

DARTMOUTH COLLEGE

Financial Statements

2002-2003



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Dartmouth College
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Description of Organization

Dartmouth College (the College) is a private, nonprofit, co-educational, 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 18 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 the 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 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 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 actions are taken to fulfill the restrictions. Temporarily restricted net assets include unexpended endowment return, unexpended restricted use gifts, term endowment funds, 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 the original principal of endowment gifts, loan funds, and certain pledges.

Dartmouth College

Statements of Expenditures

For the year ended June 30, 2003 with summarized financial information for the year ended June 30, 2002
(in thousands)

	<u>Instruction, Faculty, and Student Support</u>			<u>General Institutional Services</u>				<u>Auxiliaries</u>	<u>Total Expenditures</u>	
	<u>Academic and Student Programs</u>	<u>Sponsored Programs</u>	<u>Total</u>	<u>Administrative Support</u>	<u>Plant Operation & Maintenance</u>	<u>Development</u>	<u>Total</u>	<u>Auxiliaries</u>	<u>2003</u>	<u>2002</u>
Compensation	\$ 177,969	\$ 62,138	\$ 240,107	\$ 21,387	\$ 20,408	\$ 18,100	\$ 59,895	\$ 15,653	\$ 315,655	\$ 288,325
Fellowships and student support	5,347	3,162	8,509	-	-	-	-	-	8,509	6,979
Materials, equipment, and supplies	27,770	14,595	42,365	1,031	2,126	1,979	5,136	13,645	61,146	61,011
Purchased services	23,585	28,811	52,396	675	1,329	3,353	5,357	2,673	60,426	52,169
Utilities, taxes, and occupancy	-	-	-	-	18,617	-	18,617	2,206	20,823	19,701
Depreciation	19,507	-	19,507	1,696	4,088	454	6,238	3,414	29,159	28,481
Lodging, travel, and similar costs	15,953	3,466	19,419	922	82	2,057	3,061	277	22,757	21,828
Interest and amortization	-	-	-	-	12,702	-	12,702	204	12,906	12,300
Other expenditures	-	330	330	759	-	166	925	-	1,255	1,323
Subtotal expenditures	270,131	112,502	382,633	26,470	59,352	26,109	111,931	38,072	532,636	492,117
Plant Operation & Maintenance	39,927	1,508	41,435	3,768	(59,352)	2,008	(53,576)	12,141	-	-
Total Expenditures for 2003	\$ 310,058	\$ 114,010	\$ 424,068	\$ 30,238	\$ -	\$ 28,117	\$ 58,355	\$ 50,213	\$ 532,636	-
Total Expenditures for 2002	\$ 295,935	\$ 93,891	\$ 389,826	\$ 27,784	\$ -	\$ 23,210	\$ 50,994	\$ 51,297	-	\$ 492,117

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

Dartmouth College

Statements of Cash Flows

For the Years ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash flows from operating activities		
Total decrease in net assets	(\$ 57,546)	(\$ 193,652)
Adjustments to reconcile total decrease in net assets to net cash provided by operating activities		
Depreciation	29,159	28,481
Other non-cash transactions	5,836	5,750
Changes in operating assets and liabilities		
Receivable and other assets, net	1,781	(18,258)
Pledges receivable, net	1,232	(39,108)
Accounts payable and other liabilities	13,765	5,306
Deferred revenue and deposits	2,005	4,503
Pension and other employment related obligations	23,839	7,981
Contributions, investment income, and other changes restricted for long-term investment	(33,982)	(58,589)
Realized and unrealized (gains)/losses, net	(4,400)	200,587
Net cash used by operating activities	(18,311)	(56,999)
Cash flows from investing activities		
Student loans granted	(9,891)	(8,717)
Student loans repaid	11,281	10,071
Purchases of land, buildings, and equipment	(58,423)	(57,939)
Net change in liability for split-interest agreements	(4,664)	(3,441)
Net change in liability for unsettled trades	41	(46,562)
Purchases of investments	(1,135,554)	(1,765,071)
Sales of investments	1,164,759	1,865,626
Net cash used by investing activities	(32,451)	(6,033)
Cash flows from financing activities		
Government advances for student loans	196	870
Proceeds from issuance of bonds, mortgages, and note	129,543	109,800
Repayment of bonds, mortgages, and note	(114,983)	(2,389)
Decrease (increase) in bond investments held by trustee	34,501	(64,674)
Contributions, investment income, and other changes restricted for long-term investment		
Investment in facilities	10,729	15,365
Investment in endowment, life income, and similar funds	23,253	43,224
Net cash provided by financing activities	83,239	102,196
Net increase in cash and cash equivalents	32,477	39,164
Cash and cash equivalents, beginning of year	152,981	113,817
Cash and cash equivalents, end of year	\$ 185,458	\$ 152,981

