

DARTMOUTH COLLEGE

Financial Statements

2004





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Independent Auditors' Report

The Board of Trustees
Dartmouth College:

We have audited the accompanying statement of financial position of Dartmouth College (the College) as of June 30, 2004, and the related statements of activities, operating expenses and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note K, assets and changes in net assets do not include the College's interests in certain third-party charitable trusts for which current fair values were not available as of June 30, 2004 and July 1, 2003. Accordingly, we were unable to apply adequate procedures to satisfy ourselves as to such fair values, and the effects of this departure from accounting principles generally accepted in the United States of America on the College's financial position and changes in net assets cannot be determined.

In our opinion, except for the effects of such adjustments deemed necessary had we examined evidence regarding the fair value of the unrecognized trust interests discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Dartmouth College as of June 30, 2004, 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.

KPMG LLP

September 15, 2004

Dartmouth College

Statement of Financial Position

As of June 30, 2004 (in thousands)

Assets

Cash and cash equivalents	\$ 239,992
Receivables and other assets, net	125,427
Pledges receivable, net	96,708
Investments held by bond trustee	60,109
Investments, at estimated fair value	2,779,325
Collateral on securities loaned	202,163
Land, buildings, equipment, and construction in progress, net	508,031
Total assets	4,011,755

Liabilities

Accounts payable and other liabilities	94,655
Deferred revenues and deposits	41,340
Liabilities for collateral on securities loaned	202,163
Liability for split-interest agreements	65,770
Pension and other employment related obligations	100,658
Bonds, mortgages, and note payable, net	411,233
Government advances for student loans	19,641
Total liabilities	935,460

Total Net Assets	\$ 3,076,295
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Dartmouth College

Statement of Activities

For the year ended June 30, 2004 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Activities				
Gifts	\$ 6,877	\$ 133	\$ 21,369	\$ 28,379
Net investment return	114,979	270,597	959	386,535
Distributed for spending	(30,951)	(83,874)	-	(114,825)
Other changes	27,221	(8,536)	1,434	20,119
Amounts transferred from other funds, net	9,494	751	2,657	12,902
Increase in net assets from endowment activities	127,620	179,071	26,419	333,110
Operating Activities				
Revenues				
Tuition and fees	180,144	-	-	180,144
Student scholarships	(60,646)	-	-	(60,646)
Net tuition and fees	119,498	-	-	119,498
Sponsored research grants and contracts	167,057	-	-	167,057
Dartmouth College Fund and other gifts	49,215	3,472	-	52,687
Distributed endowment investment return	110,114	3,430	-	113,544
Other operating income	63,960	574	-	64,534
Auxiliaries	51,349	-	-	51,349
Net assets released from donor restrictions	6,704	(6,704)	-	-
Total revenues	567,897	772	-	568,669
Expenses				
Academic and student programs	331,026	-	-	331,026
Sponsored programs	126,411	-	-	126,411
General institutional services	58,690	-	-	58,690
Auxiliaries	51,191	-	-	51,191
Total expenses	567,318	-	-	567,318
Increase in net assets from operating activities	579	772	-	1,351
Non-operating Activities				
Gifts	705	27,058	-	27,763
Grants and other earnings	4,088	4,834	140	9,062
Distributed endowment investment return	293	701	287	1,281
Increase in outstanding pledges	-	17,118	10,484	27,602
Decrease to minimum pension liability	5,325	-	-	5,325
Disposals and non-capitalized expenditures	(6,774)	(959)	-	(7,733)
Amounts released from plant gifts and income restrictions	12,484	(12,484)	-	-
Amounts transferred from (to) endowment, net	(3,565)	(9,358)	21	(12,902)
Net change in split-interest agreement net assets	-	(693)	2,909	2,216
Increase in net assets from non-operating activities	12,556	26,217	13,841	52,614
Increase in net assets	140,755	206,060	40,260	387,075
Net assets, beginning of year	937,621	1,204,773	546,826	2,689,220
Net assets, end of year	\$ 1,078,376	\$ 1,410,833	\$ 587,086	\$ 3,076,295

See accompanying notes to the financial statements.

