

DARTMOUTH COLLEGE

Financial Statements

2011 - 2012





KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

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, 2012, 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. The prior year summarized comparative information has been derived from the College's 2011 financial statements and, in our report dated November 7, 2011, because we were unable to examine evidence regarding the fair value of certain unrecognized trust interests, we expressed a qualified opinion on those financial statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 L, assets and changes in net assets do not include the College's interests in certain third-party charitable trusts for which current fair values are not available. Accordingly, we were unable to apply adequate procedures to satisfy ourselves as to such fair values, and the effects of this departure from U.S. generally accepted accounting principles 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 10, 2012

Dartmouth College

Statement of Financial Position

As of June 30, 2012, with comparative information as of June 30, 2011
(in thousands)

	2012	2011
Assets		
Cash and cash equivalents	\$ 306,241	\$ 319,584
Receivables and other assets, net	183,828	167,190
Investment related receivables	38,539	164,824
Pledges receivable, net	142,776	173,487
Investments held by bond trustees	151	22,834
Investments, at fair value	4,375,764	4,175,756
Land, buildings, equipment, and construction in progress, net	927,694	863,627
Total assets	5,974,993	5,887,302
Liabilities		
Accounts payable and other liabilities	74,423	87,249
Investment related payables	100,176	292,863
Deferred revenues and deposits	38,121	34,282
Liability for split-interest agreements	41,705	46,801
Pension and other employment related obligations	315,980	267,823
Bonds, mortgages, and notes payable, net	1,128,875	946,768
Interest rate swap liabilities, at fair value	216,306	89,403
Conditional asset retirement obligations	21,665	22,629
Government advances for student loans	20,192	20,024
Total liabilities	1,957,443	1,807,842
Total Net Assets	\$ 4,017,550	\$ 4,079,460
Net Assets		
Unrestricted	\$ 1,006,070	\$ 1,109,344
Temporarily restricted	1,991,249	1,996,557
Permanently restricted	1,020,231	973,559
Total Net Assets	\$ 4,017,550	\$ 4,079,460

See accompanying notes to the financial statements.

Dartmouth College

Statement of Activities

For the year ended June 30, 2012, with summarized financial information for the year ended June 30, 2011

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
Endowment Activities					
Gifts	\$ 8	\$ 858	\$ 48,831	\$ 49,697	\$ 40,338
Net investment return	46,784	149,929	586	197,299	541,549
Distributed for spending	(44,142)	(138,714)	-	(182,856)	(174,899)
Other changes	(1,249)	1,913	2,369	3,033	4,057
Amounts transferred from other funds, net	(599)	2,015	4,389	5,805	4,059
Change in net assets from endowment activities	802	16,001	56,175	72,978	415,104
Operating Activities					
Revenues					
Tuition and fees	284,540	-	-	284,540	266,674
Student scholarships	(116,388)	-	-	(116,388)	(114,533)
Net tuition and fees	168,152	-	-	168,152	152,141
Sponsored research grants and contracts	173,554	-	-	173,554	179,811
Dartmouth College Fund and other gifts	71,008	13,154	-	84,162	77,880
Distributed endowment investment return	176,055	5,109	-	181,164	173,247
Other operating income	126,694	14	-	126,708	118,126
Auxiliaries	60,207	-	-	60,207	61,559
Net assets released from restrictions	8,022	(8,022)	-	-	-
Total revenues	783,692	10,255	-	793,947	762,764
Expenses					
Academic and student programs	495,958	-	-	495,958	460,848
Sponsored programs	125,013	-	-	125,013	127,430
General institutional services	87,189	-	-	87,189	84,072
Auxiliaries	67,628	-	-	67,628	65,991
Total expenses	775,788	-	-	775,788	738,341
Change in net assets from operating activities	7,904	10,255	-	18,159	24,423
Non-operating Activities					
Gifts	-	28,702	-	28,702	19,043
Other non-operating changes, net	22,463	1,907	-	24,370	34,652
Distributed endowment investment return	367	1,325	-	1,692	1,652
Decrease in outstanding pledges	-	(19,379)	(11,332)	(30,711)	(39,231)
Pension and postretirement benefit related changes					
other than net periodic benefit costs	(40,806)	-	-	(40,806)	78,458
Disposals and non-capitalized expenditures	(2,697)	(1,699)	-	(4,396)	(8,192)
Unrealized gain (loss) related to					
interest rate swap agreements	(126,903)	-	-	(126,903)	27,771
Net assets released from restrictions	34,496	(34,496)	-	-	-
Amounts transferred to endowment, net	1,100	(7,690)	785	(5,805)	(4,059)
Net change in split-interest agreements	-	(234)	1,044	810	8,201
Change in net assets from non-operating activities	(111,980)	(31,564)	(9,503)	(153,047)	118,295
Change in net assets	(103,274)	(5,308)	46,672	(61,910)	557,822
Net Assets, beginning of year	1,109,344	1,996,557	973,559	4,079,460	3,521,638
Net Assets, end of year	\$ 1,006,070	\$ 1,991,249	\$ 1,020,231	\$ 4,017,550	\$ 4,079,460

See accompanying notes to the financial statements.