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

Dartmouth College

Statements of Activities

For the year ended June 30, 2003, with summarized financial information for the year ended June 30, 2002
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2003	2002
Endowment Activities					
Gifts	\$ 632	\$ 178	\$ 13,453	\$ 14,263	\$ 20,930
Net investment return	10,068	28,016	529	38,613	(136,988)
Distributed for spending	(30,960)	(87,912)	-	(118,872)	(124,742)
Other changes	5,735	(5,012)	1,940	2,663	4,945
Amounts transferred from (to) other funds, net	(5,582)	1,434	2,054	(2,094)	8,234
Increase (decrease) in net assets from endowment activities	(20,107)	(63,296)	17,976	(65,427)	(227,621)
Operating Activities					
Revenues					
Tuition and fees	168,929	-	-	168,929	158,433
Student scholarships	(55,930)	-	-	(55,930)	(48,774)
Sponsored research grants and contracts	148,791	-	-	148,791	123,680
Dartmouth College Fund and other gifts	45,354	2,583	-	47,937	37,424
Distributed endowment investment return	113,880	3,619	-	117,499	123,342
Other operating income	58,689	310	-	58,999	55,608
Auxiliaries	49,674	-	-	49,674	49,652
Net assets released from donor restrictions	7,276	(7,276)	-	-	-
Total revenues	536,663	(764)	-	535,899	499,365
Expenditures					
Instruction, faculty, and student support	424,068	-	-	424,068	389,826
General institutional services	58,355	-	-	58,355	50,994
Auxiliaries	50,213	-	-	50,213	51,297
Total expenditures	532,636	-	-	532,636	492,117
Increase (decrease) in net assets from operating activities	4,027	(764)	-	3,263	7,248
<i>Designated or restricted for specific purposes</i>	2,557	(764)	-	1,793	7,194
<i>Increase in undesignated net assets (Note A)</i>	1,470	-	-	1,470	54
Non-operating Activities					
Gifts	668	17,549	-	18,217	11,968
Grants and other earnings	5,831	6,319	239	12,389	5,268
Distributed endowment investment return	312	750	311	1,373	1,400
Increase (decrease) in outstanding pledges	-	11,575	(12,807)	(1,232)	39,107
Contribution to Dresden School District	(9,700)	-	-	(9,700)	-
Additional minimum pension liability	(11,073)	-	-	(11,073)	-
Disposals and non-capitalized expenditures	(5,768)	(2,188)	-	(7,956)	(13,048)
Loss on debt refinancing	(5,720)	-	-	(5,720)	(654)
Amounts released from gift, income, and plant restrictions	28,735	(28,735)	-	-	-
Amounts transferred to endowment, net	(1,649)	3,548	195	2,094	(8,234)
Net change in life income, annuity, and similar funds	-	5,407	819	6,226	(9,086)
Increase (decrease) in net assets from non-operating activities	1,636	14,225	(11,243)	4,618	26,721
Increase (decrease) in net assets	(14,444)	(49,835)	6,733	(57,546)	(193,652)
Net Assets, beginning of year	952,065	1,254,608	540,093	2,746,766	2,940,418
Net Assets, end of year	\$ 937,621	\$1,204,773	\$ 546,826	\$2,689,220	\$2,746,766

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

Dartmouth College

Statements of Financial Position

As of June 30, 2003 and 2002
(in thousands)

	2003	2002
Assets		
Cash and cash equivalents	\$ 185,458	\$ 152,981
Receivables and other assets, net	124,750	127,921
Pledges receivable, net	69,106	70,338
Bond investments held by trustee, at cost	71,253	105,754
Investments, at estimated fair value	2,432,725	2,457,530
Land, buildings, equipment, and construction in progress, net	510,753	484,538
Total assets	3,394,045	3,399,062
Liabilities		
Accounts payable and other liabilities	148,772	139,630
Deferred revenues and deposits	39,589	37,584
Pension and other employment related obligations	84,707	60,868
Bonds, mortgages, and note payable, net	413,017	395,670
Government advances for student loans	18,740	18,544
Total liabilities	704,825	652,296
Total Net Assets	\$ 2,689,220	\$ 2,746,766
Net Assets		
Unrestricted	\$ 937,621	\$ 952,065
Temporarily restricted	1,204,773	1,254,608
Permanently restricted	546,826	540,093
Total Net Assets	\$ 2,689,220	\$ 2,746,766

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

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, 2002, from which the summarized information was derived. Certain reclassifications have been made to the financial statements for the year ended June 30, 2002, to conform to the financial statement presentation for the year ended June 30, 2003.