Dartmouth College

Statement of Operating Expenses

For the year ended June 30, 2004 (in thousands)

	Academic and Student Programs	Sponsored Programs	General Institutional Services				Auxiliaries	Total Expenses
			Administrative Support	Plant Operation & Maintenance	Development	Total		
Salaries and wages	\$ 135,323	\$ 54,269	\$ 14,310	\$ 15,146	\$ 13,457	\$ 42,913	\$ 11,976	\$ 244,481
Employee benefits	60,245	14,531	6,411	6,435	5,660	18,506	4,501	97,783
Fellowships and student support	5,401	2,789	-	-	-	-	-	8,190
Materials, equipment, and supplies	27,596	17,421	1,300	1,969	1,741	5,010	13,904	63,931
Purchased services	25,081	32,587	630	2,331	3,234	6,195	2,735	66,598
Utilities, taxes, and occupancy	-	-	-	17,810	-	17,810	2,218	20,028
Depreciation	20,724	-	1,904	4,187	407	6,498	3,632	30,854
Lodging, travel, and similar costs	16,720	3,827	1,067	96	2,217	3,380	295	24,222
Interest and amortization	-	-	-	9,377	-	9,377	122	9,499
Other expenses	-	337	1,158	-	237	1,395	-	1,732
Subtotal operating expenses	291,090	125,761	26,780	57,351	26,953	111,084	39,383	567,318
Plant operation and maintenance	39,936	650	3,534	(57,351)	1,423	(52,394)	11,808	-
Total operating expenses	\$ 331,026	\$ 126,411	\$ 30,314	\$ -	\$ 28,376	\$ 58,690	\$ 51,191	\$ 567,318

See accompanying notes to the financial statements.

Dartmouth College

Statement of Cash Flows

For the year ended June 30, 2004 (in thousands)

Cash flows from operating activities

Total increase in net assets	\$ 387,075
Adjustments to reconcile total increase in net assets to net cash used by operating activities	
Depreciation	30,854
Other non-cash transactions	(11,781)
Changes in operating assets and liabilities	
Receivables and other assets, net	(624)
Pledges receivable, net	(27,602)
Accounts payable and other liabilities	369
Deferred revenues and deposits	1,751
Pension and other employment related obligations	15,951
Contributions, investment income, and other changes restricted for long-term investment	(61,163)
Net realized and unrealized investment gains	(361,688)

Net cash used by operating activities	(26,858)
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Cash flows from investing activities

Student loans granted	(10,587)
Student loans repaid	10,516
Purchases of land, buildings, and equipment	(31,922)
Net change in liability for split-interest agreements	2,260
Net change in liability for unsettled trades	9,024
Purchases of investments	(1,512,240)
Sales of investments	1,542,990

Net cash provided by investing activities	10,041
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Cash flows from financing activities

Government advances for student loans	901
Repayment of bonds, mortgages, and note	(1,857)
Decrease in investments held by bond trustee	11,144
Contributions, investment income, and other changes restricted for long-term investment	
Investment in facilities	17,371
Investment in endowment, life income, and similar funds	43,792

Net cash provided by financing activities	71,351
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Net increase in cash and cash equivalents	54,534
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Cash and cash equivalents, beginning of year	185,458
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Cash and cash equivalents, end of year	\$ 239,992
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See accompanying notes to the financial statements.

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 financial statements of the 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 real estate 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 accounting principles generally accepted in the United States of America (GAAP), net assets, revenues, 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 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.

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
Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in these financial statements are the estimated fair value of investments and bonds payable (for disclosure only), 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.

Statement of 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 expenses based on the square footage of each asset. Interest expense is allocated to functional classifications of expenses based on the 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 the construction or purchase of capital assets, including construction in progress, net change in life income and similar split-interest agreements, and the net change in pledges receivable.

Endowment activities presented in the Statement of Activities consist of gifts that are restricted by donors to investment in perpetuity, amounts designated by the College's management and Board of Trustees for long term investment, the net investment return on these invested funds, and the annual distribution of an amount appropriated by the College's Board of Trustees to support operating and non-operating activities. Other endowment activities include increases in endowment net assets from certain matured split-interest agreements.

Endowment and non-operating activities also include transfers of net assets that occur when donors change the restrictions on certain gifts or when the College changes the designation of unrestricted funds.