Dartmouth College

Statement of Operating Expenses

For the year ended June 30, 2012, with summarized financial information for the year ended June 30, 2011

(in thousands)

	Academic & Student Programs	Sponsored Programs	General Institutional Services				Auxiliaries	Total Expenses	
			Administrative Support	Facilities Operation & Maintenance	Development	Total		2012	2011
Salaries and wages	\$ 202,229	\$ 55,098	\$ 24,003	\$ 16,214	\$ 16,022	\$ 56,239	\$ 13,290	\$ 326,856	\$ 309,317
Employee benefits	72,432	16,428	8,395	5,548	5,539	19,482	4,595	112,937	125,600
Fellowships and student support	9,419	4,297	-	-	-	-	-	13,716	12,470
Materials, equipment, and supplies	32,955	11,368	5,409	1,370	1,632	8,411	14,920	67,654	67,734
Purchased services	43,515	34,331	6,496	2,216	6,874	15,586	6,923	100,355	90,889
Utilities, taxes, and occupancy	-	-	-	38,635	-	38,635	6,139	44,774	43,616
Depreciation	36,484	-	2,743	5,886	57	8,686	7,119	52,289	44,760
Lodging, travel, and similar costs	20,571	3,289	1,247	226	1,838	3,311	226	27,397	22,705
Interest and amortization	-	-	-	22,805	-	22,805	-	22,805	16,524
Other expenses	5,216	202	1,004	121	317	1,442	145	7,005	4,726
	<u>422,821</u>	<u>125,013</u>	<u>49,297</u>	<u>93,021</u>	<u>32,279</u>	<u>174,597</u>	<u>53,357</u>	<u>775,788</u>	<u>\$ 738,341</u>
Facilities operation & maintenance	73,137	-	5,498	(93,021)	115	(87,408)	14,271	-	
Total expenses for FY12	<u>\$ 495,958</u>	<u>\$ 125,013</u>	<u>\$ 54,795</u>	<u>\$ -</u>	<u>\$ 32,394</u>	<u>\$ 87,189</u>	<u>\$ 67,628</u>	<u>\$ 775,788</u>	
Total expenses for FY11	<u>\$ 460,848</u>	<u>\$ 127,430</u>	<u>\$ 51,968</u>	<u>\$ -</u>	<u>\$ 32,104</u>	<u>\$ 84,072</u>	<u>\$ 65,991</u>		<u>\$ 738,341</u>

See accompanying notes to the financial statements.

Dartmouth College

Statement of Cash Flows

For the year ended June 30, 2012, with comparative information for the year ended June 30, 2011
(in thousands)

	2012	2011
Cash flows from operating activities		
Total change in net assets	(\$ 61,910)	\$ 557,822
Adjustments to reconcile total change in net assets to net cash used by operating activities:		
Depreciation and amortization	53,191	45,095
Change in estimated value of interest rate swap agreements	126,903	(27,771)
Change in estimated pension and post-retirement benefit obligation	51,705	(57,052)
Change in pledges receivable, net	30,711	39,231
Other non-cash transactions	1,361	919
Contributions, investment income, and other changes restricted for long-term investment	(70,569)	(60,838)
Net realized and unrealized gains	(225,284)	(580,383)
Changes in operating assets and liabilities:		
Receivables and other assets, net	(22,358)	951
Accounts payable and other liabilities	(13,790)	16,872
Deferred revenues and deposits	3,839	2,828
Employment related obligations	(3,548)	(1,582)
Net cash used by operating activities	(129,749)	(63,908)
Cash flows from investing activities		
Student loans granted	(8,571)	(17,333)
Student loans repaid	13,820	13,691
Purchases of land, buildings, and equipment	(117,952)	(134,270)
Proceeds from the sale of land, buildings, and equipment	18,434	6,555
Net change in split-interest agreements	(5,096)	1,737
Net change in unsettled trades	(66,402)	65,905
Purchases of investments	(7,867,688)	(8,037,740)
Sales and maturities of investments	7,874,530	8,057,963
Net cash used by investing activities	(158,925)	(43,492)
Cash flows from financing activities		
Proceeds from issuance of debt	244,275	10,650
Repayment of debt	(62,364)	(8,990)
Change in investments held by bond trustee	22,683	63,632
Contributions, investment income, and other changes restricted for long-term investment in:		
Facilities	16,225	14,113
Endowment, life income, and similar funds	54,344	46,725
Changes in government advances for student loans	168	151
Net cash provided by financing activities	275,331	126,281
Net change in cash and cash equivalents	(13,343)	18,881
Cash and cash equivalents, beginning of year	319,584	300,703
Cash and cash equivalents, end of year	\$ 306,241	\$ 319,584

