

DARTMOUTH COLLEGE

Financial Statements

2001 – 2002

Report of Independent Accountants

To the Board of Trustees of
Dartmouth College:

In our opinion, the accompanying statement of financial position and the related statements of activities, expenditures, and cash flows present fairly, in all material respects, the financial position of Dartmouth College at June 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Dartmouth College's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Dartmouth College's 2001 financial statements, and in our report dated September 14, 2001, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 12, 2002

Dartmouth College

Statements of Financial Position

As of June 30, 2002 and 2001
(in thousands)

	2002	2001
Assets		
Cash and temporary investments	\$ 186,748	\$ 143,817
Receivables and other assets, net	133,865	117,158
Pledges receivable, net	70,338	31,231
Bond investments held by trustee, at cost	99,810	35,136
Investments, at estimated fair value	2,423,763	2,728,040
Land, buildings, equipment, and construction in progress, net	484,538	461,462
Total assets	3,399,062	3,516,844
Liabilities		
Accounts payable and other liabilities	142,165	186,862
Deferred revenues and deposits	37,584	33,082
Pension and other employment related obligations	58,333	50,352
Bonds, mortgages, and note payable, net	395,670	288,457
Government advances for student loans	18,544	17,673
Total liabilities	652,296	576,426
Total Net Assets	\$ 2,746,766	\$ 2,940,418
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Net Assets		
Unrestricted	\$ 952,065	\$ 976,377
Temporarily restricted	1,254,608	1,458,914
Permanently restricted	540,093	505,127
Total Net Assets	\$ 2,746,766	\$ 2,940,418

The accompanying notes are an integral part of the financial statements.

Dartmouth College

Statements of Activities

For the year ended June 30, 2002, with summarized financial information for the year ended June 30, 2001
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2002	2001
Endowment Activities					
Gifts	\$ 1,000	\$ 470	\$ 19,460	\$ 20,930	\$ 27,738
Total investment return, net	(43,600)	(93,837)	449	(136,988)	(6,665)
Distributed for spending	(33,899)	(92,184)	-	(126,083)	(106,387)
Other changes	3,850	(2,379)	4,815	6,286	3,293
Amounts transferred from other funds, net	5,998	1,934	302	8,234	5,876
Increase (decrease) in net assets from endowment activities	(66,651)	(185,996)	25,026	(227,621)	(76,145)
Operating Activities					
Revenues					
Tuition and fees	158,433	-	-	158,433	150,194
Student scholarships	(51,456)	-	-	(51,456)	(47,739)
Sponsored research grants and contracts	126,362	-	-	126,362	105,896
Dartmouth College Fund and other gifts	33,133	5,672	-	38,805	51,480
Distributed endowment investment return	121,087	3,596	-	124,683	105,220
Other operating income	53,754	513	-	54,267	60,627
Auxiliaries	49,652	-	-	49,652	49,425
Net assets released from donor restrictions	6,280	(6,280)	-	-	-
Total revenues	497,245	3,501	-	500,746	475,103
Expenditures					
Instruction, faculty, and student support	390,923	-	-	390,923	336,173
General institutional services	50,173	-	-	50,173	41,602
Auxiliaries	51,675	-	-	51,675	48,614
Total expenditures	492,771	-	-	492,771	426,389
Increase in net assets from operating activities	4,474	3,501	-	7,975	48,714
<i>Designated or restricted for specific purposes</i>	<i>4,420</i>	<i>3,501</i>	<i>-</i>	<i>7,921</i>	<i>48,701</i>
<i>Increase in undesignated net assets (Note A)</i>	<i>54</i>	<i>-</i>	<i>-</i>	<i>54</i>	<i>13</i>
Non-operating Activities					
Gifts	70	10,517	-	10,587	15,604
Grants and other earnings	131	4,978	159	5,268	4,626
Distributed endowment investment return	323	750	327	1,400	1,167
Increase (decrease) in outstanding pledges	-	24,161	14,946	39,107	(7,220)
Disposals and non-capitalized expenditures	(11,150)	(1,898)	-	(13,048)	(1,472)
Amounts released from gift, income, and plant restrictions	55,834	(55,834)	-	-	-
Amounts transferred to endowment, net	(7,343)	(889)	(2)	(8,234)	(5,876)
Net change in life income, annuity, and similar funds	-	(3,596)	(5,490)	(9,086)	(7,615)
Increase (decrease) in net assets from non-operating activities	37,865	(21,811)	9,940	25,994	(786)
Increase (decrease) in net assets	(24,312)	(204,306)	34,966	(193,652)	(28,217)
Net Assets, beginning of year	976,377	1,458,914	505,127	2,940,418	2,968,635
Net Assets, end of year	\$ 952,065	\$1,254,608	\$ 540,093	\$2,746,766	\$2,940,418

The accompanying notes are an integral part of the financial statements.