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, 2003 and 2002 are the estimated fair value of investments and bonds payable, estimated pension and postretirement benefit obligations, estimated liabilities for self-insured programs and split-interest agreements, and estimated allowances for uncollectible accounts and pledges receivable. Actual results could differ from these estimates.

Operating and Non-operating Activities

Operating activities presented in the Statement of Activities consist of revenues earned, endowment net 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 classifications 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 Cash Equivalents

Cash and cash equivalents 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 cash equivalents 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 provided by the College are presented in the Statement of Activities as a reduction in tuition and fees revenue. In addition the College acts as an agent for the recipient of scholarships from other sponsors in the amounts of \$2,947,000 and \$2,681,000 for the years ended June 30, 2003 and 2002, respectively, which are not presented in the Statement of Activities. 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.

Dartmouth College
Notes to Financial Statements

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.

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 the most cost effective and comprehensive coverage for most insurable risks. Both conventional and alternative insurance coverage approaches, including utilization of appropriate self-insured retention amounts, are in force to cover 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 losses are covered by an insured program, in excess of a deductible. 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 to cover the institutional risks 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 conventional 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 different than the amounts provided.

Dartmouth College
Notes to Financial Statements

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.

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, and adjusted for additional investments or partnership distributions after March 31. 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, amounted to approximately \$8,631,000 and \$9,492,000 for the years ended June 30, 2003 and 2002, respectively, and are deducted from endowment 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.

Dartmouth College
Notes to Financial Statements

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. 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 estimated net present value of investments for which the College is not the trustee have been reflected only to the extent the information has been provided by the trustee. The College reports the net change in split-interest agreements as a non-operating change in net assets in the Statement of Activities.

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Investments Held by Trustee

Investments held by Trustee consist primarily 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 (NHHEFA) 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):

	2003	2002
Student accounts	\$ 6,589	\$ 6,511
Sponsored research grants and contracts	17,658	25,232
Other accounts	29,696	25,539
Notes and student loans	58,290	60,458
Less: allowance for uncollectible accounts	(2,725)	(3,496)
Receivables, net	\$ 109,508	\$ 114,244
Inventory and other assets	15,242	13,677
Total receivables and other assets, net	\$ 124,750	\$ 127,921

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.

Other assets include bond issue costs, of \$1,743,000 and \$2,531,000 as of June 30, 2003 and 2002, respectively, being amortized over the term of the bonds, and prepaid pension costs of \$2,220,000 as of June 30, 2003.

C. Gifts and Pledges Receivable

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

	2003	2002
Gifts to support operations	\$ 47,937	\$ 37,424
Gifts for		
Facilities and student loans	5,869	10,587
Other restricted uses	12,348	1,381
Endowment	14,263	20,930
Life income and similar funds	3,429	6,927
Total gifts and pledge payments	\$ 83,846	\$ 77,249

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

	2003	2002
In one year or less	\$ 26,201	\$ 30,693
Between one year and five years	49,417	47,956
Gross pledges receivable	\$ 75,618	\$ 78,649
Less: present value discount	(3,764)	(4,132)
Less: allowance for uncollectible pledges	(2,748)	(4,179)
Pledges receivable, net	\$ 69,106	\$ 70,338

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Notes to Financial Statements

D. Investments

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

	2003		2002	
	Cost	Market	Cost	Market
Endowment investments				
Cash equivalents and temporary investments	\$ 74,577	\$ 74,577	\$ 66,682	\$ 66,682
Fixed income securities	256,976	274,371	365,798	375,129
Equity securities	1,064,478	1,233,523	1,165,241	1,205,763
Limited partnerships and similar investments	379,612	397,388	315,994	390,008
Other investments	194,888	212,356	177,995	198,838
Endowment investments	\$ 1,970,531	\$ 2,192,215	\$ 2,091,710	\$ 2,236,420
Split-interest agreement investments				
Cash equivalents and temporary investments	\$ 2,546	\$ 2,546	\$ 2,242	\$ 2,242
Fixed income securities	47,441	51,021	56,233	56,852
Equity securities	59,341	66,495	60,580	68,291
Limited partnerships and similar investments	291	1,030	1,052	939
Other investments	136	133	143	138
Split-interest agreement investments	\$ 109,755	\$ 121,225	\$ 120,250	\$ 128,462
Other investments				
Fixed income securities	\$ 59,200	\$ 60,108	\$ 51,650	\$ 51,967
Equity securities and other investments	44,222	59,177	31,756	40,681
Other investments	\$ 103,422	\$ 119,285	\$ 83,406	\$ 92,648
Total investments	\$ 2,183,708	\$ 2,432,725	\$ 2,295,366	\$ 2,457,530

