2014.

Note 8. Pension and Other Postretirement Benefits

Defined Contribution Retirement Savings Plans

Faculty and certain administrative employees who have completed one year of service at the University are eligible to participate in the defined contribution retirement savings plan. The plan, operated under section 403(b) of the IRC, is funded by mandatory employee contributions and University matching contributions. All faculty, administrators and staff may also participate in a supplemental defined contribution retirement savings plan, under which participants may make additional contributions up to the legal annual limit. Participants are immediately vested in the plans, and may direct their contributions and the University's contributions on their behalf to Teachers Insurance and Annuity Association, Fidelity Investments or the Vanguard Group. The University's share of the cost of these benefits was $21,028,000 and $19,251,000 for the years ended June 30, 2009, and 2008, respectively.

Defined Benefit Pension Plan And Postretirement Medical Insurance Benefits

Retirement benefits are provided for University staff under a defined benefit pension plan, for which the University serves as trustee and administrator. This plan provides benefits for certain administrators and staff after one year of qualifying service. During the year ended June 30, 2009, the plan was amended such that qualifying service is based on the fiscal year rather than a calendar year. Retirement benefits are based on the employee's total years of service and final average pay as defined by the plan. Plan participants are fully vested after five years of service. The University funds the plan with annual contributions that meet minimum requirements under the Employee Retirement Income Security Act of 1974.

Other 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 hold no assets and are funded by the University as claims are paid.

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

	2009	2008
Liability for pension benefits:		
PBO at end of year	$ 127,378	$ 117,614
Less: Fair value of plan assets at end of year	(77,827)	(95,349)
	49,551	22,265
Liability for other postretirement benefits (APBO at year end)	62,027	56,765
	$ 111,578	$ 79,030

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

	PENSION BENEFITS (PBO)		OTHER POSTRETIREMENT BENEFITS (APBO)	
	2009	2008	2009	2008
Beginning of year	$ 117,614	$ 113,286	$ 56,765	$ 55,344
Service cost	4,813	4,869	3,357	3,335
Interest cost	7,521	7,010	3,492	3,218
Plan amendments	4,856	–	–	401
Actuarial gain	(2,976)	(3,312)	(817)	(4,431)
Benefit payments	(4,450)	(4,239)	(770)	(1,102)
End of year	$ 127,378	$ 117,614	$ 62,027	$ 56,765

The accumulated benefit obligation associated with pension benefits was $107,539,000 and $93,018,000 at June 30, 2009 and 2008, respectively.

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

	2009	2008
Fair value of plan assets at beginning of year	$ 95,349	$ 92,573
Actual return on plan assets	(17,546)	4,289
Employer contributions	4,474	2,726
Benefit payments	(4,450)	(4,239)
Fair value of plan assets at end of year	$ 77,827	$ 95,349

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

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2009	2008	2009	2008
Service cost	$ 4,813	$ 4,869	$ 3,357	$ 3,335
Interest cost	7,521	7,010	3,492	3,218
Expected return on plan assets	(8,129)	(7,623)	–	–
Amounts recognized previously as non-operating changes in net assets:				
Amortization of net loss	–	–	1,629	2,054
Amortization of prior service cost/(credit)	9	92	(4,889)	(4,927)
	9	92	(3,260)	(2,873)
	$ 4,214	$ 4,348	$ 3,589	$ 3,680

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

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

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2009	2008	2009	2008
Net actuarial gain/(loss)	$ (22,699)	$ (22)	$ 817	$ 4,431
Plan amendments	(4,856)	–	–	(401)
Adjustment for components of net periodic benefit cost recognized previously	9	92	(3,260)	– (2,873)
	$ (27,546)	$ 70	$ (2,443)	$ 1,157

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

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2009	2008	2009	2008
Net loss	$ 27,703	$ 5,004	$ 22,884	$ 25,330
Prior service cost/(credit)	4,863	16	(4,912)	(9,801)
	$ 32,566	$ 5,020	$ 17,972	$ 15,529

The University expects to reflect the amortization of the following as components of net periodic benefit cost during the year ending June 30, 2010 (in thousands):

	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS
Net loss	$ –	$ 1,653
Prior service cost/(credit)	$ 432	$ (2,525)