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 in the fiscal year in which substantially all of the academic program occurs. 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 amount of \$3,244,000 for the year ended June 30, 2004 which is 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.

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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 facilities and administrative costs related to sponsored research is recognized according to predetermined fixed billing rates. 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 College recovered facilities and administrative costs of approximately \$40,646,000 in the year ended June 30, 2004.

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. During the year ended June 30, 2004, the College paid approximately \$15 million and received approximately \$17 million in connection with these arrangements, which amounts are reflected in the Statement of Activities.

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 three 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

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experience, and while management believes that the reserves are adequate, the ultimate liabilities may be different 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 and pledges are recognized as increases in the appropriate category of net assets in the period the gift or pledge 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 (discounted at rates ranging from 1.3% to 6.2%) 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 marketable 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. Certain real estate holdings are carried at estimated market value, and minority interests in certain real estate limited partnerships and captive insurance companies are carried at cost. 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 \$10,194,000 for the year ended June 30, 2004 and have been netted against 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.

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

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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 irrevocable 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 irrevocable 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. In the case of irrevocable split-interest agreements whose assets are held in trusts not administered by the College (third-party charitable trusts), a receivable for the College's beneficial interest is established when the College is notified of the trust's existence and when the third-party trustee has provided the College with sufficient reliable information to estimate the value of the receivable. The College reports the net change in split-interest agreements as a non-operating change in net assets in the Statement of Activities. See note K for additional discussion of third-party charitable trusts.

Investments Held by Bond Trustee

Investments held by Bond 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 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

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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.

B. Receivables and Other Assets

Receivables and other assets consisted of the following at June 30, 2004 (in thousands):

Student accounts	\$ 6,655
Sponsored research grants and contracts	14,758
Other accounts	23,088
Notes and student loans	59,113
<i>Less</i> : allowance for uncollectible accounts	<u>(2,994)</u>
Receivables, net	\$ 100,620
Prepaid costs, inventories, and other assests	<u>24,807</u>
Total receivables and other assets, net	<u><u>\$ 125,427</u></u>

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. All other receivables are carried at estimated net realizable value.

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C. Gifts and Pledges Receivable

Gifts received during the year ended June 30, 2004 were as follows (in thousands):

Gifts to support operations	\$ 52,687
Gifts for	
Facilities and student loans	11,799
Other restricted uses	15,964
Endowment	28,379
Split-interest agreements	3,714
Total gifts and pledge payments	\$ 112,543

Unconditional pledges as of June 30, 2004 are expected to be realized in the following periods (in thousands):

In one year or less	\$ 29,827
Between one year and five years	72,010
Six years and after	4,750
Gross pledges receivable	\$ 106,587
<i>Less</i> : present value discount	(5,228)
<i>Less</i> : allowance for uncollectible pledges	(4,651)
Pledges receivable, net	\$ 96,708

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

Land, buildings, equipment, and construction in progress balances at June 30, 2004 were as follows (in thousands):

Land	\$ 14,877
Buildings	567,084
Land improvements	62,675
Equipment	137,854
Land, buildings, and equipment	\$ 782,490
<i>Less</i> : accumulated depreciation	(302,179)
Construction in progress	27,720
Total net book value	\$ 508,031

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E. Investments

Investments at estimated fair value consisted of the following at June 30, 2004 (in thousands):

Endowment investments	
Cash equivalents and temporary investments	\$ 133,562
Fixed income securities	265,913
Equity securities	1,421,517
Limited partnerships and similar investments	473,542
Other investments	238,761
Endowment investments	<u>\$ 2,533,295</u>
Split-interest agreement investments	
Cash equivalents and temporary investments	\$ 3,024
Fixed income securities	42,446
Equity securities	80,774
Limited partnerships and similar investments	1,490
Other investments	117
Split-interest agreement investments	<u>\$ 127,851</u>
Other investments	
Fixed income securities	\$ 50,921
Equity securities and other investments	67,258
Other investments	<u>\$ 118,179</u>
Total investments	<u><u>\$ 2,779,325</u></u>

A net payable for unsettled trades of \$37,120,000 at June 30, 2004, is included in accounts payable and other liabilities in the accompanying Statement of Financial Position. Limited partnerships and 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, 2004 the College held forward contracts to buy foreign currencies in the amount of \$84,440,000 and to sell foreign currencies in the amount of \$8,328,000. The College has also recorded an associated net unrealized loss of \$2,135,000 on forward contracts held as of June 30, 2004.