Dartmouth College

Statements of Expenditures

For the year ended June 30, 2002, with summarized financial information for the year ended June 30, 2001
(in thousands)

	Instruction, Faculty, and Student Support			General Institutional Services				Auxiliaries	Total Expenditures	
	Academic and Student Programs	Sponsored Programs	Total	Administrative Support	Plant Operation & Maintenance	Development	Total	Auxiliaries	2002	2001
Compensation	\$ 166,955	\$ 51,730	\$ 218,685	\$ 16,764	\$ 12,573	\$ 16,579	\$ 45,916	\$ 14,878	\$ 279,479	\$ 239,238
Fellowships and student support	4,793	2,186	6,979	-	-	-	-	-	6,979	6,564
Materials, equipment, and supplies	27,498	13,700	41,198	1,420	3,864	2,375	7,659	14,460	63,317	54,042
Purchased services	23,416	22,600	46,016	1,496	1,497	3,024	6,017	8,624	60,657	53,951
Utilities, taxes, and occupancy	-	-	-	-	11,209	-	11,209	6,888	18,097	18,341
Depreciation	19,191	-	19,191	1,349	4,626	-	5,975	3,315	28,481	19,385
Lodging, travel, and similar costs	15,382	3,137	18,519	971	103	1,935	3,009	303	21,831	21,227
Interest and amortization	70	-	70	172	9,003	-	9,175	2,964	12,209	11,809
Other expenditures	441	538	979	629	-	113	742	-	1,721	1,832
Subtotal Expenditures	257,746	93,891	351,637	22,801	42,875	24,026	89,702	51,432	492,771	426,389
Plant Operation & Maintenance	39,286	-	39,286	3,346	(42,875)	-	(39,529)	243	-	-
Total Expenditures	\$ 297,032	\$ 93,891	\$ 390,923	\$ 26,147	\$ -	\$ 24,026	\$ 50,173	\$ 51,675	\$ 492,771	\$ 426,389

The accompanying notes are an integral part of the financial statements.

Dartmouth College

Statements of Cash Flows

For the years ended June 30, 2002 and 2001
(in thousands)

	2002	2001
Cash flows from operating activities		
Total decrease in net assets	(\$ 193,652)	(\$ 28,217)
Adjustments to reconcile total decrease in net assets to net cash provided by (used by) operating activities		
Depreciation and amortization	28,653	23,957
Other non-cash transactions	9,127	(943)
Changes in operating assets and liabilities		
Receivables and other assets, net	(17,557)	(17,176)
Pledges receivable, net	(43,358)	6,832
Accounts payable and other liabilities	5,306	10,785
Deferred revenues and deposits	4,503	4,916
Pension and other employment related obligations	7,981	4,454
Contributions restricted for long-term investments	(41,915)	(52,793)
Investment income and net losses for long-term investments	150,667	66,242
Other net losses on investments	53,906	17,650
Net cash provided by (used by) operating activities	(36,339)	35,707
Cash flows from investing activities		
Student loans granted	(8,717)	(7,788)
Student loans repaid	10,071	8,136
Purchases of land, buildings, and equipment	(57,958)	(66,513)
Proceeds from the sale of land, buildings, and equipment	19	233
Net change in liability for split-interest agreements	(3,441)	194
Net change in liability for unsettled investment trades	(46,562)	89,886
Purchases of investments	(1,765,071)	(2,059,106)
Sales of investments	1,869,393	1,974,247
Net cash used by investing activities	(2,266)	(60,711)
Cash flows from financing activities		
Government advances for student loans	870	475
Proceeds from issuance of bonds, mortgages, and notes	109,800	-
Repayment of bonds, mortgages, and notes	(2,389)	(1,998)
Decrease (increase) in bond investments held by trustee	(64,674)	18,816
Contributions, grants, and investment income restricted for		
Investment in facilities	15,365	16,691
Investment in endowment, life income, and similar funds	22,564	34,606
Net cash provided by financing activities	81,536	68,590
Net increase in cash and temporary investments	42,931	43,586
Cash and temporary investments, beginning of year	143,817	100,231
Cash and temporary investments, end of year	\$ 186,748	\$ 143,817

The accompanying notes are an integral part of the financial statements.

Dartmouth College
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Description of Organization

The College is a private, nonprofit, coeducational, nonsectarian institution of higher education with approximately 4,400 undergraduate and 1,200 graduate students. Established in 1769, the College includes the four-year co-educational undergraduate college, with graduate schools of business, engineering and medicine, and 16 graduate programs in the Arts and Sciences.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. The consolidated financial statements of Dartmouth College include the accounts of its wholly owned subsidiaries and certain affiliated organizations that are financially controlled by the College. The wholly owned subsidiaries and financially controlled entities include real estate corporations, which own various real estate holdings in the local area; the Dartmouth Education Loan Corporation (DELCO), which provides low-cost loans to Dartmouth students who are unable to finance their education through other sources; and various separately incorporated foundations, which support activities that enrich the experience of students and the community.

In accordance with generally accepted accounting principles, net assets, revenues, expenses, gains, and losses are classified into one of three categories: unrestricted, temporarily restricted or permanently restricted. Unrestricted net assets include all resources that are not subject to donor-imposed restrictions and therefore may be used for any purpose in furtherance of the College's educational mission. Under the authority of the management and Board of Trustees of the College, in order to support the College's strategic initiatives, all or a portion of unrestricted net assets may be set aside in segregated College-designated reserve accounts and earmarked for use in future years by specific departments, cost centers, or the professional schools to cover program costs or contingencies. These College-designated net assets include funds designated for operating initiatives, physical plant facilities, and long-term quasi-endowment. The purposes for which College-designated net assets are earmarked may be changed under the authority of the management and Board of Trustees of the College. The use of certain specified designated net assets is at the discretion of the responsible department. All expenses are recorded as a reduction of unrestricted net assets.

Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the College which fulfill the restrictions. Temporarily restricted net assets include unexpended endowment return, unexpended gifts for operating activities, term endowment funds, physical plant additions, uncollected pledges, and life income and similar funds. Donor-restricted resources intended for capital projects and other purposes are released from their temporary restrictions and presented as unrestricted support when spent. Donor-restricted gifts which are received and either spent or deemed spent within the same fiscal year are reported as unrestricted contributions in the year they are received.

