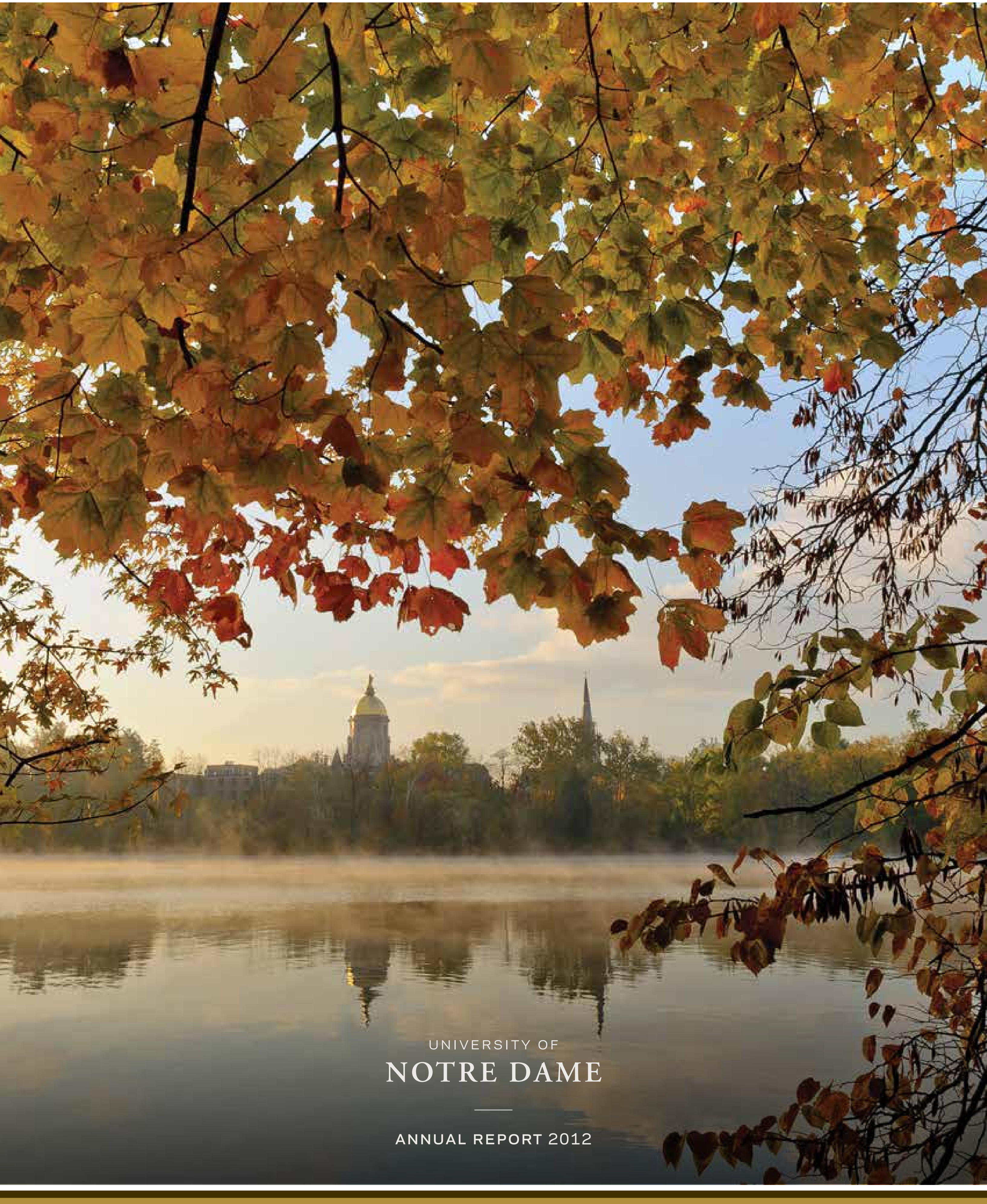


UNIVERSITY OF

NOTRE DAME

ANNUAL REPORT 2012

Statistical Highlights

ACADEMIC YEARS ENDING IN MAY

	2012	2011	2010	2009	2008
STUDENTS					
Undergraduate	**8,452**	8,437	8,372	8,363	8,371
Graduate and professional	**3,552**	3,548	3,444	3,368	3,362
Total fall enrollment	**12,004**	11,985	11,816	11,731	11,733
UNDERGRADUATE ADMISSIONS					
Applications	**16,548**	14,521	14,357	13,945	14,508
Offers of admission	**4,019**	4,177	4,113	3,727	3,548
Enrolled	**2,020**	2,067	2,064	2,000	1,999
Selectivity ratio	**24.3%**	28.8%	28.6%	26.7%	24.5%
Matriculation ratio	**50.3%**	49.5%	50.2%	53.7%	56.3%
DEGREES CONFERRED					
Baccalaureate	**2,078**	2,078	2,126	2,102	2,087
Master's	**891**	951	910	871	901
Doctorate–Professional Practice	**197**	189	172	209	196
Doctorate–Research	**210**	159	160	165	185
Total degrees conferred	**3,376**	3,377	3,368	3,347	3,369
Undergraduate Tuition Rate	**$40,910**	$39,412	$37,970	$36,340	$34,680
Percent increase over prior year	**3.8%**	3.8%	4.5%	4.8%	5.4%

"AS WE DEDICATE OURSELVES TO WRITING
the next chapter in the Notre Dame story,
WE ARE ABSOLUTELY COMMITTED TO THE FORMULATION OF
a sound, substantive, and
comprehensive plan."

—REV. JOHN I. JENKINS, C.S.C.
President

From the President

Strong and true. The familiar phrase from "Notre Dame, Our Mother" was selected prior to the start of the 125th year of Fighting Irish football to recognize the steadfast loyalty of the team's fans and to honor the accomplishments, on and off the field, of our student-athletes. That same phrase could very well be used to describe the information contained within this annual report, as well as the people whose contributions and commitment to our vision to build a bigger and better Notre Dame transcend mere data.

This past year, Chief Investment Officer Scott Malpass was elected to the boards of both The Investment Fund for Foundations and The Vanguard Group. Additionally, the National Association of College and University Business Officers honored him with their Rodney H. Adams Endowment Management Award. Notre Dame's continued financial strength, especially in these extremely challenging economic times, is a testament to Scott's work, as well as to that of Executive Vice President John Affleck-Graves and their respective teams. Still, while our financial resources are a blessing, they are not unlimited. They impose great demands on everyone from top to bottom to continue to act as conscientious stewards, as well as in ways that are consistent with our values of integrity, leadership, teamwork, and accountability, and contribute to our vision of serving the common good as a preeminent Catholic research university.

Currently, the University is in the process of formulating a long-term strategic plan that will position Notre Dame for generations to come. Historically, planning such as this was conducted every ten years; from this point forward, it will be a continuous activity, rather than an episodic event. Our continual attention to and regular updating of our strategic plan will help make Notre Dame more nimble in responding to external changes, more sensitive to possible challenges, and more able to seize opportunities. We will continue to meet in the coming year with our major academic and administrative departments, heads of the major institutes, the Academic Council, and the Faculty Senate to fine-tune a strategy that will help us to meet five major goals:

- Ensure that our Catholic character informs all our endeavors
- Offer an unsurpassed undergraduate education that nurtures the formation of mind, body, and spirit
- Advance human understanding through scholarship, research, and post-baccalaureate programs that seek to heal, unify, and enlighten

- Foster the University's mission through superb stewardship of its human, physical, and financial resources

- Engage in external collaborations that extend and deepen Notre Dame's impact

Rev. Theodore M. Hesburgh, C.S.C., once asked, "How much more splendidly can we be a splendid place?" In undertaking this University-wide strategic planning process, we're asking ourselves that same question, along with countless others. The fact is we cannot achieve our ambitions without the funds to support our work to seek, study, and serve, so we must ensure that our plan is informed by financial realities. It's both an exciting and challenging task. As we dedicate ourselves to writing the next chapter in the Notre Dame story, we are absolutely committed to the formulation of a sound, substantive, and comprehensive plan that ensures we grow and evolve to keep pace with a changing world, and reflects the values that have made and make the University of Notre Dame strong and true.

REV. JOHN I. JENKINS, C.S.C.
President

"OUR CONFIDENCE OF MISSION
AND OUR TRADITION OF CONSERVATIVE FISCAL MANAGEMENT
have positioned us to meet the demands
of our students today and the demands
of their children tomorrow."

—JOHN F. AFFLECK-GRAVES
Executive Vice President

Financial Overview

The University of Notre Dame is blessed with many fine campus traditions. One tradition that goes mostly unnoticed—and rightfully so—is the University's practice of conservative fiscal management.

Although the current economy continues to present unique challenges, our tradition of fiscal prudence guides the University through difficult times such as these; allowing cherished campus traditions to flourish as they're passed from one class to another; providing the best possible teaching and learning environment for faculty and students; positioning us to make significant progress against the University's major goals as highlighted by Fr. Jenkins in his letter at the beginning of this report; and, preserving assets for future generations.

In 2012 Notre Dame saw total unrestricted giving increase to $37.8 million, a Compound Annual Growth Rate of 6.02 percent since 2002. This revenue has positively impacted important priorities such as study abroad opportunities, undergraduate research, residential life, service projects, intramural sports, and spiritual formation.

The Office of Undergraduate Enrollment saw fall 2012 applications increase 2.5 percent to 16,957, a record number for the University. The median SAT of 1440 for the first year class is one of the highest in Notre Dame's history. In fact, 88 percent graduated high school in the top 10 percent of their class, with 48 percent in the top 2 percent of their class. And, at 31.6 percent, the class is also more culturally diverse than any incoming class in the University's history. This improvement in both the academic quality and diversity of our students is due in large part to a more personalized admissions process, stronger visitation programs, and increases in financial aid services. In 1999, we began to meet the full demonstrated need of undergraduate students, and in 2012, we awarded $106 million in need-based financial aid. These students not only enhance the traditions we enjoy today, but will establish new traditions the Notre Dame family will celebrate in the years to come.

Research at the University also proved record-breaking in 2012. Externally sponsored research expenditures exceeded $100 million for the first time in a fiscal year, adding to Notre Dame's already rich tradition of research excellence, while moving the University closer to our ultimate goal of serving the common good as a preeminent Catholic research university.

A core element of our fiscally conservative approach is our unwavering commitment to risk management. As such, the University has a cross-functional committee of senior leaders who meet regularly year-round to identify potential risks, develop action plans to mitigate risk, and track progress against those plans.

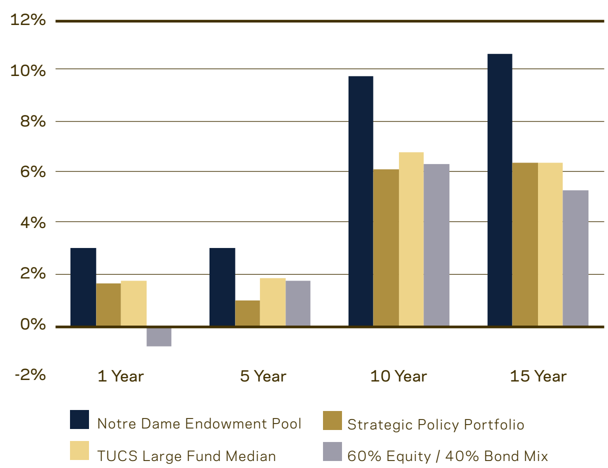
Coming off the highly successful Spirit campaign that raised over $2 billion, Notre Dame is building unprecedented momentum. While the world's economy continues to require careful monitoring, our confidence of mission and our tradition of conservative fiscal management have positioned us to meet the demands of our students today and the demands of their children tomorrow, while maximizing the role Notre Dame can play as a source for good within higher education, the community, our country, and the world.