A net payable for unsettled trades of \$28,096,000 and \$28,055,000 at June 30, 2003 and 2002, 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, 2003 and 2002, respectively, the College held forward contracts to buy foreign currencies in the amount of \$69,783,000 and \$61,558,000, and to sell foreign currencies in the amount of \$19,087,000 and \$6,684,000. The College has also recorded associated net unrealized losses of \$168,000 and net unrealized gains of \$4,115,000 on forward contracts held as of June 30, 2003 and 2002, respectively.

Dartmouth College
Notes to Financial Statements

At June 30, 2003, 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 gain of \$33,000 and loss of \$289,000 as of June 30, 2003 and 2002, 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 \$525,000 and \$689,000 at June 30, 2003 and 2002, 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, 2003 and 2002, the market value of the College's pledged collateral on futures contracts was \$1,311,000 and \$2,264,000, respectively. The difference between the estimated value of open futures contracts to sell and purchase securities was a net long position of \$17,705,000 and a net short position of \$6,836,000 as of June 30, 2003 and 2002, respectively.

The College participates in a securities lending program that is designed to enhance return on certain asset holdings. At June 30, 2003 and 2002, the College had the rights to \$142,419,000 and \$148,724,000, 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 because the collateral is not held by the College. The securities temporarily on loan are included in the endowment investments of the College with an estimated fair market value as of June 30, 2003 and 2002, of \$138,102,000 and \$145,129,000, 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):

	2003	2002
Net assets, beginning of year	\$ 2,186,610	\$ 2,414,231
Gifts	14,263	20,930
Investment return		
Investment income	38,546	49,227
Net gain (loss) in market value		
Realized	(76,907)	22,302
Unrealized	76,974	(208,517)
Total investment return	\$ 38,613	\$ (136,988)
Distribution of endowment return to all funds	(118,872)	(124,742)
Other changes, net	569	13,179
Net assets, end of year	\$ 2,121,183	\$ 2,186,610

Temporarily restricted endowment net assets also include the remaining amount of expendable accumulated appreciation on permanent endowment funds (\$875,299,000 and \$932,721,000 at June 30, 2003 and 2002, respectively). As of June 30, 2003 and 2002, the market value attributable to certain endowment funds was less than the permanently restricted original gift by an aggregate amount of \$2,791,000 and \$2,968,000, respectively, which has been reflected as a reduction in unrestricted net assets in accordance with Financial Accounting Standards Board (FASB) Statement No. 124.

Dartmouth College
Notes to Financial Statements

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

	2003	2002
Net assets, beginning of year	\$ 60,288	\$ 69,374
Gifts	3,429	6,927
Net investment return after payments to beneficiaries	(2,261)	(14,246)
Other changes	5,058	(1,767)
Net assets, end of year	\$ 66,514	\$ 60,288

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 \$63,510,000 and \$68,174,000 at June 30, 2003 and 2002, 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):

	2003	2002
Land	\$ 12,596	\$ 12,038
Buildings	540,403	515,931
Land improvements	62,141	60,087
Equipment	116,407	102,967
Land, buildings, and equipment	\$ 731,547	\$ 691,023
Less: accumulated depreciation	(271,056)	(244,565)
Construction in progress	50,262	38,080
Total net book value	\$ 510,753	\$ 484,538

Disposals of capitalized assets with accumulated depreciation of \$2,914,000 and \$7,438,000 and a net book value of \$3,027,000 and \$14,028,000 were reported as a non-operating reduction in net assets in the Statement of Activities for the years ended June 30, 2003 and 2002, respectively.