See accompanying notes to the financial statements.

Dartmouth College
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Description of Organization

Dartmouth College (Dartmouth) is a private, nonprofit, co-educational, nonsectarian institution of higher education with approximately 4,200 undergraduate and 2,000 graduate students. Established in 1769, Dartmouth includes the four-year undergraduate college, with graduate schools of business, engineering, and medicine, and several graduate programs in the Arts and Sciences.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. Dartmouth's financial statements include the accounts of its wholly owned subsidiaries and certain affiliated organizations over which it has financial control. 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 (DELC), which provides scholarships and 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 U.S. generally accepted accounting principles (GAAP), net assets, revenues, gains, and losses are classified into 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 Dartmouth's mission. Under the authority of Dartmouth's management and Board of Trustees, in order to support Dartmouth's strategic initiatives, all or a portion of unrestricted net assets may be set aside in segregated Dartmouth-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 Dartmouth-designated net assets include funds designated for operating initiatives, facilities, and long-term quasi-endowment. The purposes for which Dartmouth-designated net assets are earmarked may be changed under the authority of Dartmouth's management and Board of Trustees. 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, loan funds, uncollected pledges, and life income and similar funds. Donor-restricted resources intended for capital projects are released from their temporary restrictions and presented as unrestricted support when the related asset is placed in service. Temporarily restricted endowment distribution and donor-restricted gifts which are received, and either spent or deemed spent within the same fiscal year, are reported as unrestricted.

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 New Hampshire State Law, Dartmouth 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 Dartmouth's Board of Trustees is presented as an increase in operating or non-operating activities according to the unrestricted or temporarily restricted nature of the donor's intended use of the funds. In the case of quasi-endowment funds designated for long-term investment by Dartmouth, investment return that has been appropriated by Dartmouth's Board of Trustees is presented as an increase in unrestricted operating or non-operating activities, depending upon Dartmouth's intended use of the funds. Permanently restricted net assets consist of the original principal of endowment gifts, loan funds, and certain pledges.

Comparative Financial Information

The 2012 financial statements are presented with 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 GAAP. Accordingly, such information should be read in conjunction with Dartmouth's financial statements for the year ended June 30, 2011, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the fiscal year 2012 presentation.

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 fair value of investments, interest rate swap agreements and bonds payable (for disclosure only), pension and postretirement benefit obligations, conditional asset retirement obligations, liabilities for self-insured programs and split-interest agreements, and allowances for uncollectible accounts and pledges receivable. Actual results could differ materially from these estimates, particularly during periods of investment and/or interest rate volatility.

Statement of Activities

Operating activities presented in the Statement of Activities consist of revenues earned, endowment net investment return appropriated by Dartmouth's Board of Trustees, and expenses incurred in conducting Dartmouth's programs and services. Auxiliary enterprises, primarily the operation of residence halls, dining services, and recreational facilities, are included in operating activities. Expenses such as development, public affairs, and central services and administration are reported as general institutional services. Depreciation and facilities operations and maintenance expenses are allocated to functional classifications of expenses based on the square footage of each building. 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, investment income, other earnings, and endowment investment return appropriated by Dartmouth's Board of Trustees for loan programs and the construction, purchase or sale of capital assets, non-capitalizable construction in progress, net change in life income and similar split-interest agreements, the net change in pledges receivable, the net change in the estimated value of interest rate swap agreements, and postretirement benefit changes other than net periodic benefits costs.

Endowment activities presented in the Statement of Activities consist of gifts that are restricted by donors to investment in perpetuity, amounts designated by Dartmouth'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 Dartmouth'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 Dartmouth changes the designation of unrestricted funds.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of U.S. treasury funds, 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 68 percent of tuition and fees revenue. Student scholarships provided by Dartmouth are presented in the Statement of Activities as a reduction in tuition and fees revenue. In addition, Dartmouth acts as an agent for recipients of scholarships from other sponsors in the amounts of \$5,854,000 and \$6,007,000 for the years ended June 30, 2012 and 2011, respectively, which are not presented in the Statement of Activities.