JOHN F. AFFLECK-GRAVES
Executive Vice President

Investment Review

The Notre Dame Endowment Pool performed well during a fiscal year characterized by market uncertainty, volatility, and a wide divergence of returns among asset classes, highlighting the benefits of diversification and manager selection. The 3.1 percent net return added significant value to the Endowment Pool relative to benchmark returns, with particularly strong performance coming from domestic private equity and fixed income. In a very difficult year for international equities, the Endowment's emerging markets managers declined by only one percent while the benchmark index was down more than 16 percent.

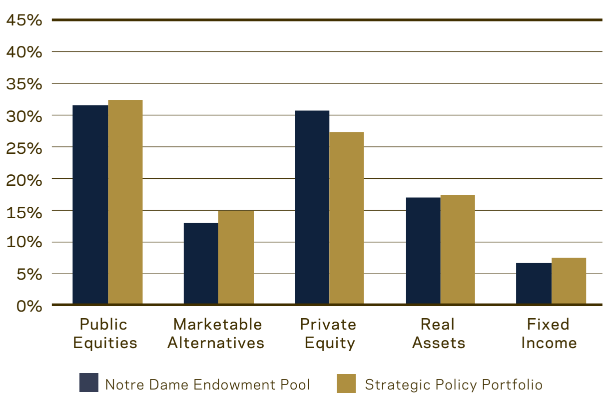
Endowment Pool Investment Performance
(ANNUALIZED RETURNS NET OF FEES)
PERIODS ENDED JUNE 30, 2012



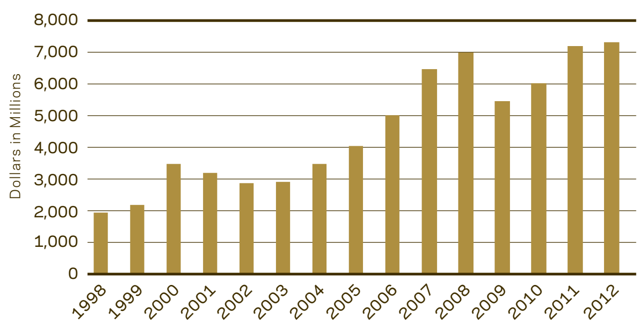
The Strategic Policy Portfolio is Notre Dame's internal benchmark consisting of indices representative of the target investment portfolio. The Trust Universe Comparison Service (TUCS) Large Fund Median is a compilation of returns of endowment, pension and foundation investors greater than $1 billion and thus provides a basis for comparison to the performance of large institutional investors generally. The 60/40 mix is an index blend of stocks/bonds as represented by the MSCI All Country World Investable Index and the Barclays Capital U.S. Aggregate Bond Index.

Asset allocation compared to the Strategic Policy Portfolio at the end of the fiscal year, and growth of the Endowment Pool over the last 15 fiscal years, are reflected in the following charts:

Endowment Pool Asset Allocation
AS OF JUNE 30, 2012



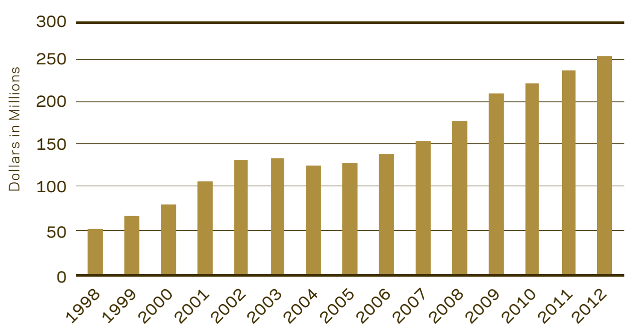
Endowment Pool Market Value
AS OF JUNE 30



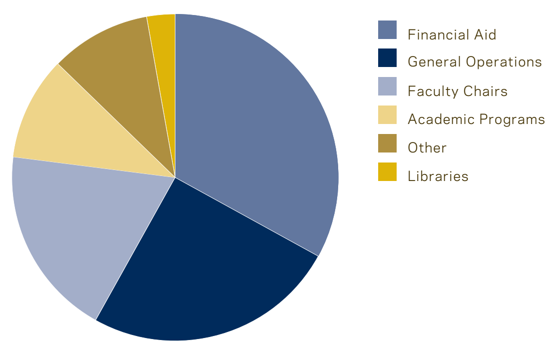
Of course we invest with an unlimited time horizon, and given the importance of steady spending from the Endowment Pool in meeting the needs of the University over time, focus more on performance over the long term than in any one year. As shown earlier, annualized Endowment Pool returns over the last 10- and 15-year periods outperformed the markets considerably, and the University's measured spending policies have allowed distributions from the Endowment Pool to continue to increase despite the overall economic difficulties of recent years.

Endowment Pool spending exceeded $258 million for the fiscal year, an increase of 7.4 percent over the prior year, equating to 22 percent of the University's expenditures.

ENDOWMENT POOL SPENDING
FISCAL YEARS ENDED JUNE 30



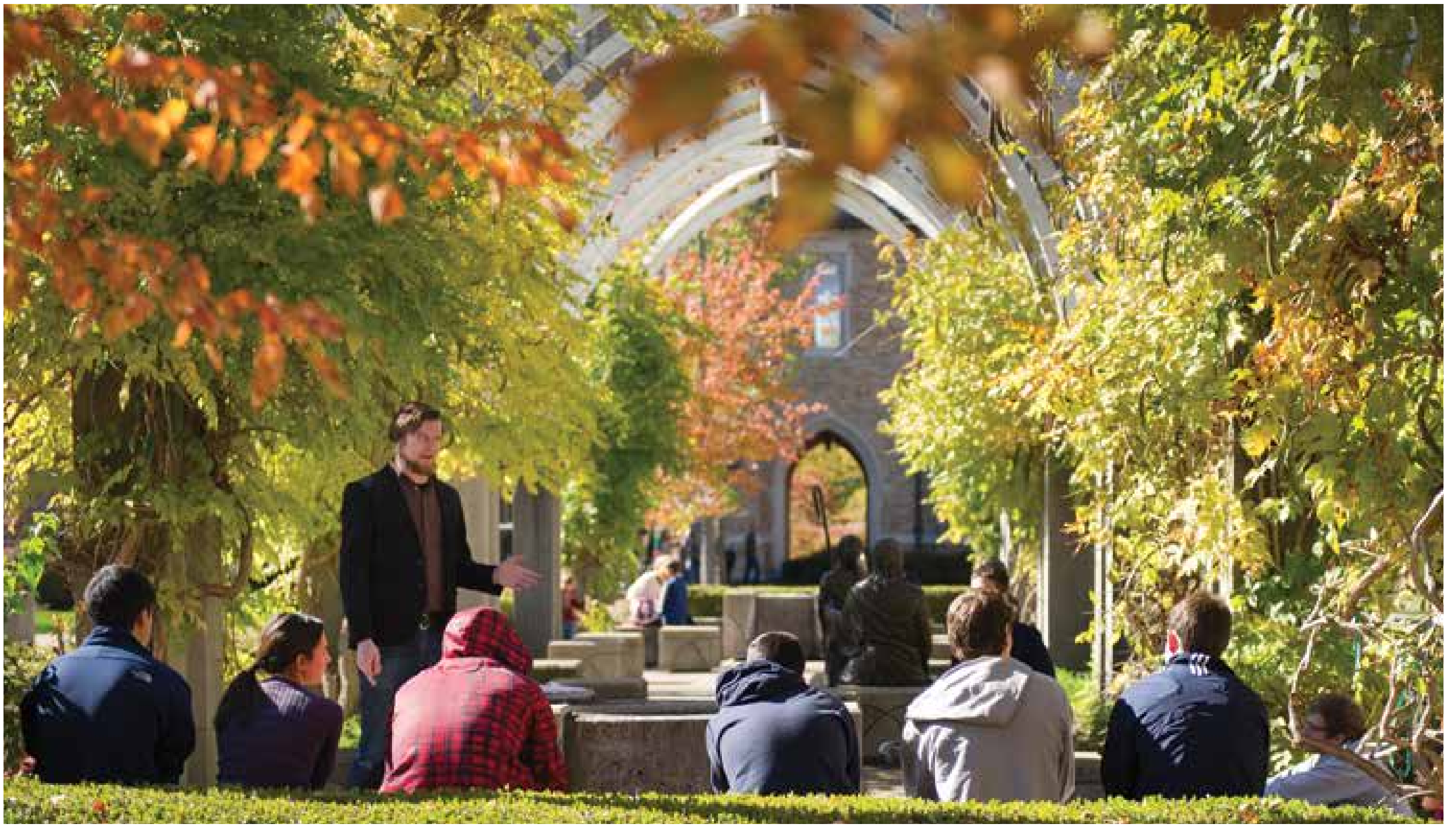
ENDOWMENT POOL SPENDING PURPOSES
FISCAL YEAR ENDED JUNE 30, 2012



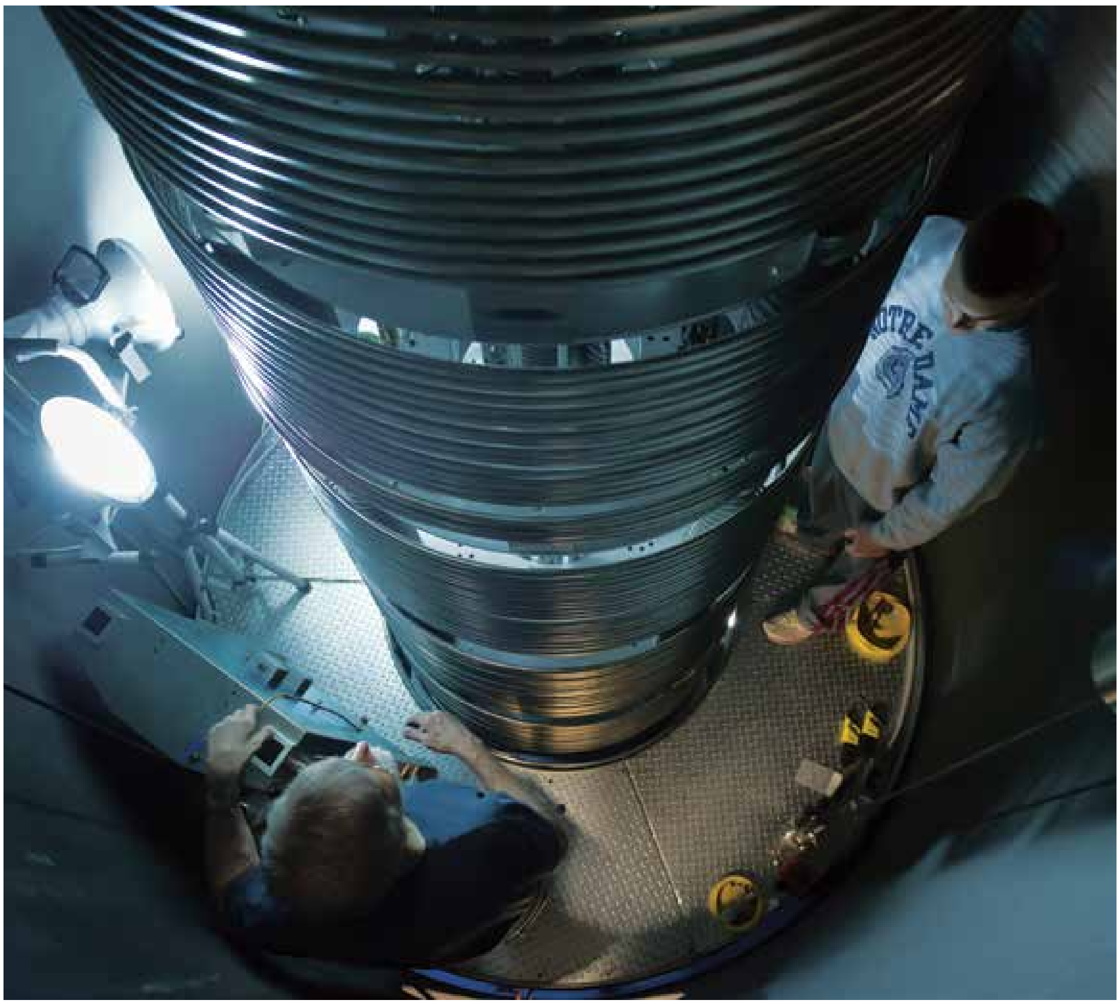
An unwavering commitment to risk management as a core element of investment strategy will help to preserve the vital contribution of Endowment spending to University life. Thoughtful diversification and careful manager selection, as noted above, have been hallmarks of our process. Careful attention also is paid to liquidity of the investment pool, and metrics like country and currency weightings, manager concentrations, counterparty exposures, and scenario analysis all inform the decision-making process in actively managing the portfolio. Extensive efforts similarly are devoted to minimizing operational risks within investment funds, including due diligence over fund manager operations, valuations, internal controls, and compliance infrastructure.