Dartmouth College
Notes to Financial Statements

F. Bonds, Mortgages, and Note Payable

Indebtedness at June 30 consisted of (in thousands):

	2003	2002
Revenue bonds issued through NHHEFA for the acquisition, installation, construction, renovation, and equipping of various academic, research, and administrative facilities:		
Series '03, serial bonds maturing through the year 2023 at variable rates (ranging from 1.00% to 1.40% from March 12, 2003 – June 30, 2003)	\$ 113,250	\$ -
Series '02, term bonds maturing in the year 2032 at variable rates (ranging from 0.45% to 1.80% from July 1, 2002 – June 30, 2003)	101,000	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 2003 at rates ranging from 4.95% to 5.73%	-	112,125
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%	27,070	27,230
Subtotal NHHEFA bonds	\$ 381,845	\$ 380,880
Mortgages on real estate investments, various maturities through 2024 at fixed and variable rates, ranging during the current year from 2.55% to 7.10%	32,250	18,317
Other note payable, maturing in 2003 at a rate of 6.20%	-	2,141
Other note payable, maturing in 2012 at a rate of 5.50%	2,312	-
Subtotal bonds, mortgages, and note payable	\$ 416,407	\$ 401,338
Less: original issue discount and premium, net	(3,390)	(5,668)
Total bonds, mortgages, and note payable	\$ 413,017	\$ 395,670

Interest expense on debt used to finance facilities projects totaled \$12,442,000 and \$11,755,000 for the years ended June 30, 2003 and 2002, respectively. Interest expense on debt used to finance student loans totaled \$2,081,000 and \$2,087,000 for the years ended June 30, 2003 and 2002, 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 \$1,272,000 and \$581,000 for the years ended June 30, 2003 and 2002, respectively, and is presented as a deduction in endowment net investment return in the Statement of Activities. Of the interest paid on facilities debt, \$1,738,000 and \$1,676,000 was capitalized in connection with various construction projects for the years ended June 30, 2003 and 2002, respectively.

Dartmouth College
Notes to Financial Statements

In March 2003, the College issued the Series 2003 Bonds in order to reduce the College's overall interest costs. The proceeds, along with other College funds, were used to refund the Series 1993 Bonds on June 1, 2003 and to pay the costs of issuance of the Series 2003 Bonds. In connection with this refunding the accompanying Statement of Activities includes a non-operating decrease in unrestricted net assets of \$5,657,000 to account for the Series 1993 unamortized costs of issuance, original issue discount, and a refunding premium.

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

2004	\$	2,274
2005		2,505
2006		4,602
2007		9,312
2008		5,104
Thereafter		392,610
Total principal due	\$	<u>416,407</u>

The estimated fair value of the NHHEFA bonds is approximately \$402,913,000 as of June 30, 2003, based on the debt service cash flows of the bonds and certain interest rate assumptions for similar bonds as of June 30, 2003. 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 2008 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 2032. 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.

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):

	2003	2002
Retirement and postretirement benefits	\$ 67,239	\$ 43,414
Compensated absences, severance plans, and other commitments	11,424	9,350
Self-insured benefits	6,044	8,104
Total employment related obligations	\$ <u>84,707</u>	\$ <u>60,868</u>

Dartmouth College
Notes to Financial Statements

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	
	2003	2002	2003	2002
Change in benefit obligation				
Beginning of year	\$ 65,861	\$ 60,392	\$ 72,117	\$ 38,876
Service cost	2,221	2,112	4,740	2,962
Interest cost	4,692	4,455	6,361	4,315
Benefits paid	(3,609)	(3,916)	(2,055)	(1,909)
Actuarial loss	13,937	2,818	54,363	27,873
End of year	<u>\$ 83,102</u>	<u>\$ 65,861</u>	<u>\$ 135,526</u>	<u>\$ 72,117</u>
Change in estimated fair value of plan assets				
Beginning of year	\$ 55,178	\$ 64,225	\$ -	\$ -
Actual return on plan assets	1,585	(5,131)	-	-
Employer contributions	5,000	-	2,055	1,909
Benefits paid	(3,609)	(3,916)	(2,055)	(1,909)
End of year	<u>\$ 58,154</u>	<u>\$ 55,178</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status [plan assets (less) than benefit obligation]	\$ (24,948)	\$ (10,683)	\$ (135,526)	\$ (72,117)
Unrecognized net prior service cost	5,562	6,276	2,264	2,844
Unrecognized net loss	21,606	4,033	80,991	28,824
Accrued benefit cost included in the Statement of Financial Position	<u>\$ 2,220</u>	<u>\$ (374)</u>	<u>\$ (52,271)</u>	<u>\$ (40,449)</u>
Net periodic benefit (income)/cost included the following				
Service cost	\$ 2,221	\$ 2,112	\$ 4,740	\$ 2,962
Interest cost	4,692	4,455	6,361	4,315
Expected return on assets	(5,026)	(6,204)	-	-
Amortization of net asset at transition	-	(425)	-	-
Amortization of prior service cost	714	722	580	580
Recognized net actuarial (gain)/loss	(195)	(903)	2,196	994
Net periodic benefit (income)/cost included in the Statement of Activities	<u>\$ 2,406</u>	<u>\$ (243)</u>	<u>\$ 13,877</u>	<u>\$ 8,851</u>
Weighted-average assumptions at end of year				
Discount rate	6.00%	7.25%	6.00%	7.25%
Expected return on plan assets	7.50%	9.00%	-	-
Rate of compensation increase	5.50%	5.50%	-	-