Permanently restricted net assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the net assets be retained permanently. Based upon a legal interpretation of the New Hampshire State Law, the College determined that appreciation on restricted endowment funds should be classified as temporarily restricted net assets until such time as the appreciation is appropriated by the Board of Trustees. Investment return from endowment activities that has been appropriated by the College's Board of Trustees is presented as an increase in operating or non-operating activities according to the unrestricted, temporarily restricted, or permanently restricted nature of the donor's intended use of the funds. In the case of quasi-endowment funds designated for long-term investment by the College, investment return that has been appropriated by the College's Board of Trustees is presented as an increase in unrestricted operating or non-operating activities, depending upon the College's intended use of the funds. Permanently restricted net assets consist of original principal of endowment gifts, loan funds, and certain pledges.

Dartmouth College
Notes to Financial Statements

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2001, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. The most significant estimates in these financial statements for the years ended June 30, 2002 and 2001 are the estimated fair value of investments and bonds payable, estimated pension and postretirement benefit obligations, estimated liabilities on split-interest agreements, and estimated allowances for uncollectible accounts and pledges receivable. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2001, to conform to the financial statement presentation for the year ended June 30, 2002.

Operating and Non-operating Activities

Operating activities presented in the Statement of Activities consist of revenues earned, endowment total investment return appropriated by the College's Board of Trustees, and expenses incurred in conducting the programs and services of the College. Auxiliary enterprises, primarily the operation of residence halls, dining services, and recreational facilities, are included in operating activities. Expenses such as development, public relations, and central services and administration are reported as general institutional services. Depreciation and plant operations and maintenance expenses are allocated to functional classifications of expenditures based on the primary use of each asset. Interest expense is allocated to functional classification of expenditures based on the primary use of each building that has been debt financed.

Non-operating activities presented in the Statement of Activities consist of gifts, grants, other earnings, and endowment investment return appropriated by the College's Board of Trustees for loan programs and capital asset projects, net change in life income and similar split-interest agreements, and the net change in pledges receivable.

Cash and Temporary Investments

Cash and temporary investments consist principally of U.S. treasury notes, money market accounts, certificates of deposit, commercial paper, and liquid short-term investments with maturities of 90 days or less at the date of acquisition. Cash and temporary investments are carried at cost, which approximates fair value.

Tuition and Fees and Student Scholarships

Tuition and fees revenue is recognized as it is billed to the enrolled student population of approximately 5,600. Tuition and fees revenue from undergraduate enrollment represents approximately 70 percent of tuition and fees revenue. Student scholarships are presented in the Statement of Activities as a reduction in tuition and fees revenue. With the exception of international applicants, the College admits students to its undergraduate program without regard to financial need. The financial aid program assists all students with demonstrated need, defined in accordance with a uniform formula, by providing a mix of scholarship grants and loans designed to cover costs of attendance when combined with student and family contributions based on ability to pay.

Sponsored Research Grants and Contracts

Revenues from government and private sponsored research grants and contracts are recognized when the direct costs associated with the sponsored program are incurred. Revenue from the reimbursement of indirect costs related to sponsored research is recognized according to predetermined fixed billing rates.

Dartmouth College
Notes to Financial Statements

Income Taxes

The College is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), except with regard to unrelated business income, which is taxed at corporate income tax rates. The College is also subject to state and local property tax on the value of dormitories and dining and kitchen facilities in excess of \$150,000, as well as on the value of its off-campus rental properties, commercial properties, and other real estate holdings to the extent they are not used or occupied for the College's tax exempt purposes. Certain of the College's real estate entities are exempt from federal income tax under Section 501(c)(2) and 501(c)(25) of the Code.

Affiliation with Dartmouth-Hitchcock Medical Center

The College, through the Dartmouth Medical School (DMS) is a member of the Dartmouth-Hitchcock Medical Center (DHMC), a confederation of health care organizations intended to coordinate medical education and health care delivery for the residents of New Hampshire and Vermont. DHMC is a nonprofit, tax-exempt corporation organized under New Hampshire State Law. The other members of DHMC are: (i) Mary Hitchcock Memorial Hospital (Hitchcock Hospital), (ii) Dartmouth-Hitchcock Clinic (Clinic), and (iii) Veteran's Administration of White River Junction, Vermont (VA). The staff of the Clinic serves as the primary resource for clinical faculty at DMS, with the Hitchcock Hospital and the VA acting as principal sites of clinical instruction for the students of DMS. Each member is a separately organized, governed, and operated institution, with the College having no ownership interest in any other member. Certain costs, including salaries, facilities use (including construction planning and management, and facilities operation and maintenance), and direct and indirect research, incurred by DMS and the other members of DHMC are shared among the members based on negotiated allocations of the costs on an annual or project specific basis. The members of DHMC are also parties to a Condominium Ownership Agreement that governs the ownership and operation of the DHMC facilities.

Insurance

The College maintains several insurance arrangements with the objective of providing comprehensive coverage for the most insurable risks. Conventional insurance coverage, including a self-insured retention amount, are in force for trustee errors and omissions, crime bond, comprehensive general and automobile liability, pension trust fiduciary errors and omissions liability, and real and personal property losses. Workers' compensation is a fully insured program. The College, together with other institutions, has formed two captive insurance companies that arrange and provide professional liability, general liability, property damage, and medical malpractice insurance for the shareholders of the captive insurance companies. The College's investments in these captive insurance companies are carried at cost in the accompanying financial statements.

The College's annual premium payments for insurance coverage are included in operating expenses. Estimated liabilities for losses under the College's self-insurance retention limits are reflected in the Statement of Financial Position and the Statement of Activities, which include estimates for known losses and for losses incurred but not yet reported. Self-insurance reserves are necessarily based on estimates of historical loss experience, and while management believes that the reserves are adequate, the ultimate liabilities may be in excess of, or less than, the amounts provided.