Even as uncertainties remain in the economy and the global capital markets, the Endowment Pool is well positioned to continue its support of the University's aspirations and strategic priorities.

SCOTT C. MALPASS
Vice President and Chief Investment Officer



University Highlights



Notre Dame began installation of a new nuclear accelerator in the Nieuwland Hall of Science's Nuclear Science Laboratory. It is the first accelerator the National Science Foundation has funded in nuclear physics in nearly a quarter century.

The Congregation of Holy Cross, the international Catholic religious order whose members founded the University of Notre Dame, celebrated its 175th birthday.

Notre Dame and South Bend's St. Joseph County Parks launched a new partnership to build the Notre Dame Linked Experimental Ecosystem Facility (ND LEEF), a cutting-edge environmental research and education facility at St. Patrick's County Park.

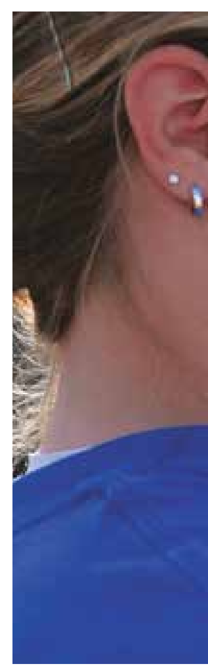
The 2011–12 Notre Dame Forum, "Reimagining School: To Nurture the Soul of a Nation," presented a number of events featuring leading figures in American education, including former Florida Governor Jeb Bush, New Jersey Governor Chris Christie, and professors from Notre Dame, Cornell, William & Mary, St. John's, Yale, and New York University.

Margot Fassler, Keough-Hesburgh Professor of Music History and Liturgy and co-director of the Master of Sacred Music program, won the Art and Christianity Enquire (ACE)/ Mercers' International Book Award for *The Virgin of Chartes: Making History Through Liturgy and the Arts.*

College of Engineering undergraduates worked with 340 fifth-grade students from the South Bend Community School Corporation as part of a technological discovery day, "I2D2—Imagination, Innovation, Discovery and Design at Notre Dame."

Notre Dame broke ground on a new wellness center that offers employees convenient, quality health care through an on-site medical clinic and pharmacy.

Notre Dame received a STARS Silver Rating from the Association for the Advancement of Sustainability in Higher Education (AASHE). STARS, the Sustainability Tracking, Assessment and Rating System, is a new program that measures and encourages sustainability in all aspects of higher education.

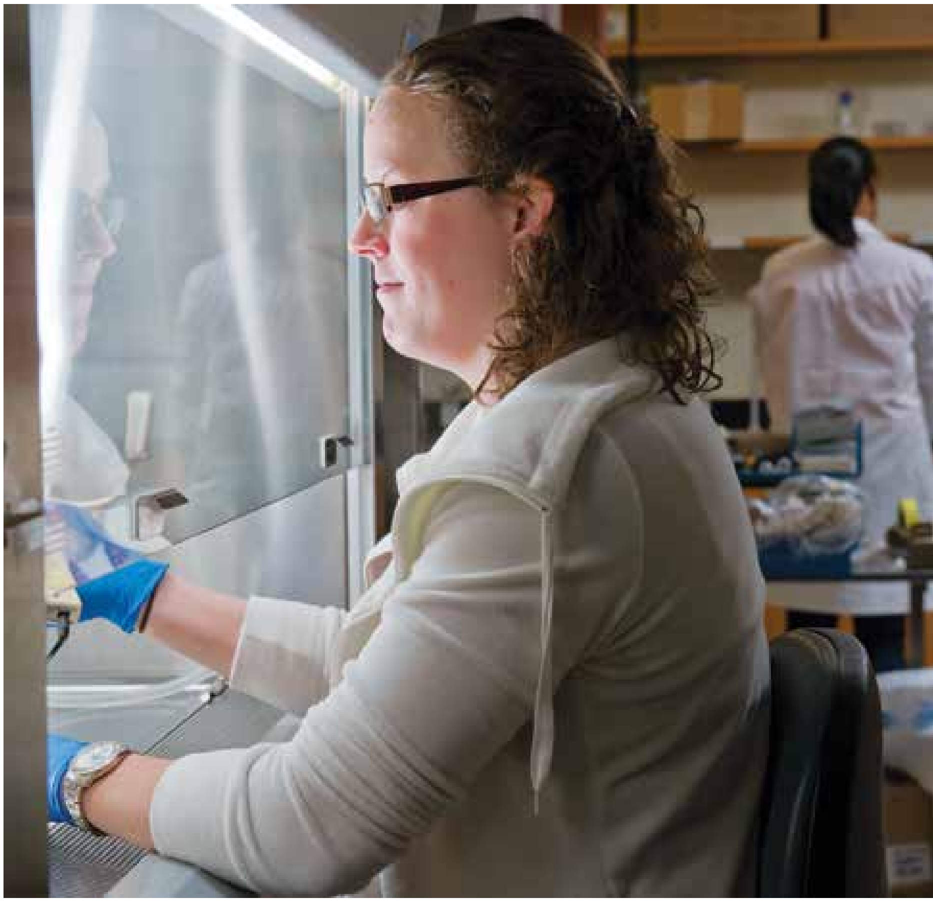


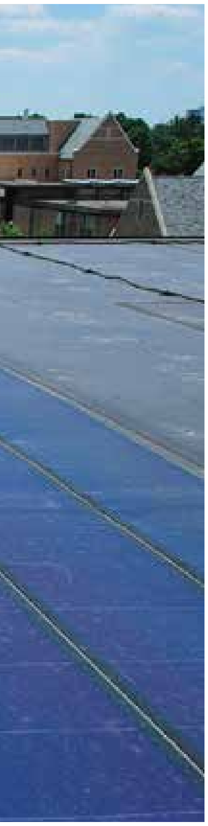
USAID Deputy Administrator Donald Steinberg and Illinois Senator Dick Durbin, along with international experts and Notre Dame faculty, gathered in the nation's capital for Notre Dame's Forum on Global Development. They discussed investing in development, building infrastructure, and enhancing human dignity in fragile communities worldwide.

For the twelfth year in a row, Notre Dame placed on the Peace Corps' list of top universities nationwide producing Peace Corps volunteers, moving to the No. 10 spot among medium-sized universities.

A solar rooftop array—the third "rooftop renewable" on campus—was installed on Fitzpatrick Hall, helping to meet the hall's electricity demand by supplying an estimated 12,000 kilowatt-hours of electricity annually.

John C. Cavadini, McGrath-Cavadini Director of Notre Dame's Institute for Church Life (ICL) spoke in Washington at a symposium of young Catholic theologians about teaching the faith. Sponsored by the United States Conference of Catholic Bishops (USCCB), "Intellectual Tasks of the New Evangelization" was intended to deepen and strengthen the organizational relationship with a new generation of America's Catholic teachers.





Rev. John I. Jenkins, C.S.C., President of the University of Notre Dame, was elected to the board of directors of the Commission on Presidential Debates (CPD), the non-partisan, nonprofit organization that has sponsored and produced all U.S. presidential and vice presidential debates since 1988.

At halftime of the Notre Dame vs. Air Force game, the Notre Dame Band was presented with the Sudler Trophy. Considered the Heisman trophy of college bands, the John Philip Sousa Foundation presents the award to "collegiate marching bands of particular excellence that have made outstanding contributions to the American way of life."

Results of a study by Notre Dame researchers from the Freimann Life Sciences Center and the Departments of Chemistry and Biochemistry and Biological Sciences represent a promising step on the road to developing new drugs for a variety of cancers and neurological diseases.

Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

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") and its subsidiaries at June 30, 2012 and 2011, and the changes in their net assets and their 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.

PricewaterhouseCoopers LLP

Chicago, Illinois
November 16, 2012

Consolidated Statements of Financial Position
(in thousands)

		AS OF JUNE 30		
		2012		2011
ASSETS				
Cash and cash equivalents	$	88,557	$	90,006
Accounts receivable, net *(Note 2)*		24,895		26,851
Deferred charges and other assets *(Note 3)*		42,245		59,804
Contributions receivable, net *(Note 4)*		191,725		214,760
Notes receivable, net *(Note 5)*		60,087		86,275
Investments *(Note 6)*		7,632,623		7,456,204
Land, buildings and equipment, net of accumulated depreciation *(Note 7)*		1,290,423		1,204,412
Total assets	$	9,330,555	$	9,138,312
LIABILITIES				
Accounts payable *(Note 7)*	$	29,599	$	26,455
Short-term borrowing *(Note 8)*		115,051		100,060
Deferred revenue and refundable advances *(Note 9)*		75,213		78,790
Deposits and other liabilities *(Note 10)*		108,859		99,777
Liabilities associated with investments *(Note 6)*		393,718		316,507
Obligations under split-interest agreements *(Note 17)*		76,732		71,778
Bonds and notes payable *(Note 11)*		825,173		728,464
Conditional asset retirement obligations *(Note 7)*		22,481		22,118
Pension and other postretirement benefit obligations *(Note 13)*		123,122		81,878
Government advances for student loans *(Note 5)*		29,186		29,582
Total liabilities		1,799,134		1,555,409
NET ASSETS				
Unrestricted:				
Funds functioning as endowment *(Note 16)*		2,499,911		2,426,132
Invested in land, buildings and equipment		844,643		754,792
Other unrestricted net assets/(deficit)		(16,308)		180,944
Total unrestricted		3,328,246		3,361,868
Temporarily restricted *(Note 14)*		2,756,155		2,834,319
Permanently restricted *(Note 15)*		1,447,020		1,386,716
Total net assets		7,531,421		7,582,903
Total liabilities and net assets	$	9,330,555	$	9,138,312

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Unrestricted Net Assets
(in thousands)

	YEARS ENDED JUNE 30 2012	2011
OPERATING REVENUES AND OTHER ADDITIONS		
Tuition and fees	$ 479,721	$ 439,074
Less: Tuition scholarships and fellowships	(210,020)	(174,078)
Net tuition and fees	269,701	264,996
Grants and contracts *(Note 18)*	110,738	103,731
Contributions	34,642	29,725
Accumulated investment return distributed *(Note 6)*	94,232	87,895
Sales and services of auxiliary enterprises	200,562	195,223
Other sources	39,245	36,408
Total operating revenues	749,120	717,978
Net assets released from restrictions *(Note 14)*	186,470	166,109
Total operating revenues and other additions	935,590	884,087
OPERATING EXPENSES		
Instruction	332,299	318,919
Research	115,840	104,707
Public service	32,229	19,299
Academic support	57,619	55,404
Student activities and services	38,151	36,841
General administration and support	185,021	181,757
Auxiliary enterprises	181,832	168,714
Total operating expenses	942,991	885,641
Decrease in unrestricted net assets from operations	(7,401)	(1,554)
NON-OPERATING CHANGES IN UNRESTRICTED NET ASSETS		
Contributions	3,158	4,906
Investment income *(Note 6)*	33,594	36,911
Net gain on investments *(Note 6)*	63,481	543,749
Accumulated investment return distributed *(Note 6)*	(94,232)	(87,895)
Net gain/(loss) on debt-related derivative instruments *(Note 12)*	(34,406)	2,046
Net assets released from restrictions *(Note 14)*	41,619	42,314
Net pension and postretirement benefits-related changes other than net periodic benefits costs *(Note 13)*	(47,936)	62,128
Other non-operating changes	8,501	1,704
Increase/(decrease) in unrestricted net assets from non-operating activities	(26,221)	605,863
Increase/(decrease) in unrestricted net assets	$ (33,622)	$ 604,309