Dartmouth 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 scholarships, loans and/or employment designed to cover costs of attendance when combined with student and family contributions, based on ability to pay.

Sponsored Research Grants and Contracts

Revenues from government and private sponsored research grants and contracts are recognized when the direct costs associated with the sponsored program are incurred. Revenue from the reimbursement of facilities and administrative costs incurred by Dartmouth on U.S. government grants and contracts was based upon negotiated predetermined cost rates

Dartmouth College

Notes to Financial Statements

through June 30, 2015. Dartmouth recovered facilities and administrative costs of approximately \$44,082,000 and \$46,141,000 in the years ended June 30, 2012 and 2011, respectively.

Taxes

Dartmouth 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. Dartmouth 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 Dartmouth's tax exempt purposes. Certain Dartmouth real estate entities are exempt from federal income tax under Sections 501(c)(2) and 501(c)(25) of the Code. Dartmouth believes it has taken no significant uncertain tax positions.

Affiliation with Dartmouth-Hitchcock Medical Center

Dartmouth, through the Geisel School of Medicine at Dartmouth (Geisel), 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) Veterans Administration Medical Center of White River Junction, Vermont (VAMC). The staff of the Clinic serves as the primary resource for Geisel clinical faculty, with the Hitchcock Hospital and the VAMC acting as principal sites of clinical instruction for Geisel students. Each member is a separately organized, governed, and operated institution, with Dartmouth 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 Geisel 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, excluding the VAMC, are also parties to a Condominium Ownership Agreement that governs the ownership and operation of the DHMC facilities. During the years ended June 30, 2012 and 2011, Dartmouth paid approximately \$27.4 million and \$26.3 million, respectively, and received approximately \$28.1 million and \$27.3 million, respectively, in connection with these arrangements.

Insurance

Dartmouth 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 deductible or self-insured retention amounts, are in place to cover trustee errors and omissions and employment practices, crime bond, commercial general and automobile liability, pension trust fiduciary errors and omissions liability, and property losses. Workers' compensation losses are covered by a self-insured retention and excess insurance program. Dartmouth currently participates in three risk retention groups that provide general liability and professional and medical malpractice liability insurance.

Dartmouth's annual premium payments for conventional insurance coverage are included in operating expenses. Estimated liabilities for losses under Dartmouth's deductible and/or self-insurance retention limits are reflected in the Statement of Financial Position, which includes estimates for known losses and for losses incurred but not yet reported. Insurance reserves are based on actuarial analysis and/or estimates of historical loss 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 Dartmouth 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 capitalizable assets other than cash are recorded at their estimated fair value at the date of gift. 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 are reported at estimated fair value. Because many of these investments are not readily marketable, the estimates of fair value involve assumptions and estimation methods which are uncertain, and therefore the estimates could differ from

Dartmouth College
Notes to Financial Statements

actual results. 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. Cash designated for investment purposes is included in investments and may include money market funds, foreign currency held for investment purposes, and fixed income securities with an original or remaining maturity of three months or less when purchased.

Total investment return (interest, dividends, rents, royalties, and net realized and unrealized gains and losses) earned by Dartmouth's endowment investments is included in endowment activities, while the net income earned by the non-endowment investments is included in other operating and non-operating income. Fees charged by external investment managers are generally based on contractual percentages of the fair market value of assets under management or on annual total investment return and are, in most cases, netted against investment return. However, certain expenses paid directly by Dartmouth for investment management and custody services, including certain internal costs, amounted to approximately \$12,026,000 and \$11,735,000 for the years ended June 30, 2012 and 2011, respectively, and have been netted against endowment return and other operating and non-operating income in the accompanying Statement of Activities.

Endowment

Dartmouth's endowment and similar funds consist of gifts restricted by donors and unrestricted net assets designated by management and the Board of Trustees for long-term support of Dartmouth's activities, and the accumulated investment return on these gifts and designated net assets. Accumulated investment return consists of endowment net investment return that has not been appropriated by the Board of Trustees for expenditure to support Dartmouth's operating and non-operating activities. Generally, only a portion of accumulated net 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 Dartmouth-designated endowment funds are unrestricted net assets that may be re-designated for authorized expenditures.