At June 30, 2004 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 \$133,000 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 \$43,000. The College is obligated to pledge to the appropriate broker, cash or securities to be held as collateral,

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as determined by exchange margin requirements for futures contracts held. The market value of the College's pledged collateral on futures contracts was \$692,000. The difference between the estimated value of open futures contracts to sell and purchase securities was a net long position of \$58,930,000.

The College participates in a securities lending program that is designed to enhance return on certain asset holdings. At June 30, 2004 the College had the rights to \$214,286,000 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 in the case of a borrower's failure to deliver securities for any reason within the time specified by the applicable securities loan agreement. The securities temporarily on loan are included in the endowment investments of the College with an estimated fair market value as of June 30, 2004 of \$208,600,000. As of June 30, 2004 the College had the rights to cash collateral of \$202,163,000 that is reflected as an asset and related liability.

The changes in the estimated fair value of net assets held in endowment funds for the year ended June 30, 2004 were as follows (in thousands):

Net assets, beginning of year	\$	2,121,183
Gifts		28,379
Investment return		
Investment income, net		39,411
Net gain in fair value		
Realized		136,515
Unrealized		210,609
Net investment return	\$	386,535
Distribution of endowment return to all funds		(114,825)
Other changes, net		33,021
Net assets, end of year	\$	2,454,293

Temporarily restricted endowment net assets also include the remaining amount of expendable accumulated appreciation on permanent endowment funds of \$1,043,215,000 at June 30, 2004.

Other changes in endowment fair value for the year ended June 30, 2004 include an adjustment of \$15,700,000 to increase the carrying value of certain real estate holdings to estimated value; these investments previously were carried at cost. Other changes also include additions to the endowment from the maturity of split-interest agreements and net transfers resulting from changes in donor restrictions or College designations.

Net changes in net assets attributable to split-interest agreements for the year ended June 30, 2004 were as follows (in thousands):

Net assets, beginning of year	\$	66,514
Gifts		3,714
Net investment return after payments to beneficiaries		16,535
Other changes		(18,033)
Net assets, end of year	\$	68,730

Other changes in net assets attributable to split-interest agreements principally consist of changes in the estimated liability for split-interest agreements and changes in the estimated value of life income trusts for which the College is not trustee. Other assets include these life income trusts in the amount of \$6,647,000 at June 30, 2004.

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F. Bonds, Mortgages, and Note Payable

Indebtedness at June 30, 2004 consisted of (in thousands):

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 0.63% to 1.20% from July 1, 2003 – June 30, 2004)	\$ 112,200
Series '02, term bonds maturing in the year 2032 at variable rates (ranging from 0.63% to 1.20% from July 1, 2003 – June 30, 2004)	101,000
Series '99, term bonds maturing in the year 2019 at a rate of 5.92%	8,845
Series '98, term bonds maturing in the year 2028 at a rate of 5.12%	33,000
Series '97A, term bonds maturing in the year 2028 at a rate of 5.37%	52,000
Series '97, term bonds maturing in the years 2007 and 2027 at rates of 5.05% and 5.85%, respectively	36,740

Revenue bonds issued by DELC through NHHEFA:

Series '99, term bonds maturing in the year 2039 at a rate of 6.19%	9,940
Series '85 and Series '98A, serial coupon and term bonds maturing through 2025 at rates ranging from 4.45% to 5.55%	26,895

Subtotal NHHEFA bonds	\$ 380,620
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Mortgages on real estate investments, various maturities through 2024 at fixed and variable rates, ranging during the year ended June 30, 2004 from 2.55% to 7.10%	31,387
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Other note payable, maturing in 2012 at a rate of 5.50%	2,110
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Subtotal bonds, mortgages, and note payable	\$ 414,117
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Less: original issue discount and premium, net	(2,884)
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Total bonds, mortgages, and note payable	\$ 411,233
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Interest expense on debt used to finance facilities projects totaled \$9,353,000 for the year ended June 30, 2004. Interest expense on debt used to finance student loans totaled \$2,075,000 for the year ended June 30, 2004 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 \$1,836,000 for the year ended June 30, 2004 and is presented as a deduction in endowment net investment return in the Statement of Activities.