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets
(in thousands)

	YEARS ENDED JUNE 30 2012	2011
UNRESTRICTED NET ASSETS		
Operating revenues and other additions	$ 935,590	$ 884,087
Operating expenses	(942,991)	(885,641)
Decrease in unrestricted net assets from operations	(7,401)	(1,554)
Increase/(decrease) in unrestricted net assets from non-operating activities	(26,221)	605,863
Increase/(decrease) in unrestricted net assets	(33,622)	604,309
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	48,818	86,765
Investment income *(Note 6)*	37,976	42,621
Net gain on investments *(Note 6)*	64,888	633,415
Change in value of split-interest agreements *(Note 17)*	(440)	3,938
Net assets released from restrictions *(Note 14)*	(228,089)	(208,423)
Other changes in temporarily restricted net assets	(1,317)	9,309
Increase/(decrease) in temporarily restricted net assets	(78,164)	567,625
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	62,695	93,455
Investment income *(Note 6)*	1,670	2,045
Net gain/(loss) on investments *(Note 6)*	(670)	238
Change in value of split-interest agreements *(Note 17)*	(388)	2,901
Other changes in permanently restricted net assets	(3,003)	(5,940)
Increase in permanently restricted net assets	60,304	92,699
Increase/(decrease) in net assets	(51,482)	1,264,633
Net assets at beginning of year	7,582,903	6,318,270
Net assets at end of year	$ 7,531,421	$ 7,582,903

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(in thousands)

	Years Ended June 30 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase/(decrease) in net assets	$ (51,482)	$ 1,264,633
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net gain on investments	(127,699)	(1,177,402)
Investment income restricted for reinvestment	(1,670)	(2,045)
Contributions for investments and physical facilities	(69,702)	(82,644)
Contributed securities	(39,676)	(40,904)
Depreciation	52,706	49,934
Loss on disposal of land, buildings and equipment	5,150	1,080
Change in obligations under split-interest agreements	4,954	13,750
Change in conditional asset retirement obligations	363	(125)
Change in pension and other postretirement benefit obligations	41,244	(67,153)
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	19,515	(11,141)
Contributions receivable	23,035	(33,155)
Accounts payable, deferred revenue and refundable advances, and deposits and other liabilities	8,649	(877)
Other, net	(2,461)	(12,578)
Net cash used by operating activities	(137,074)	(98,627)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,762,970	1,805,582
Purchases of investments	(1,750,479)	(1,785,328)
Purchases of land, buildings and equipment	(140,847)	(102,715)
Student and other loans granted	(18,235)	(44,958)
Student and other loans repaid	43,975	3,662
Net cash used by investing activities	(102,616)	(123,757)
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment income restricted for reinvestment	1,670	2,045
Contributions for investments and physical facilities	69,702	82,644
Proceeds from short-term borrowing	714,490	818,634
Repayment of short-term borrowing	(699,499)	(858,668)
Proceeds from bonds and notes issued	100,000	159,772
Repayment of bonds and notes	(3,135)	(3,787)
Government advances for student loans	44	465
Net cash accepted for investment on behalf of religious affiliates	54,969	3,922
Net cash provided by financing activities	238,241	205,027
Net change in cash and cash equivalents	(1,449)	(17,357)
Cash and cash equivalents at beginning of year	90,006	107,363
Cash and cash equivalents at end of year	$ 88,557	$ 90,006
SUPPLEMENTAL DATA		
Interest paid	$ 27,470	$ 22,761

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, 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.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions requiring they be maintained permanently. 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.

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 designated for operations, accumulated investment return distributed under the University's spending policy and revenues from auxiliary enterprises and other sources, such as licensing and conferences. 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 debt-related derivative instruments, and certain net pension and postretirement benefits-related changes in net assets. Other non-operating changes in unrestricted net assets includes the net activities of the consolidated limited liability company described in *Note 6* and *Note 11*, the effect of changes in donor intent with respect to endowment and other funds, and other activities considered unusual or non-recurring in nature. Non-operating net assets released from restrictions generally reflect the expenditure of net assets restricted to investment in land, buildings and equipment.

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 and dining halls, intercollegiate athletics, college stores and other campus retail operations. 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.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at face value and typically have contractual maturities of less than one year.

CONTRIBUTIONS RECEIVABLE

Pledges that represent 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 and subsequent periods 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.

NOTES RECEIVABLE

Notes receivable, which are recorded at face value, principally represent amounts due from students under Perkins and other U.S. government sponsored loan programs. A general allowance is made for uncollectible student loans after considering both long-term collection experience and current trends, such as recent default rates of cohorts entering repayment status. Other notes receivable are evaluated individually for impairment, with allowances recorded based on management's expectations given facts and circumstances related to each note.

INVESTMENTS

Investments are stated at estimated fair value. 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 generally measured based on reported partner's capital or net asset value ("NAV") provided by the associated external investment managers. The reported partner's capital or NAV is 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.

As described in *Note 12*, 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 over-the-counter contracts for which market quotations are not readily available is based upon third party 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 currency exchange contracts is estimated using quotes obtained from foreign exchange dealers. Where management believes a legal right of offset exists under an enforceable netting agreement, the fair value of these contracts is reported on a net-by-counterparty basis. Gains or losses resulting from changes in the fair value of derivative instruments associated with the investment portfolio or periodic net cash settlements with counterparties are recorded as gains or losses 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 invests assets on behalf of 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.

DEBT-RELATED DERIVATIVE INSTRUMENTS

The University utilizes derivative instruments in a limited manner outside of its investment portfolio. As described in *Notes 11* and *12*, interest rate swap agreements are used to manage interest rate risk associated with variable rate bond obligations. These instruments 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, including settlements related to the termination of such instruments, are recognized 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.

FAIR VALUE MEASUREMENTS

Fair value measurements reflected in the consolidated financial statements conceptually represent 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. Generally accepted accounting principles provide 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.

Fair value measurements of investment assets for which the measurement was based on NAV (or its equivalent) as provided by an external manager are categorized within Level 2 to the extent such investments were redeemable with the manager at the NAV (or its equivalent) at the reporting date or within the near term (defined by the University as within approximately 90 days of the reporting date). Measurements of any such investments that were not redeemable at the reporting date or within the near term, whether by nature of the investment or as a result of unexpired terms or conditions restricting redemption at the reporting date, are categorized within Level 3.

In the event that changes in the inputs used in the fair value measurement of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

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 16, 2012, the date the financial statements were 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 amounts within fiscal 2011 operating expenses were reclassified to conform to 2012 presentation.

(All amounts in thousands)

Note 2.
ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows at June 30:

	2012	2011
Research and other sponsored programs support	$ 16,966	$ 16,079
Student receivables	1,340	2,832
Other receivables	7,229	8,580
	25,535	27,491
Less allowances for uncollectible amounts	640	640
	$ 24,895	$ 26,851

Activity within allowances for uncollectible amounts was insignificant during the years ended June 30, 2012 and 2011.

Note 3.
DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets are summarized as follows at June 30:

	2012	2011
Debt-related derivative instruments *(Note 12)*	$ -	$ 16,726
Retail and other inventories	9,921	10,036
Beneficial interests in perpetual trusts *(Note 15)*	4,867	4,826
Prepaid rental expenses	15,741	16,482
Other deferred charges and prepaid expenses	11,716	11,734
	$ 42,245	$ 59,804

Note 4.
CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	$ 83,664	$ 82,931
One year to five years	103,698	128,315
More than five years	93,658	108,768
	281,020	320,014
Less:		
Unamortized discounts	62,311	75,700
Allowances for uncollectible amounts	26,984	29,554
	89,295	105,254
	$ 191,725	$ 214,760

(All amounts in thousands)

Contributions receivable are discounted at rates ranging from 0.51 percent to 6.91 percent and 0.62 percent to 6.91 percent at June 30, 2012 and 2011, respectively. Activity within allowances for uncollectible amounts was insignificant during the years ended June 30, 2012 and 2011.

Contributions receivable, net, are summarized by net asset classification as follows at June 30:

	2012	2011
Temporarily restricted for:		
Operating purposes	$ 41,815	$ 38,228
Investment in land, buildings and equipment	35,177	52,787
Funds functioning as endowment *(Note 16)*	8,499	5,301
Total temporarily restricted *(Note 14)*	85,491	96,316
Permanently restricted for endowment *(Notes 15 and 16)*	106,234	118,444
	$ 191,725	$ 214,760

As of June 30, 2012, the University had received documented conditional pledges of $43,100, which are not reflected in the accompanying consolidated financial statements. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Note 5.
NOTES RECEIVABLE

Notes receivable are summarized as follows at June 30:

	2012	2011
Student notes receivable, related to:		
Government sponsored loan programs	$ 33,832	$ 34,203
Institutional student loans	1,071	951
	34,903	35,154
Less allowances for uncollectible student notes	2,403	2,083
	32,500	33,071
Other notes receivable	27,587	53,204
	$ 60,087	$ 86,275

Government advances to the University for student loan funding, primarily under the Perkins Loan program, totaled $29,186 and $29,582 at June 30, 2012 and 2011, respectively. Due to significant restrictions that apply to government sponsored student loans, determining the fair value of student notes receivable is not practicable.

Total balances on student notes receivable in past due status were $3,483 and $3,497 at June 30, 2012 and 2011, respectively. The delinquent portions of these balances were $1,888 and $1,084, respectively. Activity within allowances for uncollectible student notes was insignificant.

During the year ended June 30, 2011, the University made a loan of $39,753 to a property development firm in conjunction with the renovation of a building in London that the University had contracted to purchase to support its England-based international studies programs. The loan was fully repaid and the purchase of the building completed during the year ended June 30, 2012 (see also *Note 7)*.

The estimated fair value of non-student notes receivable approximated the carrying amount at June 30, 2012 and 2011.