Giving consideration to the New Hampshire Uniform Prudent Management of Institutional Funds Act (UPMIFA), Dartmouth classifies as permanently restricted net assets all endowment funds that must be retained permanently in accordance with stipulations imposed by a donor at the time of a gift, plus the original value of assets donated to permanent endowment, along with any investment earnings that are directed by the donor to be reinvested in perpetuity (i.e., historic book value). The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Unrestricted endowment net assets include Dartmouth funds and certain unrestricted gifts from donors, and any accumulated investment return thereon, which may be expended; however, by trustee or management designation, these net assets may remain invested in the endowment for the long-term support of Dartmouth 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 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. Investment return on temporarily and permanently restricted net assets and the annual distribution of a portion of the accumulated investment return to operating and non-operating activities are generally presented as changes in temporarily restricted net assets in the Statement of Activities.

Split-Interest Agreements

Certain donors have established irrevocable split-interest agreements with Dartmouth, 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 Dartmouth. At the discretion of the donor, Dartmouth may or may not serve as trustee for the split-interest agreement.

Dartmouth has recorded the estimated fair value of the investments associated with irrevocable split-interest agreements and an estimated liability, using a discount rate of 1.2% (2.8% for FY11), for the net present value of the future cash outflows to

Dartmouth College
Notes to Financial Statements

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

Investments Held by Bond Trustees

Investments held by bond trustees 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 and short-term investments and are reported at estimated fair value.

Land, Buildings, Equipment, and Construction in Progress

Land, buildings, equipment, 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 assets which exceed Dartmouth'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

Dartmouth's collections include works of art, literary works, historical treasures, and artifacts that are maintained in its 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 sale to be used to acquire other items for collections.

The collections, which were acquired through purchases and contributions since Dartmouth'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 in temporarily 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 (in thousands):

	2012	2011
Student accounts	\$ 1,426	\$ 917
Sponsored research grants and contracts	29,489	23,070
Other accounts	56,757	40,254
Notes and student loans	83,539	88,788
Less: allowance for uncollectible accounts	(2,743)	(2,969)
Receivables, net	\$ 168,468	\$ 150,060
Prepaid costs, inventories, and other assets	15,360	17,130
Total receivables, and other assets, net	\$ 183,828	\$ 167,190

Dartmouth College
Notes to Financial Statements

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 Dartmouth funds, it is not practical to estimate the fair value of such loans. All other receivables are carried at estimated net realizable value.

C. Gifts and Pledges Receivable

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

	<u>2012</u>	<u>2011</u>
Gifts to support operations	\$ 84,162	\$ 77,880
Gifts for:		
Facilities and student loans	25,682	14,136
Other restricted uses	3,020	4,907
Endowment	49,697	40,338
Split-interest agreements	<u>2,163</u>	<u>2,268</u>
Total gifts and pledge payments	<u>\$ 164,724</u>	<u>\$ 139,529</u>

Unconditional pledges as of June 30 are expected to be realized in the following periods, discounted at rates ranging from 0.7% to 6.2% (in thousands):

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 75,942	\$ 90,533
Between one year and five years	58,831	75,862
Six years and after	<u>20,903</u>	<u>23,774</u>
Gross pledges receivable	\$ 155,676	\$ 190,169
Less: present values discount	(5,415)	(7,682)
Less: allowance for uncollectible pledges	<u>(7,485)</u>	<u>(9,000)</u>
Pledges receivable, net	<u>\$ 142,776</u>	<u>\$ 173,487</u>

The change in net pledges receivable is presented as a non-operating activity in the Statement of Activities.

D. Investments at Fair Value

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

	<u>2012</u>	<u>2011</u>
Endowment investments	\$ 3,571,135	\$ 3,482,988
Split-interest agreement investments	99,768	107,128
Operating and other investments	<u>704,861</u>	<u>585,640</u>
Total investments	<u>\$ 4,375,764</u>	<u>\$ 4,175,756</u>

For investments held directly by Dartmouth for which an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Fair values for shares in commingled funds are based on share prices reported by the funds as of the last business day of the fiscal year. Dartmouth's interest in certain other commingled funds and other alternative investment funds is reported at the net asset value (NAV) reported by the fund managers and reviewed by Dartmouth. NAV is used as a practical expedient to estimate the fair value of Dartmouth's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV.

The framework for measuring fair value utilizes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Dartmouth College

Notes to Financial Statements

Level 1 - Quoted prices (unadjusted) in active markets for identical investments as of the reporting date. The type of investment in Level 1 includes actively listed equities, certain short term fixed income securities, and exchange traded and registered funds all held directly by Dartmouth, and excludes listed equities and other securities held indirectly through commingled funds.

Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments in this category generally include privately held investments and partnership interests.