Gifts and Pledges Receivable

Total contributions to the College include gifts that are received and the net change in pledges receivable during a period. Gifts are recognized as an increase in the appropriate category of net assets in the period the gift is received. The net change in total pledges is recorded as a net increase (decrease) in non-operating activities in the Statement of Activities. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Unconditional pledges are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are stated at the estimated present value of future cash flows, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Dartmouth College
Notes to Financial Statements

Investments

Investments in securities are carried at estimated fair values as established by the major securities markets. Investments in diversified venture capital holdings and certain other limited partnership interests are carried at estimated fair values, generally as of the March 31 prior to the College's fiscal year end, based upon financial information provided by the general partners. Because many of these investments are not readily marketable, the estimates of fair value necessarily involve assumptions and estimation methods which are uncertain, and therefore the estimates could differ from actual results. Other investments, including certain real estate holdings and minority interests in captive insurance companies are carried at cost or estimated market value. Purchases and sales of securities are recorded on the trade date, and realized gains and losses are determined on the basis of the average cost of securities sold. Derivative financial instruments held for investment purposes are carried at estimated fair values with resulting gains and losses included in investment return.

Total investment return (interest, dividends, rents, royalties, and net realized and unrealized gains and losses) earned by the College's endowment investments is reported as endowment activity, while the net income earned by the non-endowment investments is included in other operating income. Fees paid to external investment managers are generally based on contractual percentages of the fair market value of assets under management or on annual total investment return. These fees, as well as certain other expenses associated with endowment investment management and custody, including certain internal costs, are deducted from endowment investment return in the accompanying Statement of Activities.

Endowment

The College's endowment and similar funds consist of gifts restricted by donors for long-term support of the College's activities, unrestricted net assets designated by the Board of Trustees for the long-term support of the College's activities, and the accumulated investment return on these gifts and designated net assets. Accumulated investment return consists of total endowment investment return that has not been appropriated by the Board of Trustees for expenditure to support the operating and non-operating activities of the College. Generally, only a portion of accumulated investment return is made available for spending each year in accordance with a Board of Trustees-approved endowment utilization policy and New Hampshire State Law. However, certain donor restricted endowment funds do allow for the expenditure of principal, and College designated endowment funds are unrestricted net assets that may be re-designated for expenditure upon authorization by the Board of Trustees.

Unrestricted endowment net assets include College funds and certain unrestricted gifts from donors, and any accumulated investment return thereon, which may be expended; however, by Trustee designation, these net assets may remain invested in the endowment for the long-term support of College activities. Investment return on unrestricted endowment net assets and the annual distribution of a portion of accumulated investment return to operating and non-operating activities are presented as changes in unrestricted net assets in the accompanying Statement of Activities. Temporarily restricted endowment net assets include certain expendable endowment gifts, and any retained income and appreciation thereon, which are restricted by the donor to a specific purpose or by law. When the temporary restrictions on these funds have been met, the gifts ordinarily remain in the endowment by Trustee designation to continue supporting the same activities as those specified by the donors, but the net assets are reclassified to unrestricted endowment net assets. Permanently restricted endowment net assets include the original gift amount of true endowment gifts, and for certain gifts, at the direction of the donor, the investment earnings that are to remain invested in perpetuity. Investment return on temporarily and most of the permanently restricted net assets and the annual distribution of a portion of the accumulated investment return to operating and non-operating activities are presented as changes in temporarily restricted net assets in the accompanying Statement of Activities.

The College employs a total return endowment utilization policy that establishes the amount of investment return made available for spending each fiscal year. The amount appropriated for expenditure each year is independent of the actual return for the year, but the appropriated amount cannot exceed the total accumulated return in a fund at the time of distribution. The endowment utilization policy approved by the Board of Trustees limits the annual appropriation of accumulated endowment investment return to fall within a range of 4.25% to 6.50% of the average market value of the endowment investments over the twelve quarters ended as of the previous June 30th.

Dartmouth College
Notes to Financial Statements

Investment return earned in excess of the amount appropriated annually is reinvested in the funds, but can be appropriated in future years in accordance with the utilization policy. The net appreciation on most of the permanently and temporarily restricted endowment funds is reported together with temporarily restricted net assets until such time as all or a portion of the appreciation is appropriated for spending in accordance with the utilization policy and applicable state law.

Split-Interest Agreements

Certain donors have established split-interest agreements with the College, primarily charitable gift annuities, pooled life income funds, and irrevocable charitable remainder trusts, whereby the donated assets are invested and distributions are made to the donor and/or other beneficiaries in accordance with the agreement for a specified period of time, at which time the remaining assets and future investment return are retained by the College. The College may or may not, at the discretion of the donor, serve as trustee for the split-interest agreement. The College has recorded the estimated fair value of the investments associated with the split-interest agreements and an estimated liability for the net present value of the future cash outflows to beneficiaries of the agreements for which the College serves as trustee. The College reports the net change in split-interest agreements as a non-operating change in net assets in the Statement of Activities.

Investments Held by Trustee

Investments held by Trustee consist of unexpended debt proceeds that have been invested in accordance with the various resolutions and loan agreements in connection with the New Hampshire Health and Education Facilities Authority (NHHFEFA) Bonds. Unexpended debt proceeds are invested in cash, temporary investments, and fixed income securities and are reported at cost, which approximates market value.