The following weighted-average assumptions were used in measuring the actuarially determined benefit obligation (PBO for pension benefits and APBO for other postretirement benefits) and net periodic benefit cost, respectively, for the years ended June 30:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2009	2008	2009	2008
Benefit obligation (measured at end of year)				
Discount rate	6.50%	6.50%	6.50%	6.50%
Rate of compensation increase	4.00%	5.00%		
Health care cost trend rate (grading to 5.00% in 2013)			8.50%	9.00%
Net periodic benefit cost (measured at beginning of year)				
Discount rate	6.50%	6.25%	6.50%	6.25%
Expected long-term rate of return on plan assets	8.50%	8.50%		
Rate of compensation increase	5.00%	5.00%		
Health care cost trend rate (grading to 5.00% in 2013)			9.00%	9.50%

A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO associated with postretirement medical benefits by approximately $1,510,000 and $11,227,000, respectively. Likewise, a one-percentage-point decrease in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO by approximately $1,188,000 and $9,118,000, respectively.

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2009 are as follows (in thousands):

	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS
2010	$ 5,075	$ 1,551
2011	$ 5,402	$ 1,734
2012	$ 5,802	$ 1,949
2013	$ 6,237	$ 2,166
2014	$ 6,666	$ 2,438

Projected aggregate payments for pension benefits and other postretirement benefits for the five year period ending June 30, 2019 are $39,788,000 and $15,324,000, respectively. The University's estimated contributions to the defined benefit pension plan for the year subsequent to June 30, 2009 are $8,100,000.

Defined Benefit Pension Plan Assets

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

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

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

	2009	2008	Target
Short-term investments	3.1%	1.6%	0.0%
Public equities:			
U.S.	11.2%	11.7%	15.0%
Non-U.S.	16.0%	15.8%	18.5%
Long/short strategies	19.6%	19.5%	16.5%
Fixed income securities	17.9%	17.0%	17.5%
Marketable alternatives	16.8%	15.8%	15.0%
Real assets	8.2%	11.9%	10.0%
Private equity	7.2%	6.7%	7.5%
	100.0%	100.0%	100.0%

Plan assets are measured at fair value. Fair value measurements of plan assets at June 30, 2009 were based on the following (in thousands):

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Short-term investments	$ –	$ 2,379	$ –	$ 2,379
Public equities:				
U.S.	–	8,718	–	8,718
Non-U.S.	3,525	7,759	1,165	12,449
Long/short strategies	–	–	15,287	15,287
Fixed income securities	13,904	–	–	13,904
Marketable alternatives	–	–	13,111	13,111
Private equity	–	–	5,572	5,572
Real assets	1,094	1,060	4,253	6,407
	$ 18,523	$ 19,916	$ 39,388	$ 77,827

Changes in plan assets for which fair value is measured based on significant unobservable inputs (Level 3) are summarized below for the year ended June 30, 2009 (in thousands):

	BEGINNING OF THE YEAR	NET ACQUISITIONS/ (DISPOSITIONS)	NET REALIZED GAIN/(LOSS)[1]	NET CHANGE IN UNREALIZED GAIN/(LOSS)[1]	END OF THE YEAR
Public equities:					
Non-U.S.	$ 1,317	$ –	$ –	$ (152)	$ 1,165
Long/short strategies	18,651	(1,500)	382	(2,246)	15,287
Marketable alternatives	15,027	649	47	(2,612)	13,111
Private equity	6,343	801	103	(1,675)	5,572
Real assets	6,757	869	118	(3,491)	4,253
	$ 48,095	$ 819	$ 650	$ (10,176)	$ 39,388

[1]*Included in the actual return on plan assets for the year ended June 30, 2009.*

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are summarized as follows at June 30 (in thousands):

	2009	2008
Expendable funds restricted for:		
Operating purposes	$ 119,322	$ 87,100
Investment in land, buildings and equipment	158,633	213,939
Split-interest agreements	13,034	16,397
Endowment funds:		
Accumulated appreciation and earnings on donor-restricted endowment	1,616,462	2,480,727
Term endowment and other funds	249,210	275,988
	1,865,672	2,756,715
	$ 2,156,661	$ 3,074,151

Temporarily restricted net assets include contributions receivable of $76,816,000 and $69,798,000 at June 30, 2009 and 2008, respectively.