(All amounts in thousands)

Note 6.
INVESTMENTS

Investments reflected in the consolidated statements of financial position are summarized as follows at June 30:

	2012	2011
Notre Dame Endowment Pool assets	$ 7,394,864	$ 7,250,586
Other investments, associated with:		
Endowment and funds functioning as endowment	42,295	38,633
Working capital and other University designations	63,093	47,863
Split-interest agreements *(Note 17)*	9,430	9,967
Revocable charitable trusts	2,791	2,824
Defined benefit pension plan *(Note 13)*	120,150	106,331
	237,759	205,618
	$ 7,632,623	$ 7,456,204

Liabilities associated with investments include the following at June 30:

	2012	2011
Notre Dame Endowment Pool liabilities	$ 26	$ 999
Liabilities representing the fair value of investments held on behalf of:		
Religious affiliates	270,751	206,353
Revocable charitable trusts	2,791	2,824
Defined benefit pension plan *(Note 13)*	120,150	106,331
	$ 393,718	$ 316,507

The Notre Dame Endowment Pool ("NDEP") represents the University's primary investment portfolio. Certain investments, however, are held in specific instruments outside the NDEP to comply with donor requirements or other considerations. The pooled assets and liabilities of the NDEP are summarized as follows at June 30:

	2012	2011
NDEP assets	$ 7,394,864	$ 7,250,586
NDEP liabilities[1] *(Note 12)*	(26)	(999)
NDEP net assets reflected within the financial statements	7,394,838	7,249,587
Equity interest in consolidated company[2]	15,693	15,500
NDEP net assets unitized	$ 7,410,531	$ 7,265,087

[1] *Represents the fair value of derivative instrument liabilities.*

[2] *The University is the majority owner of an externally managed limited liability company, the assets and liabilities of which are reflected in the consolidated financial statements at cost. However, the estimated fair value of the University's equity interest in the company, $15,693 and $15,500 at June 30, 2012 and 2011, respectively, is included in NDEP net assets for unitization purposes.*

Notes to Consolidated Financial Statements
(All amounts in thousands)

Transactions within participating funds that constitute additions to or withdrawals from the NDEP are unitized on a quarterly basis. The unitized net assets of the NDEP were attributable to the following at June 30:

	2012	2011
Endowment and funds functioning as endowment	$ 6,253,267	$ 6,187,946
Working capital and other University designations	786,617	774,768
Student loan funds	710	697
Split-interest agreements *(Note 17)*	99,186	95,323
Funds invested on behalf of religious affiliates[3]	270,751	206,353
	$ 7,410,531	$ 7,265,087

[3] *NDEP holdings were redeemable by religious affiliates at $3,438.41 and $3,315.36 per unit (whole dollars) at June 30, 2012 and 2011, respectively.*

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 are summarized in the following tables by asset class at June 30, 2012 and 2011, respectively:

	2012		
	NDEP	Other Investments	Total
Short-term investments	$ 58,942	$ 50,278	$ 109,220
Public equities	2,362,453	49,708	2,412,161
Fixed income securities	475,194	13,753	488,947
Marketable alternatives	974,850	258	975,108
Private equity	2,278,573	1,720	2,280,293
Real estate	605,075	1,892	606,967
Other real assets	639,777	-	639,777
	7,394,864	117,609	7,512,473
Defined benefit pension plan investments *(Note 13)*	-	120,150	120,150
	$ 7,394,864	$ 237,759	$ 7,632,623

	2011		
	NDEP	Other Investments	Total
Short-term investments	$ 201,247	$ 35,158	$ 236,405
Public equities	2,328,855	50,340	2,379,195
Fixed income securities	335,332	13,200	348,532
Marketable alternatives	931,530	481	932,011
Private equity	2,133,017	-	2,133,017
Real estate	547,745	108	547,853
Other real assets	772,860	-	772,860
	7,250,586	99,287	7,349,873
Defined benefit pension plan investments *(Note 13)*	-	106,331	106,331
	$ 7,250,586	$ 205,618	$ 7,456,204

(All amounts in thousands)

Short-term investments include cash and cash equivalents, money market funds, securities with short-term maturities (such as commercial paper and government securities held either directly or via commingled pools with daily liquidity) and the fair value of certain derivative instrument assets (see *Note 12* for further information about derivative instruments). Public equities cover the U.S. as well as both developed and emerging markets overseas, and long/short hedge funds. Marketable alternatives encompass other hedge fund strategies less correlated with broad equities markets. This includes credit-oriented strategies, multi-strategy funds where the manager has a broad mandate to invest opportunistically, and event driven funds where managers seek opportunity in various forms of arbitrage strategies as well as in corporate activities such as mergers and acquisitions. Private equity primarily includes domestic and foreign buyout and venture capital funds. Other real assets represents investments in energy and commodities.

NDEP investments are primarily invested with external managers. The University is committed under contracts with certain external managers to periodically advance additional funding as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. Uncalled commitments related to NDEP investments are summarized by investment class as follows at June 30:

	2012	2011
Private equity	$ 917,130	$ 1,055,687
Real estate	236,872	261,402
All other	236,025	284,302
	$ 1,390,027	$ 1,601,391

Notes to Consolidated Financial Statements
(All amounts in thousands)

The following tables reflect fair value measurements of investment assets (excluding defined benefit pension plan assets) at June 30, 2012 and 2011, respectively, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

2012

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 76,634	$ 32,586	$ -	$ 109,220
Public equities:				
U.S.	270,135	221,288	135,106	626,529
Non-U.S.	43,636	603,611	270,314	917,561
Long/short strategies	-	374,711	493,360	868,071
Fixed income securities	113,139	375,808	-	488,947
Marketable alternatives	-	512,461	462,647	975,108
Private equity	-	-	2,280,293	2,280,293
Real estate	17,395	-	589,572	606,967
Other real assets	58,346	42,488	538,943	639,777
	$ 579,285	$ 2,162,953	$ 4,770,235	$ 7,512,473

2011

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 36,435	$ 199,970	$ -	$ 236,405
Public equities:				
U.S.	261,504	194,657	137,237	593,398
Non-U.S.	85,604	651,414	172,357	909,375
Long/short strategies	-	446,458	429,964	876,422
Fixed income securities	96,449	252,083	-	348,532
Marketable alternatives	-	524,190	407,821	932,011
Private equity	-	-	2,133,017	2,133,017
Real estate	15,670	-	532,183	547,853
Other real assets	130,016	85,580	557,264	772,860
	$ 625,678	$ 2,354,352	$ 4,369,843	$ 7,349,873

Certain short-term investments and fixed income securities categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes, or using models with externally verifiable inputs, such as relevant interest or exchange rates.

(All amounts in thousands)

Other investments categorized within Levels 2 and 3 primarily reflect assets invested with external managers, the fair value measurements for which are generally based on NAV (or the equivalent) as provided to the University by the external managers. Investments in funds within public equities and marketable alternatives redeemable at NAV (or its equivalent) at the measurement date or within the near term are reflected in Level 2, while funds that are subject to restrictions that limit the University's ability to withdraw capital within the near term are reflected in Level 3. Redemption terms for these funds generally restrict withdrawals of capital for a defined "lock-up" period after investment, and thereafter typically allow withdrawals on a quarterly or annual basis with notice periods ranging from 30 to 180 days. Lock-up periods for funds reflected in Level 3 generally expire during the period from six months to three years after the measurement date. In addition, investor capital in these funds attributable to illiquid investments, often referred to as "side pockets," generally is not available for redemption until the investments are realized by the fund. Most funds within private equity, real estate and other real assets, as well as certain marketable alternatives funds, are not redeemable at the direction of the investor and are reflected in Level 3. These funds make distributions to investing partners as the underlying assets of the funds are liquidated. The University expects the underlying assets of these funds to be substantially liquidated over the next five to ten years, the timing of which would vary by fund and depend on market conditions as well as other factors.

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2012:

	Acquisitions	Dispositions	Net realized/ unrealized gains/(losses)	Transfers in/(out) of Level 3	Net increase/ (decrease)
Public equities:					
U.S.	$ 7,500	$ (6,711)	$ 6,501	$ (9,421)	$ (2,131)
Non-U.S.	58,800	-	(17,499)	56,656	97,957
Long/short strategies	88,155	(55,382)	30,623	-	63,396
Marketable alternatives	165,069	(99,278)	(6,014)	(4,951)	54,826
Private equity	343,829	(320,955)	124,179	223	147,276
Real estate	117,360	(42,187)	(17,784)	-	57,389
Other real assets	59,832	(96,987)	18,834	-	(18,321)
	$ 840,545	$ (621,500)	$ 138,840	$ 42,507	$ 400,392

During the year ended June 30, 2012, the University recognized net unrealized losses of $120,741 on investments still held at June 30, 2012 for which fair value is measured using Level 3 inputs. Transfers in and out of Levels 2 and 3 primarily reflect the migration of assets measured at fair value based on NAV (or its equivalent) that were eligible for redemption at the reporting date or within the near term, or became non-redeemable during the year. There were no transfers between Levels 1 and 2 during the year ended June 30, 2012.

Notes to Consolidated Financial Statements
(All amounts in thousands)

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2011:

	Acquisitions	Dispositions	Net realized/ unrealized gains	Transfers out of Level 3	Net increase/ (decrease)
Public equities:					
U.S.	$ -	$ (6,829)	$ 53,845	$ (113,746)	$ (66,730)
Non-U.S.	105,710	(22,383)	80,164	(299,194)	(135,703)
Long/short strategies	131,386	(22,897)	44,604	(189,705)	(36,612)
Marketable alternatives	44,626	(111,897)	87,649	(335,183)	(314,805)
Private equity	329,630	(324,516)	453,731	-	458,845
Real estate	102,991	(11,976)	48,661	-	139,676
Other real assets	62,762	(85,943)	97,288	-	74,107
	$ 777,105	$ (586,441)	$ 865,942	$ (937,828)	$ 118,778

During the year ended June 30, 2011, the University recognized net unrealized appreciation of $645,508 on investments still held at June 30, 2011, for which fair value is measured using Level 3 inputs. Transfers out of Level 3 primarily reflect the migration to Level 2 of assets measured at fair value based on NAV (or its equivalent) that were eligible for redemption at the reporting date or within the near term. Transfers between Levels 1 and 2 were insignificant during the year ended June 30, 2011.

Due to the pooled nature of assets held in the NDEP, a portion of any unrealized gains or losses is attributed to NDEP holdings of split-interest agreements and the University's religious affiliates.

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:

	2012	2011
Investment income, net	$ 73,240	$ 81,577
Net gain on investments:		
Realized gains, net	356,213	297,628
Unrealized gains/(losses), net	(228,514)	879,774
	127,699	1,177,402
	$ 200,939	$ 1,258,979

	Unrestricted	Temporarily restricted	Permanently restricted	2012 Total	2011 Total
Investment income, net	$ 33,594	$ 37,976	$ 1,670	$ 73,240	$ 81,577
Net gain/(loss) on investments	63,481	64,888	(670)	127,699	1,177,402
	$ 97,075	$ 102,864	$ 1,000	$ 200,939	$ 1,258,979

Investment income is reported net of related expenses of $22,588 and $24,294 for the years ended June 30, 2012 and 2011, respectively. Investment-related expenses consist of fees paid to external investment managers, as well as expenses related to internal investment office operations.

(All amounts in thousands)

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:

	Unrestricted	Temporarily restricted	2012 Total	2011 Total
Endowment and funds functioning as endowment *(Note 16)*	$ 85,387	$ 165,173	$ 250,560	$ 232,478
Working capital and other sources	8,845	-	8,845	8,485
	$ 94,232	$ 165,173	$ 259,405	$ 240,963

Note 7.
LAND, BUILDINGS AND EQUIPMENT

The following is a summary of land, buildings and equipment at June 30:

	2012	2011
Land and land improvements	$ 120,427	$ 112,377
Buildings	1,399,696	1,270,790
Equipment	250,923	214,437
Construction in progress	44,115	88,815
	1,815,161	1,686,419
Less accumulated depreciation	524,738	482,007
	$ 1,290,423	$ 1,204,412

Depreciation expense was $52,706 and $49,934 for the years ended June 30, 2012 and 2011, respectively.

The University recorded accounts payable associated with construction in progress costs of $8,126 and $9,038 at June 30, 2012 and 2011, respectively.

The University completed its purchase of a building in London during the year ended June 30, 2012 for which it was under contract at June 30, 2011. The building will serve to support the University's international studies programs in England.

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

	2012	2011
Beginning of year	$ 22,118	$ 22,243
New obligations recognized	122	-
Obligations settled	-	(165)
Accretion expense	815	832
Revisions in estimated cash flows	(574)	(792)
End of year	$ 22,481	$ 22,118

(All amounts in thousands)

Note 8.
SHORT-TERM BORROWING

The University maintains a $200,000 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 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. Generally, tax-exempt commercial paper is issued to finance the purchase of equipment and improvements to educational facilities, while taxable commercial paper is issued to provide funding for general uses.

The University also maintains unsecured lines of credit with commercial banks in the aggregate amount of $300,000 to be utilized primarily for working capital purposes. Termination dates on lines of credit available at June 30, 2012 ranged from January 2013 to April 2015.

Total outstanding balances on short-term borrowing are summarized below at June 30:

	2012	2011
Standard taxable commercial paper	$ 101,051	$ 100,060
Lines of credit	14,000	-
	$ 115,051	$ 100,060

Total interest costs incurred on short-term borrowing were approximately $226 and $301 for the years ended June 30, 2012 and 2011, respectively.