Land, Buildings, Equipment, and Construction in Progress

Land, buildings, equipment, including software development costs, and construction in progress are recorded at cost at the date of acquisition or, if acquired by gift, at the estimated fair value as of the date of the gift. Purchases, construction, and renovations of plant assets which exceed the College's specified dollar threshold and have a useful life greater than one year are capitalized, while scheduled maintenance and minor renovations of less than that amount are charged to operations.

Land, buildings, and equipment are reflected net of accumulated depreciation calculated on a straight-line basis over the following estimated economic lives:

Buildings and building components	10-50 years
Depreciable land improvements	15-20 years
Equipment	5-20 years

Depreciation expense for facilities that are primarily used for sponsored research is based on the estimated economic lives of each component.

Collections

The College's collections include works of art, literary works, historical treasures, and artifacts that are maintained in the College's museum and libraries. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

The collections, which were acquired through purchases and contributions since the College's inception, are not recognized as assets in the Statement of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not recorded in the financial statements.

Dartmouth College
Notes to Financial Statements

B. Receivables and Other Assets

Receivables and other assets consisted of the following at June 30 (in thousands):

	2002	2001
Student accounts receivable	\$ 6,511	\$ 3,184
Sponsored research grants and contracts receivable	25,232	13,610
Other accounts receivable	31,483	31,291
Notes and student loans receivable	60,458	61,404
<i>Less</i> : allowance for uncollectible accounts	(3,496)	(3,727)
Receivables, net	\$ 120,188	\$ 105,762
Inventory and deferred charges	13,677	11,396
Total receivables and other assets, net	\$ 133,865	\$ 117,158

Federally-sponsored student loans with mandated interest rates and repayment terms are subject to significant restrictions as to their transfer and disposition. Amounts received from the Federal government to fund a portion of the Perkins student loans are ultimately refundable to the Federal government and are classified as government advances for student loans in the Statement of Financial Position. Due to the nature and terms of student loans funded by the Federal government, and restricted and unrestricted College funds, it is not practical to estimate the fair value of such loans.

Deferred charges, which represent bond issue costs, of \$2,531,000 and \$2,387,000 as of June 30, 2002 and 2001, respectively, are being amortized over the term of the bonds.

C. Gifts and Pledges Receivable

Gifts received during the years ended June 30 were as follows (in thousands):

	2002	2001
Gifts to support operations	\$ 38,805	\$ 51,480
Gifts for		
Facilities and student loans	10,587	15,604
Endowment	20,930	27,738
Life income and similar funds	6,927	12,403
Total gifts and pledge payments	\$ 77,249	\$ 107,225

Unconditional pledges as of June 30 are expected to be realized in the following periods (in thousands):

	2002	2001
In one year or less	\$ 30,693	\$ 19,437
Between one year and five years	47,956	15,854
Gross pledges receivable	\$ 78,649	\$ 35,291
<i>Less</i> : present value discount	(4,132)	(1,221)
<i>Less</i> : allowance for uncollectible pledges	(4,179)	(2,839)
Pledges receivable, net	\$ 70,338	\$ 31,231

Dartmouth College
Notes to Financial Statements

D. Investments

Investments consisted of the following at June 30 (in thousands):

	2002		2001	
	Cost	Market	Cost	Market
Endowment investments				
Cash and temporary investments	\$ 66,682	\$ 66,682	\$ 217,427	\$ 217,427
Fixed income securities	365,798	375,129	410,438	421,198
Equity securities	1,165,241	1,205,763	1,085,612	1,252,443
Limited partnerships and similar investments	315,994	390,008	275,643	425,140
Other investments	177,995	198,838	157,112	183,251
Endowment investments	<u>\$ 2,091,710</u>	<u>\$ 2,236,420</u>	<u>\$ 2,146,232</u>	<u>\$ 2,499,459</u>
Split-interest agreement investments				
Cash and temporary investments	\$ 2,242	\$ 2,242	\$ 4,978	\$ 4,978
Fixed income securities	56,233	56,852	58,661	57,875
Equity securities	60,580	68,291	57,547	77,706
Limited partnerships and similar investments	1,052	939	224	292
Other investments	143	138	138	138
Split-interest agreement investments	<u>\$ 120,250</u>	<u>\$ 128,462</u>	<u>\$ 121,548</u>	<u>\$ 140,989</u>
Other funds investments				
Fixed income securities	\$ 17,883	\$ 18,200	\$ 49,583	\$ 50,655
Equity securities and other investments	31,756	40,681	29,069	36,937
Other funds investments	<u>\$ 49,639</u>	<u>\$ 58,881</u>	<u>\$ 78,652</u>	<u>\$ 87,592</u>
Total investments	<u>\$ 2,261,599</u>	<u>\$ 2,423,763</u>	<u>\$ 2,346,432</u>	<u>\$ 2,728,040</u>

A net payable for unsettled trades of \$28,153,000 and \$74,715,000 at June 30, 2002 and 2001, respectively, is included in accounts payable and other liabilities in the accompanying Statement of Financial Position. Limited partnerships and other similar investments consist of limited partnership interests in venture capital, oil and gas, and other private debt and equity funds. Other investments include real estate limited partnerships, real estate holdings, and other non-marketable assets.

The College's endowment investment portfolio includes derivative financial instruments that have been acquired to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. The endowment also employs certain derivative financial instruments to replicate long or short asset positions more cost effectively than through purchases or sales of the underlying assets.

The College from time to time enters into foreign currency forward contracts to protect long-term investments denominated in foreign currency from currency risk. At June 30, 2002 and 2001, respectively, the College held forward contracts to buy foreign currencies in the amount of \$61,558,000 and \$91,644,000, and to sell foreign currencies in the amount of \$6,684,000 and \$16,244,000. The College has also recorded associated net unrealized losses of \$4,115,000 and net unrealized gains of \$2,648,000 on forward contracts held as of June 30, 2002 and 2001, respectively.