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

	2009	2008
Purpose restrictions satisfied:		
Scholarships and fellowships awarded	$ 55,086	$ 46,847
Expenditures for operating purposes	82,942	70,630
	$ 138,028	$ 117,477

Non-operating net assets released from restrictions reflect expenditures for land, buildings and equipment of $65,279,000 and $6,461,000 for the years ended June 30, 2009 and 2008, respectively.

Note 10. Permanently Restricted Net Assets

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

	2009	2008
Endowment funds	$ 1,200,504	$ 1,144,076
Student loan funds	6,342	7,439
Split-interest agreements	10,447	12,060
Beneficial interests in perpetual trusts	3,923	4,774
	$ 1,221,216	$ 1,168,349

Permanently restricted endowment funds include $117,771,000 and $118,056,000 in contributions receivable at June 30, 2009 and 2008, respectively.

Note 11. Endowment

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

On August 8, 2008, the FASB issued Staff Position FAS 117-1 (the "FSP"), which provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") drafted by the National Conference of Commissioners on Uniform State Laws. Under the terms of the FSP, which is effective for fiscal years ending after December 15, 2008, the portion of donor-restricted endowment funds not classified as permanently restricted must be classified as temporarily restricted until appropriated for expenditure.

Furthermore, since the provisions of the FSP must be applied to funds in existence when the enacted version of UPMIFA becomes effective, the new guidance requires that net assets released from restrictions in prior periods be reclassified from unrestricted funds functioning as endowment to temporarily restricted endowment funds. The State of Indiana enacted a version of UPMIFA effective July 1, 2007. Thus, the University has reclassified such unrestricted funds functioning as endowment to temporarily restricted endowment funds as of this date, as summarized below (in thousands):

Scholarships and fellowships	$	401,022
Faculty chairs		157,650
Academic programs		3,702
General operations		35,054
Other		152,377
	$	749,805

The effect of adopting the provisions of the FSP at July 1, 2007 is reflected in the consolidated financial statements for the year ended June 30, 2008. In addition, certain amounts previously reported as changes in unrestricted net assets for the year ended June 30, 2008 have been reflected as changes in temporarily restricted net assets in the consolidated financial statements and the notes thereto, as a result of adopting the FSP.

Endowment and funds functioning as endowment at June 30, 2009 are summarized below (in thousands):

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Funds established to support:				
Scholarships and fellowships	$ 298,389	$ 665,830	$ 448,779	$ 1,412,998
Faculty chairs	79,428	546,376	211,664	837,468
Academic programs	122,200	250,813	187,435	560,448
General operations	780,011	26,603	1,832	808,446
Other	574,538	368,381	233,023	1,175,942
	1,854,566	1,858,003	1,082,733	4,795,302
Contributions receivable	–	7,669	117,771	125,440
	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted funds	$ (23,697)	$ 1,858,003	$ 1,082,733	$ 2,917,039
University-designated funds	1,878,263	–	–	1,878,263
	1,854,566	1,858,003	1,082,733	4,795,302
Contributions receivable	–	7,669	117,771	125,440
	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742

Endowment and funds functioning as endowment at June 30, 2008 are summarized below (in thousands):

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Funds established to support:				
Scholarships and fellowships	$ 404,493	$ 1,011,709	$ 423,177	$ 1,839,379
Faculty chairs	109,965	778,726	200,837	1,089,528
Academic programs	154,995	382,995	180,525	718,515
General operations	1,037,151	35,891	1,832	1,074,874
Other	744,460	539,283	219,649	1,503,392
	2,451,064	2,748,604	1,026,020	6,225,688
Contributions receivable	–	8,111	118,056	126,167
	$ 2,451,064	$ 2,756,715	$ 1,144,076	$ 6,351,855

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted funds	$ (619)	$ 2,748,604	$ 1,026,020	$ 3,774,005
University-designated funds	2,451,683	–	–	2,451,683
	2,451,064	2,748,604	1,026,020	6,225,688
Contributions receivable	–	8,111	118,056	126,167
	$ 2,451,064	$ 2,756,715	$ 1,144,076	$ 6,351,855

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by donor stipulations when the timing of contributions coincides with unfavorable market fluctuations. Unrealized depreciation of this nature amounted to $23,697,000 and $619,000 at June 30, 2009 and 2008, respectively, as reflected in the preceding tables.