Note 9.
DEFERRED REVENUE AND REFUNDABLE ADVANCES

Deferred revenue and refundable advances are summarized as follows at June 30:

	2012	2011
Deferred ticket sales and other revenues from intercollegiate athletics	$ 46,165	$ 47,268
Deferred tuition and other student revenues	11,776	13,069
Refundable advances for research and other sponsored programs	14,877	16,599
Other deferred revenues	2,395	1,854
	$ 75,213	$ 78,790

Note 10.
DEPOSITS AND OTHER LIABILITIES

Deposits and other liabilities are summarized as follows at June 30:

	2012	2011
Debt-related derivative instruments *(Note 12)*	$ 26,906	$ 13,670
Accrued compensation and employee benefits	34,614	37,726
Payroll and other taxes payable	10,317	10,165
Accrued pension plan contribution *(Note 13)*	-	11,000
Student organization funds and other deposits	8,388	7,325
Self-insurance reserves	8,648	6,212
Accrued interest expense, pledges payable and other liabilities	19,986	13,679
	$ 108,859	$ 99,777

(All amounts in thousands)

NOTE 11.
BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following at June 30:

	2012	2011
Obligations of the University:		
St. Joseph County (Indiana) Educational Facilities Revenue Bonds[1]	$ 361,597	$ 364,293
Series 2012 Taxable Fixed Rate Bonds	100,000	-
Series 2010 Taxable Fixed Rate Bonds	160,000	160,000
Series 2009 Taxable Fixed Rate Notes	150,000	150,000
Mortgage notes payable	15,435	15,435
	787,032	689,728
Obligations of consolidated company:		
Mortgage note payable	38,141	38,736
	$ 825,173	$ 728,464

[1] *Includes the unamortized Series 2009 bond premium of $7,022 and $7,178 at June 30, 2012 and 2011, respectively.*

The estimated fair value of bond and note obligations was $903,748 and $732,464 at June 30, 2012 and 2011, respectively. Fair value measurements of bonds and notes are based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs. The aggregate scheduled maturities of bonds and notes payable are summarized by fiscal year as follows:

2013	$ 3,124
2014	153,253
2015	3,384
2016	38,906
2017	3,370
Thereafter	616,564
	$ 818,601

The Series 2012 Taxable Fixed Rate Bonds bear interest at a fixed rate of 3.72 percent and are due March 1, 2043. Issuance costs of $364 paid out of proceeds received are reflected within operating expenses for the year ended June 30, 2012.

The Series 2010 Taxable Fixed Rate Bonds bear interest at a fixed rate of 4.90 percent and are due March 1, 2041. Proceeds received were net of issuance costs of $1,323, which are reflected within operating expenses for the year ended June 30, 2011.

The Series 2009 Taxable Fixed Rate Notes bear interest at a fixed rate of 4.141 percent and are due September 1, 2013.

Taxable Fixed Rate Bonds and Notes constitute unsecured general obligations of the University and the associated interest is taxable to investors. Interest costs incurred on Taxable Fixed Rate Bonds and Notes were $14,299 and $11,677 during the years ended June 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements
(All amounts in thousands)

Mortgage notes in the amount of $15,435 bear interest at a fixed rate of 1.103 percent and are due on July 1, 2042. These notes are collateralized by the facilities to which they relate. The University incurred interest costs of $173 on the notes during the years ended June 30, 2012 and 2011.

The University is the majority owner of an externally managed limited liability company, the activities of which are reflected in the University's consolidated financial statements. The company'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 on February 1, 2016. The note is not a general obligation of the University and is fully collateralized by the property acquired. Interest costs of $2,182 and $2,203 related to the note are reflected within non-operating changes in unrestricted net assets for the years ended June 30, 2012 and 2011, 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. The following issues were outstanding at June 30:

	Outstanding through	Current rate of interest[1]	2012	2011
Issues bearing variable rates:				
Series 2003	2038	0.130%	$ 50,120	$ 52,660
Series 2005[2]	2040	0.120%	75,000	-
Series 2007	2042	0.130%	75,000	75,000
			200,120	127,660
Issues bearing fixed rates:				
Series 1996	2026	6.500%	7,890	7,890
Series 2005[2]	2040		-	75,000
Series 2009[3]	2036	5.000%	153,587	153,743
			161,477	236,633
			$ 361,597	$ 364,293

[1] Variable rates reset weekly. Represents annual percentage rate in effect at June 30, 2012.
[2] Rate fixed at 3.875% through February 2012, variable thereafter.
[3] Carrying amount includes the unamortized premium of $7,022 and $7,178 at June 30, 2012 and 2011, respectively.

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 different from those associated with the original bond issues, and mature over the five year period following repurchase. The standby credit facilities in effect at June 30, 2012 expire in February and May 2015.

The University utilizes interest rate swap agreements (see also *Note 12)* as a strategy for managing interest rate risk associated with variable rate SJC bond issues. Under the terms of swap agreements in effect at June 30, 2012, the University pays fixed rates ranging from 2.01 percent to 4.97 percent and receives variable rates equal to 67 percent or 70 percent of the one-month or three-month London Interbank Offered Rate ("LIBOR") on total notional amounts of $196,095. The estimated fair value of interest rate swaps was a net unrealized loss position of $26,906 and a net unrealized gain position of $3,056 at June 30, 2012 and 2011, respectively.

(All amounts in thousands)

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:

	2012				2011			
		Interest expense[1]		Net periodic settlements		Interest expense[1]		Net periodic settlements
Issues bearing variable rates	$	261	$	4,444	$	406	$	4,243
Issues bearing fixed rates		9,622		-		10,598		-
	$	9,883	$	4,444	$	11,004	$	4,243

[1] *Includes amortization of Series 2009 premium of $156 and $150 for the years ended June 30, 2012 and 2011, respectively. The premium is amortized using the effective interest method over the period the bonds are outstanding.*

Note 12.
DERIVATIVE INSTRUMENTS

The University utilizes a variety of derivative instruments within the NDEP, including certain options contracts, forward currency contracts and futures contracts. As described in *Note 11,* the University also utilizes interest rate swap agreements to manage interest rate risk associated with its variable rate bond obligations.

Derivative instruments by their nature bear, to varying degrees, elements of market risk and credit risk that are not reflected in the amounts recorded in financial statements. Market risk in this context represents the potential for changes in the value of derivative instruments due to levels of volatility and liquidity or other events affecting the underlying asset, reference rate, or index, including those embodied in interest and foreign exchange rate movements and fluctuations in commodity or security prices. 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, not the notional amounts of the instruments, and is further limited by the collateral arrangements as specified for specific instruments.

Collateral associated with NDEP derivatives is moved as required by market fluctuations, and is generally in the form of cash or cash equivalents. Interest rate swaps associated with the University's variable rate bonds have credit-risk-related contingent features that could require the University to post collateral on instruments in net liability positions in the event of a downgrade to the rating on the University's debt. The aggregate fair value of interest rate swaps with credit-risk-related contingent features that were in liability positions was $26,906 and $13,670 at June 30, 2012 and 2011, respectively. If the credit-risk-related contingent features associated with these instruments had been triggered, the University would have been required to post collateral to its counterparties in an amount up to the full liability position of the instruments, depending on the level of the University's credit rating. Based on the quality of its credit rating, the University had posted no collateral associated with these instruments at June 30, 2012.

Notes to Consolidated Financial Statements
(All amounts in thousands)

The estimated fair value of derivative instrument assets and liabilities, certain of which are reflected on a net-by-counterparty basis within the consolidated statements of financial position, are summarized in the table below at June 30, 2012, along with the net gains and losses for the year then ended:

	Notional amounts	Derivative assets	Derivative liabilities	Net gain/(loss)
NDEP derivatives:				
Options contracts[1,2]	$ 679,575	$ 6,209	$ -	$ (13,175)
Forward currency contracts[2]	$ 757,781	1	6	184
Futures contracts[3]	$ 98,989	133	21	11,528
Gross value		6,343	27	(1,463)
Counterparty netting		(1)	(1)	-
Net by counterparty		$ 6,342	$ 26	$ (1,463)
Debt-related derivatives:				
Interest rate contracts[2]	$ 196,095	$ -	$ 26,906	$ (34,406)

[1] Includes interest rate and commodities options with notional amounts of $511,024 and $168,551 at June 30, 2012.
[2] Fair value measurements of over-the-counter derivative instruments are based on observable inputs, such as relevant interest rates and commodity prices, that fall within Level 2 of the hierarchy of fair value inputs.
[3] Futures contracts are exchange-traded. Fair value is based on quoted prices that fall within Level 1 of the hierarchy of fair value inputs. Notional amount on futures at June 30, 2012 represents long exposures.

The estimated fair value of derivative instrument assets and liabilities, certain of which are reflected on a net-by-counterparty basis within the consolidated statements of financial position, are summarized in the table below at June 30, 2011, along with the net gains and losses for the year then ended:

	Notional amounts	Derivative assets	Derivative liabilities	Net gain/(loss)
NDEP derivatives:				
Options contracts[1,2]	$ 1,793,649	$ 27,671	$ -	$ (8,391)
Forward currency contracts[2]	$ 184,831	1,125	419	7,899
Futures contracts[3]	$ 600,003	1,543	999	19,071
Gross value		30,339	1,418	18,579
Counterparty netting		(419)	(419)	-
Net by counterparty		$ 29,920	$ 999	$ 18,579
Debt-related derivatives:				
Interest rate contracts[2]	$ 199,715	$ 16,726	$ 13,670	$ 2,046

[1] Includes interest rate and commodities options with notional amounts of $1,173,448 and $620,201 at June 30, 2011.
[2] Fair value measurements of over-the-counter derivative instruments are based on observable inputs, such as relevant interest rates and commodity prices, that fall within Level 2 of the hierarchy of fair value inputs.
[3] Futures contracts are exchange-traded. Fair value is based on quoted prices that fall within Level 1 of the hierarchy of fair value inputs. Notional amount on futures at June 30, 2011 reflect $667,963 and $67,960 in long and short exposures, respectively.

(All amounts in thousands)

Derivative instrument assets and liabilities are reflected within the following lines of the consolidated statements of financial position at June 30:

	2012	2011
NDEP derivatives:		
Investments[1]	$ 6,342	$ 29,920
Liabilities associated with investments *(Note 6)*	$ 26	$ 999
Debt-related derivatives:		
Deferred charges and other assets *(Note 3)*	$ -	$ 16,726
Deposits and other liabilities *(Note 10)*	$ 26,906	$ 13,670

[1] Reflected within the "Short-term investments" investment class in Note 6.

Certain options contracts are employed within the NDEP as a strategy for protecting the investment portfolio against significant fluctuations in interest rates and commodity prices. Options contracts held in the NDEP are fully collateralized at June 30, 2012. Forward currency contracts are utilized to settle planned purchases or sales, for investment purposes, and to mitigate the impact of exchange rate fluctuations on the U.S. dollar value of NDEP international holdings. A variety of currency, interest rate, equity, bond and commodities futures contracts are also employed in the NDEP to manage exposure to various financial markets.

Gains and losses on derivative instruments held in the NDEP are primarily included in the net gain or loss on investments as reflected in the financial statements. However, due to the pooled nature of the NDEP, a minor portion of these gains and losses is attributed to NDEP holdings of split-interest agreements and the University's religious affiliates. The net gain or loss on debt-related derivatives (interest rate swaps associated with the University's variable rate bonds) is reported as such within non-operating changes in unrestricted net assets.