At June 30, 2002, the College also held options and futures contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. The College has recorded net unrealized losses of \$289,000 and net unrealized gains of \$166,000 as of June 30, 2002 and 2001, respectively, pertaining to options contracts held. The difference between the exercise price of open written options contracts and the estimated value of the related underlying securities resulted in a net short position of \$689,000 and \$240,000 at June 30, 2002

Dartmouth College
Notes to Financial Statements

and 2001, respectively. The College is obligated to pledge to the appropriate broker, cash or securities to be held as collateral, as determined by exchange margin requirements for futures contracts held. At June 30, 2002 and 2001, the market value of the College's pledged collateral on futures contracts was \$1,982,000 and \$1,950,000, respectively. The difference between the estimated value of open futures contracts to sell and purchase securities was a net short position of \$6,836,000 and a net long position of \$16,264,000 as of June 30, 2002 and 2001, respectively.

The College participates in a security lending program that is designed to enhance return on certain asset holdings. At June 30, 2002 and 2001, the College had the rights to \$148,724,000 and \$184,024,000, respectively, of cash, temporary investments, and letters of credit as collateral on deposit for certain securities loaned to brokers and other financial institutions. All rights to this collateral, of a secured party under applicable law, are available to the College under agreement in the case of a borrower's failure to deliver securities for any reason within the time specified by the applicable securities loan agreement. Collateral assets are not included in the assets presented in the Statement of Financial Position. The securities temporarily on loan are included in the endowment investments of the College with an estimated fair market value as of June 30, 2002 and 2001, of \$145,129,000 and \$170,294,000, respectively.

The changes in estimated fair value of net assets held in endowment funds for the years ended June 30 were as follows (in thousands):

	2002	2001
Endowment net assets, beginning of year	\$ 2,414,231	\$ 2,490,376
Gifts	20,930	27,738
Investment Return		
Investment income	49,227	63,969
Net gain (loss) in market value		
Realized	22,302	262,937
Unrealized	(208,517)	(333,571)
Total investment return	\$ (136,988)	\$ (6,665)
Distribution of endowment return to all funds	(126,896)	(107,837)
Income returned to endowment principal	813	1,450
Other changes, net	14,520	9,169
Endowment net assets, end of year	\$ 2,186,610	\$ 2,414,231

Temporarily restricted endowment net assets also include the remaining amount of expendable accumulated appreciation on permanent endowment funds (\$932,721,000 and \$1,101,891,000 at June 30, 2002 and 2001, respectively). As of June 30, 2002, the market value attributable to certain endowment funds was less than the permanently restricted original gift by an aggregate amount of \$2,968,000, which has been reflected as a reduction in unrestricted net assets in accordance with Financial Accounting Standards Board (FASB) Statement No. 124.

Net changes in net assets attributable to split-interest agreements for the years ended June 30 were as follows (in thousands):

	2002	2001
Net assets, beginning of year	\$ 69,374	\$ 76,989
Gifts	6,927	12,403
Net investment return after		
payments to beneficiaries	(14,246)	(17,405)
Other changes	(1,767)	(2,613)
Net assets, end of year	\$ 60,288	\$ 69,374

Dartmouth College
Notes to Financial Statements

Other changes in net assets attributable to split-interest agreements principally consist of changes in the estimated present value of cash outflows to beneficiaries of the agreements. A payable of \$68,174,000 and \$71,615,000 at June 30, 2002 and 2001, respectively, for the estimated net present value of expected future payments to beneficiaries is included in other liabilities in the Statement of Financial Position.

E. Land, Buildings, Equipment, and Construction in Progress

Land, buildings, equipment, and construction in progress balances at June 30 were as follows (in thousands):

	2002	2001
Land	\$ 12,038	\$ 12,043
Buildings	515,931	464,907
Land improvements	60,087	58,860
Equipment	102,967	100,904
Land, buildings, and equipment	\$ 691,023	\$ 636,714
Less: accumulated depreciation	(244,565)	(231,787)
Construction in progress	38,080	56,535
Total net book value	\$ 484,538	\$ 461,462

Disposals of capitalized assets with accumulated depreciation of \$7,438,000 and a net book value of \$14,028,000, and other adjustments to capital asset balances of \$7,096,000 were reported as a non-operating reduction in net assets in the Statement of Activities for the year ended June 30, 2002. In addition, the capital asset categories above and accumulated depreciation were reduced by \$8,436,000 to reflect certain fully depreciated capital assets that are no longer in service.

F. Bonds, Mortgages, and Note Payable

Indebtedness at June 30 consisted of (in thousands):

	2002	2001
Various revenue bonds issued through NHHEFA for the acquisition, installation, construction, renovation, and equipping of various academic, research, and administrative facilities		
Series '02, term bonds maturing in the year 2032 at variable rates (ranging from 1.05% to 1.50% from May 1 – June 30, 2002)	\$ 101,000	\$ -
Series '99, term bonds maturing in the year 2019 at a rate of 5.92%	8,845	8,845
Series '98, term bonds maturing in the year 2028 at a rate of 5.12%	33,000	33,000
Series '97A, term bonds maturing in the year 2028 at a rate of 5.37%	52,000	52,000
Series '97, term bonds maturing in the years 2007 and 2027 at rates of 5.05% and 5.85%, respectively	36,740	36,740
Series '93, serial coupon and term bonds maturing through 2023 at rates ranging from 4.95% to 5.73%	112,125	113,850
Various revenue bonds issued by DELC through NHHEFA		
Series '99, term bonds maturing in the year 2039 at a rate of 6.19%	9,940	9,940
Series '85 and Series '98A, serial coupon and term bonds maturing through 2025 at rates ranging from 4.40% to 5.55%	27,230	27,375
Subtotal NHHEFA bonds	\$ 380,880	\$ 281,750