For those investments reported using NAV as a practical expedient, classification in Level 2 or 3 is based on Dartmouth's ability to redeem its interest at or near the date of the statement of financial position, and if the interest can be redeemed in the near term, the investment is classified in Level 2.

The following table summarizes Dartmouth's assets and liabilities that are reported at fair value by their fair value hierarchy classification as of June 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Assets:						
Investments:						
Cash and cash equivalents	\$ 161,759	\$ -	\$ -	\$ 161,759	Daily	1
Fixed income ¹	102,750	254,921	2	357,673	Daily-Monthly	1-7
Global equity:						
US equity ²	363,288	225,855	209,597	798,740	Daily- Bi-annual	1-90
International	20,533	109,502	-	130,035	Daily - Monthly	1-10
Emerging markets	33,556	123,214	-	156,770	Daily - Quarterly	1-120
Marketable alternative strategies ³	-	174,919	689,325	864,244	Quarterly- Annual	30-180
Private equity/venture capital	-	-	961,640	961,640	Illiquid	Not Applicable
Real assets:						
Real estate	12,718	196,820	404,208	613,746	Daily - Illiquid	1 Day - Not Applicable
Other real assets	79,369	-	246,082	325,451	Daily - Illiquid	1 Day - Not Applicable
Other investments	-	2,104	3,602	5,706	Not Applicable	Not Applicable
Total investments	773,973	1,087,335	2,514,456	4,375,764		
Other Assets:						
Investments held by bond trustees	151	-	-	151	Daily	1
Third-party charitable trusts	-	-	13,611	13,611	Not Applicable	Not Applicable
Total Assets	<u>\$ 774,124</u>	<u>\$ 1,087,335</u>	<u>\$ 2,528,067</u>	<u>\$ 4,389,526</u>		
Liabilities:						
Interest rate swap agreements	<u>\$ -</u>	<u>\$ (216,306)</u>	<u>\$ -</u>	<u>\$ (216,306)</u>	Not Applicable	Not Applicable

¹ Fixed income includes privately held bonds and other securities that are not readily marketable.

² US equity includes funds that may have restrictions on the ability to fully redeem up to five years, excluding special investments.

³ Marketable alternative strategies include two funds having initial lock-ups expiring on or before April 2014. Other funds may have restrictions on the ability to fully redeem up to three years, excluding illiquid securities and special investments.

Dartmouth College

Notes to Financial Statements

The following table summarizes Dartmouth's assets and liabilities that are reported at fair value by their fair value hierarchy classification as of June 30, 2011 (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Assets:						
Investments:						
Cash and cash equivalents	\$ 176,374	\$ -	\$ -	\$ 176,374	Daily	1
Fixed income ¹	78,376	326,325	(5,812)	398,889	Daily-Monthly	1-7
Global equity:						
					Daily-	
US equity ²	268,496	221,322	188,689	678,507	Bi-annual	1-90
International	21,852	123,187	-	145,039	Daily - Monthly	1-10
Emerging markets	40,460	126,748	-	167,208	Daily - Quarterly	1-120
					Quarterly-	
Marketable alternative strategies ³	-	141,471	737,198	878,669	Annual	30-180
Private equity/venture capital	-	-	952,914	952,914	Illiquid	Not Applicable
Real assets:						
						Day 1 -
Real estate ⁴	13,259	192,241	336,454	541,954	Daily - Illiquid	Not Applicable
Other real assets	-	-	233,604	233,604	Illiquid	Not Applicable
Other investments	-	2,180	418	2,598	Not Applicable	Not Applicable
Total investments	598,817	1,133,474	2,443,465	4,175,756		
Other Assets:						
Investments held						
by bond trustees	22,834	-	-	22,834	Daily	1
Third-party charitable trusts	-	-	10,501	10,501	Not Applicable	Not Applicable
Total Assets	<u>\$ 621,651</u>	<u>\$ 1,133,474</u>	<u>\$ 2,453,966</u>	<u>\$ 4,209,091</u>		
Liabilities:						
Interest rate swap agreements	<u>\$ -</u>	<u>\$ (89,403)</u>	<u>\$ -</u>	<u>\$ (89,403)</u>	Not Applicable	Not Applicable

¹ Level 3 includes US Treasury forwards.

² US equity includes funds that may have restrictions on the ability to fully redeem up to five years, excluding special investments.

³ Marketable alternative strategies includes one fund having an initial lock-up expiring on or before September 30, 2011. Other funds may have restrictions on the ability to fully redeem up to three years, excluding illiquid securities and special investments.

⁴ Real estate investments include limited partnerships, which are illiquid, as well as directly held real estate.