Endowment and funds functioning as endowment are invested primarily in the NDEP. Certain funds are invested in other instruments in accordance with donor requirements and other considerations.

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2009 (in thousands):

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Beginning of the year	$ 2,451,064	$ 2,756,715	$ 1,144,076	$ 6,351,855
Contributions	113	16,387	53,311	69,811
Investment return:				
Investment income	8,448	11,842	413	20,703
Net gain/(loss) on investments	(537,011)	(782,688)	20	(1,319,679)
Accumulated return distributed	(74,473)	(132,841)	-	(207,314)
Other changes, net	6,425	(3,743)	2,684	5,366
	$ 1,854,566	$ 1,865,672	$ 1,200,504	$ 4,920,742

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2008 (in thousands):

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Beginning of the year	$ 3,032,314	$ 2,019,569	$ 1,014,427	$ 6,066,310
Effect of adopting FASB Staff Position FAS 117-1	(749,805)	749,805	–	–
	2,282,509	2,769,374	1,014,427	6,066,310
Contributions	8,185	21,781	133,506	163,472
Investment return:				
Investment income	14,746	22,783	967	38,496
Net gain/(loss) on investments	124,990	174,104	(176)	298,918
Accumulated return distributed	(57,581)	(107,525)	–	(165,106)
Other changes, net	78,215	(123,802)	(4,648)	(50,235)
	$ 2,451,064	$ 2,756,715	$ 1,144,076	$ 6,351,855

During the year ended June 30, 2008, the University designated more than $70,000,000 in unrestricted net assets as funds functioning as endowment for a variety of purposes. In addition, net assets approximating $134,000,000 were transferred from temporarily restricted term endowment funds to expendable funds restricted for investment in buildings and equipment.

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

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

	UNRESTRICTED	TEMPORARILY RESTRICTED	2009 TOTAL	2008 TOTAL
Scholarships and fellowships	$ 15,541	$ 55,531	$ 71,072	$ 56,555
Faculty chairs	4,279	36,848	41,127	32,588
Academic programs	613	21,103	21,716	17,031
Libraries	285	6,334	6,619	5,446
Other endowed programs	12,986	11,563	24,549	19,753
General operations	40,769	1,462	42,231	33,733
	$ 74,473	$ 132,841	$ 207,314	$ 165,106

Note 12. Split-Interest Agreements

The University's split-interest agreements consist principally of charitable gift annuities and irrevocable charitable remainder trusts for which the University serves as trustee. The fair value of assets held in charitable trusts was $71,235,000 and $86,071,000 at June 30, 2009 and 2008, respectively. Assets contributed pursuant to the University's charitable gift annuity program are not held in trust, and based on the nature of the agreements are designated as funds functioning as endowment. The aggregate fair value of these assets was $9,059,000 and $11,165,000 at June 30, 2009 and 2008, respectively.

Obligations under split-interest agreements are summarized below based on restrictions imposed by donors in the respective agreements. The amounts represent the present value of estimated future payments to beneficiaries at June 30 (in thousands):

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2009 TOTAL	2008 TOTAL
Charitable trusts	$ –	$ 22,809	$ 22,884	$ 45,693	$ 55,132
Charitable gift annuities	1,857	620	1,441	3,918	4,154
	$ 1,857	$ 23,429	$ 24,325	$ 49,611	$ 59,286

Note 13. Grants and Contracts

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

	DIRECT	INDIRECT	2009 TOTAL	2008 TOTAL
Provided for:				
Research	$ 56,560	$ 14,568	$ 71,128	$ 70,305
Other sponsored programs	6,010	92	6,102	6,376
	$ 62,570	$ 14,660	$ 77,230	$ 76,681

	DIRECT	INDIRECT	2009 TOTAL	2008 TOTAL
Provided by:				
Federal agencies	$ 48,512	$ 13,636	$ 62,148	$ 61,783
State agencies	315	15	330	956
Private organizations	13,743	1,009	14,752	13,942
	$ 62,570	$ 14,660	$ 77,230	$ 76,681

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

The University also administers certain federally sponsored student aid programs for which it recognizes neither revenues nor expenses. Receipts and disbursements for such programs totaled $8,901,000 and $8,263,000 for the years ended June 30, 2009 and 2008, respectively.

Note 14. 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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**As of June 30, 2009*

University Administration*

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