Dartmouth College
Notes to Financial Statements

	2002	2001
Subtotal NHHEFA bonds (forward)	\$ 380,880	\$ 281,750
Mortgages on real estate investments, various maturities through 2024 at fixed and variable rates, ranging during the current year from 3.25% to 7.10%	18,317	9,804
Other note payable, maturing in 2003 at a rate of 6.20%	2,141	2,373
Subtotal bonds, mortgages, and note payable	\$ 401,338	\$ 293,927
Less : original issue discount and premium, net	(5,668)	(5,470)
Total bonds, mortgages, and note payable	\$ 395,670	\$ 288,457

Interest expense on debt used to finance facilities projects totaled \$13,444,000 and \$13,293,000 for the years ended June 30, 2002 and 2001, respectively. Interest expense on debt used to finance student loans totaled \$2,087,000 and \$2,094,000 for the years ended June 30, 2002 and 2001, respectively, and is presented as a deduction from other non-operating earnings in the Statement of Activities. Interest expense on mortgages and other note payable totaled \$736,000 and \$813,000 for the years ended June 30, 2002 and 2001, respectively, and is presented as a deduction from other non-operating earnings in the Statement of Activities. Of the interest paid on facilities debt, \$1,676,000 and \$2,181,000 was capitalized in connection with various construction projects for the years ended June 30, 2002 and 2001, respectively.

In August 2002, the College refinanced the other note payable that was to mature in April 2003. The new note payable is unsecured and has a ten year term with a 6.31% fixed interest rate.

The aggregate amounts of principal due for each of the next five years ending June 30 and thereafter are as follows (in thousands):

2003	\$	4,493
2004		2,477
2005		2,630
2006		4,180
2007		7,868
Thereafter		379,690
Total principal due	\$	401,338

The estimated fair value of the NHHEFA bonds is approximately \$392,182,000 as of June 30, 2002, based on the debt service cash flows of the bonds and certain interest rate assumptions for similar bonds as of June 30, 2002. The fair value of the mortgages and other note payable are not practical to determine due to the nature of the borrowings.

Principal due after the year 2007 includes, an \$8,845,000 "balloon" payment on the NHHEFA Series 1999 Bonds which mature in June 2019, a \$15,300,000 "balloon" payment on the DELC Series 1998A Bonds which mature in June 2023, a \$31,740,000 "balloon" payment on NHHEFA Series 1997 Bonds which mature in June 2027, a \$52,000,000 "balloon" payment on NHHEFA Series 1997A Bonds which mature in June 2028, a \$33,000,000 "balloon" payment on NHHEFA Series 1998 Bonds which mature in June 2028, and a \$101,000,000 "balloon" payment on NHHEFA Series 2002 Bonds which mature in June 2023. The NHHEFA bonds are a general obligation collateralized only by a pledge of full faith and credit of the College and DELC, and by funds held from time to time by the trustee for the benefit of the holders of the bonds under the respective bond resolutions. The College has agreed to certain covenants with respect to encumbrance or disposition of the College's core campus and DELC has certain covenants with respect to encumbrance or disposition of its student loan portfolio.

Dartmouth College
Notes to Financial Statements

G. Retirement and Postretirement Medical Benefits and Other Employment Related Obligations

Liabilities for retirement and postretirement medical benefits, salaries, wages, and other benefits under employment agreements consisted of the following at June 30 (in thousands):

	2002	2001
Retirement and postretirement benefits	\$ 40,823	\$ 34,123
Compensated absences, severance plans, and other commitments	11,941	11,030
Self-insured benefits	5,569	5,199
Total employment related obligations	<u>\$ 58,333</u>	<u>\$ 50,352</u>

In fiscal year 1998 the College revised its pension benefit for staff and non-union service employees, giving each participant a one-time option to either remain in the defined benefits plan or enroll in the College's defined contribution plan effective January 1, 1998. Staff and non-union service employees hired since that date receive retirement benefits under the defined contribution plan. The College's postretirement medical benefits consist of medical insurance coverage for retirees.

Information pertaining to the pension and postretirement medical benefits includes (in thousands):

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Beginning of year	\$ 60,392	\$ 61,599	\$ 38,876	\$ 34,799
Service cost	2,112	2,269	2,962	1,804
Interest cost	4,455	4,352	4,315	2,668
Benefits paid	(3,916)	(5,418)	(1,909)	(1,174)
Actuarial (gain)/loss	2,818	(2,410)	27,873	779
End of year	<u>\$ 65,861</u>	<u>\$ 60,392</u>	<u>\$ 72,117</u>	<u>\$ 38,876</u>
Change in estimated fair value of plan assets				
Beginning of year	\$ 64,225	\$ 74,295	\$ -	\$ -
Actual return on plan assets	(5,131)	(4,652)	-	-
Employer contributions	-	-	1,909	1,174
Benefits paid	(3,916)	(5,418)	(1,909)	(1,174)
End of year	<u>\$ 55,178</u>	<u>\$ 64,225</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status [plan assets greater (less) than benefit obligation]	\$ (10,683)	\$ 3,833	\$ (72,117)	\$ (38,876)
Unrecognized net transition asset	-	(425)	-	-
Unrecognized net prior service cost	6,276	6,998	2,844	3,425
Unrecognized net (gain)/loss	4,033	(11,023)	28,824	1,945
Accrued benefit cost included in the Statement of Financial Position	<u>\$ (374)</u>	<u>\$ (617)</u>	<u>\$ (40,449)</u>	<u>\$ (33,506)</u>
Net periodic benefit (income)/cost included the following				
Service cost	\$ 2,112	\$ 2,269	\$ 2,962	\$ 1,804
Interest cost	4,455	4,352	4,315	2,668
Expected return on assets	(6,204)	(6,241)	-	-
Amortization of net asset at transition	(425)	(424)	-	-
Amortization of prior service cost	722	808	580	580
Recognized net actuarial (gain)/loss	<u>(903)</u>	<u>(684)</u>	<u>994</u>	<u>88</u>
Net periodic benefit (income)/cost included in the Statement of Activities	<u>\$ (243)</u>	<u>\$ 80</u>	<u>\$ 8,851</u>	<u>\$ 5,140</u>