The Fixed Income portfolio includes strategies based on capital preservation and predictable yield as well as more opportunistic strategies focused on generating return through price appreciation. These strategies generally include corporate debt securities, government securities, mortgage backed and asset backed securities and other financial instruments. The structures of these investments include directly held securities as well as investments through commingled funds.

The Global Equity portfolio includes managers who primarily invest in public long-only and long/short equity securities with portfolios that are directionally exposed to the market. The structures of these investments include directly held securities as well as investments through commingled funds.

The Marketable Alternative Strategies portfolio includes investments in commingled funds whose managers employ discrete and blended strategies, including long/short equity, absolute return, market neutral, distressed and credit strategies. Funds with marketable alternative strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds, put or call options, swaps, futures, currency hedges, and other financial instruments.

Dartmouth also invests in venture capital, private equity, real estate, other real assets, and other debt related strategies through private limited partnerships, which are illiquid. These investments often require the estimation of fair value by the general partner in the absence of readily determinable market values. The private portfolio is based primarily in the United States but includes managers who may invest globally. Real Estate investments also include real estate investment trust securities held through publically traded mutual funds as well as directly held real estate which is included in the endowment

Dartmouth College
Notes to Financial Statements

and is reported at fair value. Other real asset investments, in addition to limited partnerships, include an exchange traded fund with underlying exposure to commodities.

The following tables present Dartmouth's activity for the fiscal years ended June 30, 2012 and 2011 for investments measured at fair value in Level 3 (in thousands):

	Marketable Alternative Strategies	Private Equity/Venture Partnerships	Real Assets	Other Assets	Total
Balance as of June 30, 2011	\$ 737,198	\$ 952,914	\$ 570,058	\$ 193,796	\$ 2,453,966
Transfers	(32,770)	-	-	6,165	(26,605)
Acquisitions / purchases	30,000	102,473	70,771	6,727	209,971
Distributions / sales	(28,823)	(167,314)	(86,072)	(26,131)	(308,340)
Investment income and realized gains	13,779	47,449	13,891	16,796	91,915
Unrealized gain (loss) on investments	(30,059)	26,118	81,642	29,459	107,160
Balance as of June 30, 2012	<u>\$ 689,325</u>	<u>\$ 961,640</u>	<u>\$ 650,290</u>	<u>\$ 226,812</u>	<u>\$ 2,528,067</u>

	Marketable Alternative Strategies	Private Equity/Venture Partnerships	Real Assets	Other Assets	Total
Balance as of June 30, 2010	\$ 699,023	\$ 960,632	\$ 502,683	\$ 53,965	\$ 2,216,303
Transfers	(10,053)	(124,240)	-	82,012	(52,281)
Acquisitions / purchases	30,000	138,013	78,430	117,688	364,131
Distributions / sales	(105,950)	(177,774)	(87,594)	(92,734)	(464,052)
Investment income and realized gains	44,405	45,505	20,884	618	111,412
Unrealized gain on investments	79,773	110,778	55,655	32,247	278,453
Balance as of June 30, 2011	<u>\$ 737,198</u>	<u>\$ 952,914</u>	<u>\$ 570,058</u>	<u>\$ 193,796</u>	<u>\$ 2,453,966</u>

Included in Other Assets in the above tables are fixed income, US equity, other investments, and third-party charitable trusts.

Dartmouth owns an interest in each alternative investment fund rather than in the securities underlying each fund, therefore, it is generally required to categorize such investments as Level 2 or 3, even though the underlying securities may be readily marketable. Also, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based on the lowest level input that is significant to the fund in its entirety (e.g., a fund with a mix of underlying Level 1 and Level 3 investments would be classified entirely as a Level 3 investment). Accordingly, the inputs or methodology used to value or classify investments for financial reporting purposes is not necessarily an indication of the risk associated with investing in those investments.

At June 30, 2012, Dartmouth's outstanding commitments to limited partnerships totaled \$414,726,000. The anticipated draw down for these commitments is typically between 1 and 5 years with remaining fund lives typically between 1 and 12 years. The structure of these investments is such that there is no ability to redeem.

From time to time Dartmouth enters into foreign currency forward contracts and government bond futures to efficiently manage portfolio exposures to global currencies and interest rates. These instruments may be used to hedge the portfolio from unwanted currency and interest rate risk, but also to efficiently implement active duration and relative value currency strategies. The notional value of the contracts may vary significantly based on the expirations and/or initiation of these contracts as of June 30. At June 30, 2012 and 2011, Dartmouth held forward contracts to buy foreign currencies in the amount of \$9,225,000 and \$101,359,000, respectively, and to sell foreign currencies in the amount of \$1,285,000 and \$97,618,000, respectively. The difference between the estimated notional value of open futures contracts to sell and purchase securities was a net short position of \$11,644,000 and \$67,294,000 as of June 30, 2012 and 2011, respectively. Dartmouth 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, 2012 and 2011, the market value of Dartmouth's pledged collateral on futures contracts was \$925,000 and \$1,337,000, respectively.