During the fiscal year 2003 the College entered a revolving credit agreement totaling \$110,000,000 to provide alternative liquidity to support the College's variable rate Bonds. There have been no borrowings by the College under this agreement.

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

2005	\$	2,495
2006		4,595
2007		9,312
2008		5,104
2009		4,798
Thereafter		387,813
Total principal due	\$	<u>414,117</u>

The estimated fair value of the NHHEFA bonds is approximately \$388,660,000 as of June 30, 2004, based on the debt service cash flows of the bonds and certain interest rate assumptions for similar bonds as of June 30, 2004.

Principal due after the year 2009 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.

In June of 2004 the College entered into an interest rate swap agreement, which expires in 2032, effectively to convert \$100,000,000 of the variable rate exposure to a fixed rate, thereby managing the College's interest costs and risk associated with variable rate debt. Under the terms of this agreement the College pays a fixed rate of 3.7474%, determined at inception, and receives 67% of LIBOR on the respective notional principal amount. The estimated fair value of this agreement was insignificant as of June 30, 2004. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense. This financial instrument involves counterparty credit exposure. The counter-party for this swap transaction is a major financial institution that meets the College's criteria for financial stability and creditworthiness.

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, 2004 (in thousands):

Retirement and postretirement benefits	\$	80,584
Compensated absences, severance plans, and other commitments		12,718
Self-insured benefits		7,356
Total employment related obligations	\$	<u>100,658</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

Dartmouth College
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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 at June 30, 2004 includes (in thousands):

	Pension Benefits	Postretirement Benefits
Change in benefit obligation		
Beginning of year	\$ 83,102	\$ 135,526
Service cost	2,912	8,230
Interest cost	4,900	8,273
Benefits paid	(4,832)	(2,729)
Actuarial (gain)/loss	(1,745)	6,846
End of year	\$ 84,337	\$ 156,146
 Change in estimated fair value of plan assets		
Beginning of year	\$ 58,154	\$ -
Actual return on plan assets	8,560	-
Employer contributions	5,500	2,729
Benefits paid	(4,832)	(2,729)
End of year	\$ 67,382	\$ -
 Prepaid (accrued) benefit cost		
Funded status [plan assets (less) than benefit obligation]	\$ (16,955)	\$ (156,146)
Unrecognized net prior service cost	4,849	1,683
Unrecognized net loss	16,273	83,629
Prepaid (accrued) benefit cost included in the Statement of Financial Position	\$ 4,167	\$ (70,834)
 Net periodic benefit (income)/cost included the following		
Service cost	\$ 2,912	\$ 8,230
Interest cost	4,900	8,273
Expected return on assets	(5,128)	-
Amortization of prior service cost	714	580
Recognized net actuarial (gain)/loss	155	4,624
Net periodic benefit (income)/cost included in the Statement of Activities	\$ 3,553	\$ 21,707
 Weighted-average assumptions at end of year		
Discount rate	6.25%	6.25%
Expected return on plan assets	7.50%	-
Rate of compensation increase	5.50%	-

As of June 30, 2004 the accumulated pension benefit obligation of \$73,811,000 exceeded the fair value of pension plan assets by \$6,429,000. The accompanying financial statements as of June 30, 2004 reflect an intangible asset of \$4,849,000 and a credit in the Statement of Activities of \$5,325,000 to reduce the additional minimum liability to \$5,748,000 as of June 30, 2004.

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Assets of the defined benefit plan at estimated fair value consisted of the following at June 30, 2004 (in thousands):

Cash and cash equivalents	\$	1,135
Fixed income securities		21,169
Equity securities		38,047
Limited partnerships and similar investments		7,031
		7,031
Total investments	\$	67,382

The investment objective of the Plan is to generate a net investment return that will meet the long-term liabilities of the Plan while maintaining sufficient liquidity to pay current benefits. This is primarily achieved by holding a diversified asset mix of marketable equity and fixed income securities and, to a lesser degree, illiquid private equity and real estate funds. Outside investment advisors are utilized to manage Plan assets and are selected based on their investment style, philosophy, and past performance. The expected long-term return on the investments of the Plan is 7.5%. This rate represents a weighted aggregation of the projected returns for each asset class considering both historical returns and future expectations. The College's Investment Office is responsible for managing the asset allocation and investment risk management of the Plan.