Dartmouth College
Notes to Financial Statements

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Weighted-average assumptions at end of year				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	9.00%	9.00%	-	-
Rate of compensation increase	5.50%	5.50%	-	-
Medical cost trend rate	-	-	10.00%	4.00%

As of June 30, 2002, the accumulated pension benefit obligation of \$57,742,000 exceeded the fair value of pension plan assets by \$2,565,000. As of June 30, 2001, the accumulated pension obligation of \$52,376,000 was less than the fair value of pension plan assets. As required by FASB Statement No. 87, the College has recorded, as of June 30, 2002, an intangible asset in the amount of \$2,190,000. The resulting accrued pension cost is presented as a net balance of \$374,000.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A one percentage point increase (decrease) in assumed health care cost trend rates would have the following effect:

Increase (decrease) in total of service and interest cost components	\$ 1,575	\$ (1,224)
Increase (decrease) in postretirement benefit obligation	\$ 12,687	\$ (10,095)

The College also maintains defined contribution retirement plans for non-union employees. These benefits are individually funded and are subject to various vesting requirements. Under these arrangements, the College makes monthly contributions to individual self-directed retirement investment accounts for the participants.

H. Other Operating Income

The major components of other operating income for the years ended June 30 were as follows (in thousands):

	2002	2001
Medical School clinical services and other support	\$ 29,115	\$ 28,560
Foreign study and continuing education programs	6,908	7,997
Hopkins Center and Hood Museum	1,604	1,461
Athletics revenues	1,656	1,696
Investment income on working capital	7,223	12,781
Student activities and other program revenues	7,761	8,132
Total other operating income	\$ 54,267	\$ 60,627

Dartmouth College
Notes to Financial Statements

I. Net Assets

Additional information pertaining to the College's net assets is presented below (in thousands):

2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets				
Operating funds				
Undesignated	\$ 1,692	\$ -	\$ -	\$ 1,692
College designated	106,906	-	-	106,906
Donor restricted	-	17,425	-	17,425
Total operating funds	<u>\$ 108,598</u>	<u>\$ 17,425</u>	<u>\$ -</u>	<u>\$ 126,023</u>
Pledges	-	49,367	20,971	70,338
Funding for facilities	223,513	43,327	-	266,840
Funding for student loans	7,885	22,906	5,876	36,667
Life income, annuity, and similar funds	-	27,019	33,269	60,288
Endowment and similar funds	<u>612,069</u>	<u>1,094,564</u>	<u>479,977</u>	<u>2,186,610</u>
Total net assets	<u><u>\$ 952,065</u></u>	<u><u>\$ 1,254,608</u></u>	<u><u>\$ 540,093</u></u>	<u><u>\$ 2,746,766</u></u>

2001

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets				
Operating funds				
Undesignated	\$ 1,638	\$ -	\$ -	\$ 1,638
College designated	120,569	-	-	120,569
Donor restricted	-	13,975	-	13,975
Total operating funds	<u>\$ 122,207</u>	<u>\$ 13,975</u>	<u>\$ -</u>	<u>\$ 136,182</u>
Pledges	-	25,206	6,025	31,231
Funding for facilities	167,077	86,745	-	253,822
Funding for student loans	8,373	21,813	5,392	35,578
Life income, annuity, and similar funds	-	30,615	38,759	69,374
Endowment and similar funds	<u>678,720</u>	<u>1,280,560</u>	<u>454,951</u>	<u>2,414,231</u>
Total net assets	<u><u>\$ 976,377</u></u>	<u><u>\$ 1,458,914</u></u>	<u><u>\$ 505,127</u></u>	<u><u>\$ 2,940,418</u></u>

Dartmouth College
Notes to Financial Statements

J. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$42,070,000 and \$18,192,000 at June 30, 2002 and 2001, respectively. It is expected that the resources to satisfy these commitments will be provided from gifts, pledge payments, and tax-exempt debt.

The College is obligated under certain venture capital, oil and gas, and real estate investment fund contracts, principally limited partnership agreements, to periodically advance additional funding up to contractual levels. At June 30, 2002, the College had an unfunded commitment of \$425,960,000 payable through 2007.

All funds expended by the College in connection with government sponsored grants and contracts are subject to audit by governmental agencies. Facilities and administrative costs incurred by the College on U.S. government grants and contracts are reimbursed based upon negotiated predetermined cost rates through June 30, 2003. The cost rates related to the years 1997 through 2002 are subject to audit. The ultimate liability, if any, from any such audits, is presently not determinable.

In conducting its activities, the College from time to time is the subject of various claims and also has claims against others. The ultimate resolution of such claims is not expected to have a material adverse or favorable effect on the financial position of the College.