(All amounts in thousands)

Note 13.
PENSION AND OTHER POSTRETIREMENT BENEFITS

DEFINED CONTRIBUTION RETIREMENT SAVINGS PLANS

Faculty and exempt staff participate in the University of Notre Dame 403(b) Retirement Plan, a defined contribution retirement plan, upon meeting eligibility requirements. The plan, operated under section 403(b) of the Internal Revenue Code, is funded by mandatory employee contributions and University contributions. All faculty and staff may also participate in the plan on a voluntary basis by making voluntary employee contributions up to the annual limit established by the Internal Revenue Service. Participants are immediately vested in the plan, and may direct their contributions and the University's contributions on their behalf to any of the fund sponsors: Fidelity, TIAA-CREF and Vanguard. The University's share of the cost of these benefits was $26,007 and $25,039 for the years ended June 30, 2012 and 2011, 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 non-exempt staff after one year of qualifying service. 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 and Pension Protection Act of 2006.

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. During the year ended June 30, 2011, the University amended certain features of its postretirement benefit plans, replacing supplemental group medical insurance for Medicare-eligible retirees with Health Reimbursement Accounts upon which retirees may draw to purchase individual supplemental medical coverage.

The University recognizes the full funded status of its defined benefit pension and other postretirement benefit plans in the consolidated statements of financial position. Accordingly, the liability for pension benefits as recognized in the statement 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:

	2012	2011
Liability for pension benefits:		
PBO at end of year	$ 204,977	$ 167,512
Less: Fair value of plan assets at end of year	(120,150)	(117,331)
	84,827	50,181
Liability for other postretirement benefits (APBO at year end)	38,295	31,697
	$ 123,122	$ 81,878

(All amounts in thousands)

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

	Pension benefits (PBO)		Other postretirement benefits (APBO)	
	2012	**2011**	**2012**	**2011**
Beginning of year	$ 167,512	$ 155,804	$ 31,697	$ 81,251
Service cost	6,256	6,063	1,817	3,992
Interest cost	9,009	8,437	1,636	3,569
Plan amendments	-	-	(271)	(42,016)
Actuarial loss/(gain)	29,039	2,788	4,973	(14,032)
Benefit payments	(6,839)	(5,580)	(1,557)	(1,067)
End of year	$ 204,977	$ 167,512	$ 38,295	$ 31,697

The accumulated benefit obligation associated with pension benefits was $173,579 and $141,371 at June 30, 2012 and 2011, respectively.

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

	2012	**2011**
Fair value of plan assets at beginning of year	$ 117,331	$ 88,024
Actual return on plan assets	(1,548)	14,278
Employer contributions	11,206	20,609
Benefit payments	(6,839)	(5,580)
Fair value of plan assets at end of year	$ 120,150	$ 117,331

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:

	Pension benefits		Other postretirement benefits	
	2012	**2011**	**2012**	**2011**
Service cost	$ 6,256	$ 6,063	$ 1,817	$ 3,992
Interest cost	9,009	8,437	1,636	3,569
Expected return on plan assets	(9,452)	(7,417)	-	-
Amounts recognized previously as non-operating changes in net assets:				
Amortization of net loss	2,483	2,968	1,405	1,129
Amortization of prior service cost/(credit)	434	435	(7,517)	(2,525)
	2,917	3,403	(6,112)	(1,396)
	$ 8,730	$ 10,486	$ (2,659)	$ 6,165

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.

Notes to Consolidated Financial Statements
(All amounts in thousands)

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:

	Pension benefits		Other postretirement benefits	
	2012	2011	2012	2011
Net actuarial gain/(loss)	$ (40,039)	$ 4,073	$ (4,973)	$ 14,032
Plan amendments	-	-	271	42,016
Adjustment for components of net periodic benefit cost recognized previously	2,917	3,403	(6,112)	(1,396)
	$ (37,122)	$ 7,476	$ (10,814)	$ 54,652

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:

	Pension benefits		Other postretirement benefits	
	2012	2011	2012	2011
Net loss	$ 78,796	$ 41,240	$ 22,570	$ 19,001
Prior service cost/(credit)	3,558	3,993	(34,632)	(41,878)
	$ 82,354	$ 45,233	$ (12,062)	$ (22,877)

The University expects to amortize the following as components of net periodic benefit cost during the year ending June 30, 2013:

	Pension benefits	Other postretirement benefits
Net loss	$ 4,857	$ 1,996
Prior service cost/(credit)	$ 432	$ (7,529)

The following weighted-average assumptions were used in measuring the actuarially determined benefit obligations (PBO for pension benefits and APBO for other postretirement benefits) at June 30:

	Pension benefits		Other postretirement benefits	
	2012	2011	2012	2011
Discount rate	4.50%	5.50%	4.50%	5.50%
Rate of compensation increase	4.00%	4.00%		
Health care cost trend rate (grading to 5.00% in 2018)			8.00%	7.50%

(All amounts in thousands)

The following weighted-average assumptions were used in measuring the actuarially determined net periodic benefit costs for the years ended June 30:

	Pension benefits		Other postretirement benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	5.50%	5.50%	5.50%	5.50%
Expected long-term rate of return on plan assets	8.50%	8.50%		
Rate of compensation increase	4.00%	4.00%		
Health care cost trend rate (grading to 5.00% in 2016)			7.50%	8.00%

The expected long-term rate of return on pension plan assets is based on the consideration of both historical and forecasted investment performance, given the targeted allocation of the plan's assets to various investment classes.

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 $132 and $749, respectively. 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 $118 and $688, respectively.

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2012 are as follows:

	Pension benefits	Other postretirement benefits
2013	$ 7,240	$ 1,453
2014	$ 7,494	$ 1,618
2015	$ 7,830	$ 1,823
2016	$ 8,254	$ 1,996
2017	$ 8,749	$ 2,206

Projected aggregate payments for pension benefits and other postretirement benefits for the five year period ending June 30, 2022 are $53,865 and $14,306, respectively. The University's estimated contributions to the defined benefit pension plan for the year subsequent to June 30, 2012 are $7,300.

DEFINED BENEFIT PENSION PLAN ASSETS

The defined benefit pension plan's assets are summarized as follows at June 30:

	2012	**2011**
Employer contributions receivable *(Note 10)*	$ -	$ 11,000
Investments *(Note 6)*	120,150	106,331
	$ 120,150	$ 117,331

Contributions receivable from the University in the amount of $11,000 at June 30, 2011 were received on September 29, 2011.

The plan's assets 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.

Notes to Consolidated Financial Statements
(All amounts in thousands)

The investment portfolio of the plan, which is invested with external investment 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 investments by asset class were as follows at June 30:

	2012	2011	TARGET
Short-term investments	4.8%	10.0%	0.0%
Public equities	43.0%	46.3%	45.0%
Fixed income securities	18.3%	16.4%	20.0%
Marketable alternatives	17.3%	12.1%	15.0%
Private equity	7.5%	7.9%	10.0%
Real assets	9.1%	7.3%	10.0%
	100.0%	100.0%	100.0%

Asset allocation targets reflect the need for a modestly higher weighting in equity-based investments to achieve the return objective. Decisions regarding allocations among asset classes are made when such actions are expected to produce incremental return, reduce risk, or both. The investment characteristics of an asset class—including expected return, risk, correlation, and its overall role in the portfolio—are analyzed when making such decisions.

The role of each asset class within the overall asset allocation of the plan is described as follows:

Public equities – Provides access to liquid markets and serves as a long-term hedge against inflation.

Fixed income securities – Provides a stable income stream and greater certainty of nominal cash flow relative to the other asset classes. Given the low correlation to other asset classes, fixed income assets also enhance diversification and serve as a hedge against financial turmoil or periods of deflation.

Marketable alternatives – Enhances diversification and provides opportunities to benefit from short-term inefficiencies in global capital markets.

Private equity – Provides attractive long-term, risk-adjusted returns by investing in inefficient markets.

Real assets – Provides attractive return prospects, further diversification and a hedge against inflation.

Fair value measurements of plan investments at June 30, 2012 are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 5,734	$ -	$ -	$ 5,734
Public equities:				
U.S.	8,611	10,014	-	18,625
Non-U.S.	8,232	10,295	2,659	21,186
Long/short strategies	-	6,498	5,395	11,893
Fixed income securities	21,987	-	-	21,987
Marketable alternatives	-	9,223	11,533	20,756
Private equity	-	-	9,025	9,025
Real assets	4,451	482	6,011	10,944
	$ 49,015	$ 36,512	$ 34,623	$ 120,150

(All amounts in thousands)

Fair value measurements of plan investments at June 30, 2011 are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 5,006	$ 5,661	$ -	$ 10,667
Public equities:				
U.S.	7,308	8,580	-	15,888
Non-U.S.	8,090	10,554	-	18,644
Long/short strategies	-	11,316	3,404	14,720
Fixed income securities	17,405	-	-	17,405
Marketable alternatives	-	7,989	4,888	12,877
Private equity	-	-	8,420	8,420
Real assets	1,688	686	5,336	7,710
	$ 39,497	$ 44,786	$ 22,048	$ 106,331

Changes in plan investments for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2012:

	Acquisitions	Dispositions	Net realized/ unrealized gains[1]	Transfers out of Level 3	Net increase
Public equities:					
Non-U.S.	$ 3,000	$ -	$ (341)	$ -	$ 2,659
Long/short strategies	2,000	-	(9)	-	1,991
Marketable alternatives	6,613	(181)	213	-	6,645
Private equity	1,276	(1,101)	430	-	605
Real assets	685	(299)	289	-	675
	$ 13,574	$ (1,581)	$ 582	$ -	$ 12,575

[1] *Included in the actual return on plan assets for the year ended June 30, 2012.*

Changes in plan investments for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2011:

	Acquisitions	Dispositions	Net realized/ unrealized gains[1]	Transfers out of Level 3	Net increase
Public equities:					
Long/short strategies	$ -	$ -	$ 355	$ -	$ 355
Marketable alternatives	887	(285)	650	-	1,252
Private equity	1,495	(1,358)	1,487	-	1,624
Real assets	1,055	(203)	739	(687)	904
	$ 3,437	$ (1,846)	$ 3,231	$ (687)	$ 4,135

[1] *Included in the actual return on plan assets for the year ended June 30, 2011.*

Transfers out of Level 3 primarily reflect the migration to Level 2 of assets measured at fair value based on NAV per share (or its equivalent) that were eligible for redemption at the reporting date or in the near term. Transfers between Levels 1 and 2 were insignificant during the years ended June 30, 2012 and 2011.

Notes to Consolidated Financial Statements
(All amounts in thousands)

The plan is committed under contracts with certain investment managers to periodically advance additional funding as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. Total commitments of $8,998 and $9,232 were uncalled at June 30, 2012 and 2011, respectively.

Note 14.
TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are summarized as follows at June 30:

	2012	2011
Expendable funds restricted for:		
Operating purposes	$ 153,551	$ 151,138
Investment in land, buildings and equipment	63,252	70,593
Split-interest agreements *(Note 17)*	21,091	20,656
Endowment funds *(Note 16):*		
Accumulated appreciation and earnings on donor-restricted endowment	2,176,894	2,234,673
Funds functioning as endowment	341,367	357,259
	2,518,261	2,591,932
	$ 2,756,155	$ 2,834,319

As described in *Note 4,* temporarily restricted net assets include contributions receivable of $85,491 and $96,316 at June 30, 2012 and 2011, respectively.

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

	2012	2011
Purpose restrictions satisfied:		
Scholarships and fellowships awarded	$ 75,350	$ 64,296
Expenditures for operating purposes	110,945	101,529
Term restrictions satisfied:		
Matured split-interest agreements available for operations *(Note 17)*	175	284
	$ 186,470	$ 166,109

Non-operating net assets released from restrictions reflect expenditures for land, buildings and equipment of $41,619 and $42,314 for the years ended June 30, 2012 and 2011, respectively.

(All amounts in thousands)

Note 15.
PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at June 30:

	2012	2011
Endowment funds *(Note 16)*	$ 1,426,427	$ 1,365,280
Student loan funds	2,221	2,177
Split-interest agreements *(Note 17)*	13,505	14,433
Beneficial interests in perpetual trusts *(Note 3)*	4,867	4,826
	$ 1,447,020	$ 1,386,716

As reflected in *Notes 4* and *16*, permanently restricted endowment funds include $106,234 and $118,444 in contributions receivable at June 30, 2012 and 2011, respectively.