Assumed health care cost trend rates have a significant effect on the estimated amounts reported for the postretirement benefit plan. The medical cost trend rates for pre-age 65 and post-age 65 retirees, respectively, are assumed to be 10% and 11% in fiscal 2005, decrease gradually to 5% and 5.5% in fiscal 2011 and remain level thereafter. A one percentage point increase (decrease) in assumed health care cost trend rates would have the following effect (in thousands):

Increase (decrease) in total of service and interest cost components	\$	4,782	\$	(3,820)
Increase (decrease) in postretirement benefit obligation	\$	32,088	\$	(26,618)

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act (the Act) was passed into law. The Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage beginning in 2006. The College's retiree medical plan currently meets Medicare's criteria for qualifying drug coverage because the College's plan provides for a higher level of reimbursement than Medicare and the College pays the entire premium for retirees. The College anticipates that the benefits it pays after 2005 for retirees will be lower than previously estimated by approximately \$16,700,000 which estimated savings is reflected in the estimated June 30, 2004 postretirement benefit obligation and which will be realized as a reduction in postretirement expenses beginning in fiscal year 2005. Actual results could differ from this estimate as regulations pertaining to the Act become final.

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 year ended June 30, 2004 were \$27,061,000.

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H. Other Operating Income

The major components of other operating income for the year ended June 30, 2004 were as follows (in thousands):

Medical School clinical and other support	\$ 32,774
Foreign study and continuing education programs	10,216
Hopkins Center and Hood Museum	1,564
Athletics revenues	1,964
Investment income on working capital	8,192
Student activities and other program revenues	9,824
Total other operating income	\$ 64,534

I. Net Assets

Additional information pertaining to the College's net assets is presented below as of June 30, 2004 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Detail of net assets				
Operating funds				
Undesignated	\$ 5,930	\$ -	\$ -	\$ 5,930
College designated	95,205	-	-	95,205
Donor restricted	-	36,870	-	36,870
Total operating funds	\$ 101,135	\$ 36,870	\$ -	\$ 138,005
Pledges	-	78,060	18,648	96,708
Available for capital projects	6,956	29,169	-	36,125
Funding for facilities	242,768	-	-	242,768
Funding for student loans	7,935	24,661	7,070	39,666
Life income, annuity, and similar funds	-	31,733	36,997	68,730
Endowment and similar funds	719,582	1,210,340	524,371	2,454,293
Total net assets	\$ 1,078,376	\$ 1,410,833	\$ 587,086	\$ 3,076,295

Dartmouth College
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J. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$6,384,000 at June 30, 2004. 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, 2004 the College had an unfunded commitment of \$542,076,000 payable through 2009.

All funds expended by the College in connection with government sponsored grants and contracts are subject to audit by governmental agencies. The ultimate liability, if any, from any such audits, is not expected to have a material adverse effect on the College's financial position.

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.

K. Third Party Charitable Trusts

As described in Note A, a split-interest agreement is a donor arrangement, such as a charitable trust, under which the College receives benefits that are shared with other beneficiaries. GAAP requires the College to report at estimated fair value its interest in an irrevocable split-interest agreement when the College is notified of an agreement's existence. When the College is not the trustee of the assets associated with a split-interest agreement, then the College recognizes these assets only when the College is notified of the existence of the trust and when reliable information about the fair value of its interest is provided by the third-party trustee. The College requests information regularly from third-party trustees for financial reporting purposes; however, these trustees are not obligated to provide the College with the information necessary to estimate fair value and record the asset. The College respects the privacy of donors and trustees in these limited instances.

As of June 30, 2004 third-party trustees have not provided the College with sufficient information necessary to estimate the fair value of the College's interest in certain trusts. The College has not recorded an asset in connection with these trusts due to the uncertainty surrounding the potential value of the College's interest in these trusts as of June 30, 2004. If the College's interest in these trusts was reflected on the Statement of Financial Position, the College's assets and net assets would be greater than the amounts reported in the accompanying financial statements.