Dartmouth College
Notes to Financial Statements

As of June 30, 2003, the accumulated pension benefit obligation of \$72,569,000 exceeded the fair value of pension plan assets by \$14,415,000. In accordance with FASB Statement No. 87, the accompanying financial statements reflect an intangible asset of \$5,562,000 and prepaid pension cost of \$2,220,000 that reduce this amount to the additional minimum liability of \$11,073,000 that has been recorded as a non-operating decrease in net assets and is included in other liabilities.

As of June 30, 2002, the accumulated pension obligation of \$57,742,000 exceeded the fair value of pension plan assets by \$2,565,000. As required by FASB Statement No. 87, the College recorded an intangible asset in the amount of \$2,190,000 and accrued pension cost of \$374,000.

Assumed health care cost trend rates have a significant effect on the estimated amounts reported for the postretirement benefit plan. The medical cost trend rate has been assumed to be 10% in fiscal 2003, decrease gradually to 5% in fiscal 2009 and remain level thereafter. 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	\$ 2,568		\$ (1,983)
Increase (decrease) in postretirement benefit obligation	\$ 25,257		\$ (19,984)

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. These contributions for the years ended June 30, 2003 and 2002, respectively, were \$25,465,000 and \$23,394,000.

H. Other Operating Income

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

	2003		2002
Medical School clinical services and other support	\$ 31,101		\$ 29,115
Foreign study and continuing education programs	8,701		6,936
Hopkins Center and Hood Museum	1,560		1,604
Athletics revenues	1,774		1,656
Investment income on working capital	6,819		8,564
Student activities and other program revenues	9,044		7,733
Total other operating income	\$ 58,999		\$ 55,608

Dartmouth College
Notes to Financial Statements

I. Net Assets

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

2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets				
Operating funds				
Undesignated	\$ 3,180	\$ -	\$ -	\$ 3,180
College designated	92,432	-	-	92,432
Donor restricted	-	28,920	-	28,920
Total operating funds	<u>\$ 95,612</u>	<u>\$ 28,920</u>	<u>\$ -</u>	<u>\$ 124,532</u>
Pledges	-	60,942	8,164	69,106
Designated for capital projects	20,728	-	-	20,728
Funding for facilities	222,081	27,376	-	249,457
Funding for student loans	7,238	23,840	6,622	37,700
Life income, annuity, and similar funds	-	32,426	34,088	66,514
Endowment and similar funds	591,962	1,031,269	497,952	2,121,183
Total net assets	<u><u>\$ 937,621</u></u>	<u><u>\$ 1,204,773</u></u>	<u><u>\$ 546,826</u></u>	<u><u>\$ 2,689,220</u></u>

2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets				
Operating funds				
Undesignated	\$ 1,192	\$ -	\$ -	\$ 1,192
College designated	107,406	-	-	107,406
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
Designated for capital projects	13,698	-	-	13,698
Funding for facilities	209,815	43,327	-	253,142
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	612,069	1,094,564	479,977	2,186,610
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>

Dartmouth College
Notes to Financial Statements

J. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$12,915,000 and \$42,070,000 at June 30, 2003 and 2002, 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, 2003 and 2002, respectively, the College had an unfunded commitment of \$406,490,000 payable through 2008 and \$425,900,000 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, 2007. The cost rates related to the years 1998 through 2003 are subject to audit. The ultimate liability, if any, from any such audits, is presently not determinable.

The College has agreed to the terms of a proposal with the Town of Hanover and the local school board to exchange certain parcels of land in the town of Hanover, NH. The College has also agreed to make a \$9,700,000 contribution to the school district payable over a period of five years after construction of a new school begins. This contribution has been reflected in the accompanying Statement of Activities as a non-operating decrease in net assets.

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.