Note 16.
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.

Endowment and funds functioning as endowment at June 30, 2012 are summarized below:

	Unrestricted	Temporarily restricted *(Note 14)*	Permanently restricted *(Note 15)*	Total
Funds established to support:				
Scholarships and fellowships	$ 379,195	$ 914,037	$ 545,489	$ 1,838,721
Faculty chairs	101,742	712,589	245,580	1,059,911
Academic programs	178,223	343,036	218,870	740,129
General operations	998,754	53,655	8,681	1,061,090
Other	841,997	486,445	301,573	1,630,015
	2,499,911	2,509,762	1,320,193	6,329,866
Contributions receivable *(Note 4)*	-	8,499	106,234	114,733
	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ (578)	$ 2,509,762	$ 1,320,193	$ 3,829,377
University-designated funds	2,500,489	-	-	2,500,489
	2,499,911	2,509,762	1,320,193	6,329,866
Contributions receivable *(Note 4)*	-	8,499	106,234	114,733
	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599

Notes to Consolidated Financial Statements
(All amounts in thousands)

Endowment and funds functioning as endowment at June 30, 2011 are summarized below:

	Unrestricted	Temporarily restricted *(Note 14)*	Permanently restricted *(Note 15)*	Total
Funds established to support:				
Scholarships and fellowships	$ 384,250	$ 939,779	$ 514,033	$ 1,838,062
Faculty chairs	102,875	721,686	233,899	1,058,460
Academic programs	173,230	351,383	207,922	732,535
General operations	1,024,759	54,959	8,673	1,088,391
Other	741,018	518,824	282,309	1,542,151
	2,426,132	2,586,631	1,246,836	6,259,599
Contributions receivable *(Note 4)*	-	5,301	118,444	123,745
	$ 2,426,132	$ 2,591,932	$ 1,365,280	$ 6,383,344

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ (964)	$ 2,586,631	$ 1,246,836	$ 3,832,503
University-designated funds	2,427,096	-	-	2,427,096
	2,426,132	2,586,631	1,246,836	6,259,599
Contributions receivable *(Note 4)*	-	5,301	118,444	123,745
	$ 2,426,132	$ 2,591,932	$ 1,365,280	$ 6,383,344

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 $578 and $964 at June 30, 2012 and 2011, respectively, as reflected in the preceding tables.

Endowment and funds functioning as endowment are invested primarily in the NDEP, described in *Note 6*. However, certain funds are invested outside of the NDEP 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, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of the year	$ 2,426,132	$ 2,591,932	$ 1,365,280	$ 6,383,344
Contributions	1,983	6,497	60,155	68,635
Investment return:				
Investment income	24,973	37,287	1,640	63,900
Net gain/(loss) on investments	49,462	64,402	(683)	113,181
Accumulated investment return distributed *(Note 6)*	(85,387)	(165,173)	-	(250,560)
Other changes, net	82,748	(16,684)	35	66,099
	$ 2,499,911	$ 2,518,261	$ 1,426,427	$ 6,444,599

During the year ended June 30, 2012, the University designated more than $80,000 in unrestricted net assets as funds functioning as endowment, primarily as general University reserves.

(All amounts in thousands)

Changes in endowment and funds functioning as endowment are summarized below for the year ended June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of the year	$ 1,996,082	$ 2,073,021	$ 1,271,582	$ 5,340,685
Contributions	4,699	6,042	92,596	103,337
Investment return:				
Investment income	27,488	41,757	2,010	71,255
Net gain on investments	411,403	633,105	201	1,044,709
Accumulated investment return distributed *(Note 6)*	(79,410)	(153,068)	-	(232,478)
Other changes, net	65,870	(8,925)	(1,109)	55,836
	$ 2,426,132	$ 2,591,932	$ 1,365,280	$ 6,383,344

During the year ended June 30, 2011, the University designated more than $60,000 in unrestricted net assets as funds functioning as endowment for a variety of purposes.

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:

	Unrestricted	Temporarily restricted	**2012** Total	**2011** Total
Scholarships and fellowships	$ 17,879	$ 67,507	$ 85,386	$ 80,194
Faculty chairs	4,878	43,999	48,877	46,397
Academic programs	823	25,599	26,422	24,747
Libraries	347	7,269	7,616	7,342
Other endowed programs	7,901	17,804	25,705	23,692
General operations	53,559	2,995	56,554	50,106
	$ 85,387	$ 165,173	$ 250,560	$ 232,478

(All amounts in thousands)

Note 17.
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. Split-interest agreement net assets consisted of the following at June 30:

	Unrestricted	Temporarily restricted *(Note 14)*	Permanently restricted *(Note 15)*	**2012** Total	**2011** Total
Charitable trust assets, held in:					
NDEP *(Note 6)*	$ -	$ 55,387	$ 43,799	$ 99,186	$ 95,323
Other investments *(Note 6)*	-	6,062	3,368	9,430	9,967
	-	61,449	47,167	108,616	105,290
Less obligations[1] associated with:					
Charitable trusts	-	39,573	30,397	69,970	67,683
Charitable gift annuities	2,712	785	3,265	6,762	4,095
	2,712	40,358	33,662	76,732	71,778
	$ (2,712)	$ 21,091	$ 13,505	$ 31,884	$ 33,512

[1] *Represents the present value of estimated future payments to beneficiaries.*

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 $19,392 and $13,730 at June 30, 2012 and 2011, respectively.

Changes in split-interest agreement net assets are summarized below for the years ended June 30:

	Unrestricted	Temporarily restricted	Permanently restricted	**2012** Total	**2011** Total
Contributions:					
Assets received	$ 2,080	$ 3,917	$ 5,761	$ 11,758	$ 15,223
Discounts recognized[1]	(1,265)	(2,955)	(3,503)	(7,723)	(8,302)
	815	962	2,258	4,035	6,921
Change in value of agreements:					
Investment return, net	-	1,788	1,368	3,156	18,270
Payments to beneficiaries	(312)	(3,579)	(3,043)	(6,934)	(6,131)
Actuarial adjustments and other changes in obligations	131	1,351	1,287	2,769	(5,448)
	(181)	(440)	(388)	(1,009)	6,691
Net assets released from restrictions *(Note 14)*	-	(175)	-	(175)	(284)
Transfers and other changes, net	(1,769)	88	(2,798)	(4,479)	(5,768)
	$ (1,135)	$ 435	$ (928)	$ (1,628)	$ 7,560

[1] *Represents the present value of estimated future payments to beneficiaries.*

(All amounts in thousands)

Note 18.
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:

	Direct	Indirect	2012 Total	2011 Total
Provided for:				
Research	$ 83,296	$ 20,739	$ 104,035	$ 95,330
Other sponsored programs	6,630	73	6,703	8,401
	$ 89,926	$ 20,812	$ 110,738	$ 103,731

	Direct	Indirect	2012 Total	2011 Total
Provided by:				
Federal agencies	$ 68,205	$ 18,998	$ 87,203	$ 84,910
State and local agencies	1,014	64	1,078	911
Private organizations	20,707	1,750	22,457	17,910
	$ 89,926	$ 20,812	$ 110,738	$ 103,731

Funding for federally sponsored research and other programs is received from the U.S. government, as well as from other universities and private organizations 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 programs, primarily related to student financial aid, for which it recognizes neither revenues nor expenses. Receipts and disbursements for such programs totaled $13,493 and $13,742 for the years ended June 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements
(All amounts in thousands)

Note 19.
CONTINGENCIES AND COMMITMENTS

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.

The University leases space for academic and administrative purposes under noncancelable opeating leases. Minimum future payments under these lease agreements are summarized by fiscal year as follows:

2013	$ 1,706
2014	1,706
2015	1,734
2016	1,762
2017	1,762
2018 through 2080	52,247
	$ 60,917

At June 30, 2012, the University also has commitments to expend approximately $56,810 to complete various construction projects.

PRESIDENT'S LEADERSHIP COUNCIL

Rev. John I. Jenkins, C.S.C., D.Phil.
President

Thomas G. Burish, Ph.D.
Provost

John F. Affleck-Graves, Ph.D.
Executive Vice President

Robert J. Bernhard, Ph.D.
Vice President for Research

Marianne Corr, J.D.
Vice President and General Counsel

Rev. Thomas P. Doyle, C.S.C.
Vice President for Student Affairs

J. Nicholas Entrikin, Ph.D.
Vice President and Associate Provost for Internationalization

Ann M. Firth, J.D.
Chief of Staff

Erin Hoffmann Harding, J.D.
Associate Vice President for Strategic Planning

Rev. James B. King, C.S.C.
Religious Superior of Holy Cross Priests and Brothers at Notre Dame

Ronald D. Kraemer
Vice President for Information Technology and Chief Information Officer

Rev. William M. Lies, C.S.C.
Vice President for Mission Engagement and Church Affairs

Scott C. Malpass, M.B.A.
Vice President and Chief Investment Officer

Christine M. Maziar, Ph.D.
Vice President and Senior Associate Provost

Robert K. McQuade
Vice President for Human Resources

Daniel J. Myers, Ph.D.
Vice President and Associate Provost

Louis M. Nanni
Vice President for University Relations

Donald B. Pope-Davis, Ph.D.
Vice President and Associate Provost

John A. Sejdinaj, M.B.A.
Vice President for Finance

Frances L. Shavers, Ph.D.
Chief Diversity Officer and Advisor to the President

John B. Swarbrick Jr., J.D.
Vice President and Director of Athletics

DEANS

Michael N. Lykoudis, M.Arch.
Dean of the School of Architecture

John T. McGreevy, Ph.D.
Dean of the College of Arts and Letters

Roger D. Huang, Ph.D.
Interim Dean of the Mendoza College of Business

Peter Kilpatrick, Ph.D.
Dean of the College of Engineering

Hugh R. Page Jr., Ph.D.
Dean of the First Year of Studies

Gregory E. Sterling, Ph.D.
Dean of the Graduate School

Nell Jessup Newton, J.D.
Dean of the Law School

Gregory P. Crawford, Ph.D.
Dean of the College of Science

OFFICE OF THE PRESIDENT

Roger P. Mahoney, C.P.A.
Chief Audit Executive

FINANCIAL AND INVESTMENT OPERATIONS

John F. Affleck-Graves, Ph.D.
Executive Vice President

John A. Sejdinaj, M.B.A.
Vice President for Finance

Scott C. Malpass, M.B.A.
Vice President and Chief Investment Officer

Andrew M. Paluf, C.P.A., M.B.A.
Associate Vice President for Finance and Controller

Thomas J. Guinan, C.P.A., M.B.A.
Associate Controller

James A. Kieft, C.P.A.
Assistant Controller, Financial Reporting and Analysis

Victor J. DeCola, M.B.A.
Assistant Controller, Business Process and Advisory Services

Paul A. Van Dieren, C.P.A., M.B.A.
Assistant Controller, Payment and Procurement Services

Jason A. Little, C.P.A., M.B.A.
Assistant Controller, Accounting and Financial Services

Richard F. Klee, C.P.A., M.A.
Tax Director

Ann P. Strasser, M.A.
Assistant Controller, Research and Sponsored Programs Accounting

Jason M. Schroeder, C.P.A.
Senior Manager, Financial Reporting

Amy F. Roth, C.P.A.
Assistant Director, Accounting and Financial Services

Mark C. Krcmaric, M.B.A.-J.D.
Managing Director and Chief Operating Officer, Investment Office

Linda M. Kroll, C.P.A.
Associate Vice President for Finance

Richard A. Bellis
Senior Director of Treasury Services

University Trustees
As of June 30, 2012

MIX
Paper from
responsible sources
FSC® C074503
FSC
www.fsc.org

UNIVERSITY OF
NOTRE DAME