Dartmouth College
Notes to Financial Statements

Credit default swaps are used to simulate long or short positions or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2012, the total notional amount of credit default swap contracts for buyer protection was \$11,624,000 and the notional amount related to sell protection was \$28,509,000. The fair value of these contracts at June 30, 2012 was approximately \$1,155,000 and (\$1,846,000), respectively, and is included in the Statement of Financial Position as investments at fair value. The losses on these contracts as of June 30, 2012 were \$310,000 and \$342,000, respectively, and are presented in the operating and non-operating sections of the Statement of Activities.

E. Endowment

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2011	\$ 832,709	\$ 1,684,361	\$ 896,336	\$ 3,413,406
Investment return:				
Investment income	5,449	17,709	-	23,158
Net gain in fair value:				
Realized	19,932	62,973	-	82,905
Unrealized	<u>21,403</u>	<u>69,247</u>	<u>586</u>	<u>91,236</u>
Total investment return	46,784	149,929	586	197,299
Gifts	8	858	48,831	49,697
Distribution of endowment return to all funds	(44,142)	(138,714)	-	(182,856)
Other changes, net	<u>(1,848)</u>	<u>3,928</u>	<u>6,758</u>	<u>8,838</u>
Endowment net assets, June 30, 2012	<u>\$ 833,511</u>	<u>\$ 1,700,362</u>	<u>\$ 952,511</u>	<u>\$ 3,486,384</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ 741,904	\$ 1,428,789	\$ 827,609	\$ 2,998,302
Investment return:				
Investment income	5,693	17,818	-	23,511
Net gain in fair value:				
Realized	28,481	87,785	-	116,266
Unrealized	<u>107,142</u>	<u>293,519</u>	<u>1,111</u>	<u>401,772</u>
Total investment return	141,316	399,122	1,111	541,549
Gifts	60	827	39,451	40,338
Distribution of endowment return to all funds	(41,484)	(133,415)	-	(174,899)
Other changes, net	<u>(9,087)</u>	<u>(10,962)</u>	<u>28,165</u>	<u>8,116</u>
Endowment net assets, June 30, 2011	<u>\$ 832,709</u>	<u>\$ 1,684,361</u>	<u>\$ 896,336</u>	<u>\$ 3,413,406</u>

Other changes include additions to the endowment from the maturity of split-interest agreements and net transfers resulting from changes in donor restrictions or Dartmouth designations.

Included in temporarily restricted endowment net assets at the end of the year is the remaining amount of expendable accumulated appreciation on permanent endowment funds of \$1,401,622,000 and \$1,392,904,000 at June 30, 2012 and 2011, respectively.

Endowment net assets consist of the following as of June 30, 2012 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,633,792	\$ 952,511	\$ 2,586,303
Board-designated endowment funds	<u>833,511</u>	<u>66,570</u>	<u>-</u>	<u>900,081</u>
Total endowment net assets	<u>\$ 833,511</u>	<u>\$ 1,700,362</u>	<u>\$ 952,511</u>	<u>\$ 3,486,384</u>

Dartmouth College
Notes to Financial Statements

Endowment net assets consist of the following as of June 30, 2011 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (68)	\$ 1,619,732	\$ 896,336	\$ 2,516,000
Board-designated endowment funds	832,777	64,629	-	897,406
Total endowment net assets	<u>\$ 832,709</u>	<u>\$ 1,684,361</u>	<u>\$ 896,336</u>	<u>\$ 3,413,406</u>

From time to time, the fair values of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. In accordance with GAAP, events of this nature are reported as reductions in unrestricted net assets and were \$0 and \$68,000 as of June 30, 2012 and 2011, respectively. These events were a result of market declines since the endowment funds were established. A Board of Trustees policy limits the distribution from these funds to current income only.

Dartmouth 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 an individual fund at the time of distribution. The Board approves the formula that determines the amount appropriated from endowment each year. 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.

The overall investment performance objective for the endowment is to generate real (inflation-adjusted) returns net of investment expenses sufficient to support Dartmouth's current operating needs while maintaining the long-term purchasing power of the endowment. Historical averages indicate that an annual return between 8% - 10% is needed to meet this goal. The Investment Committee of the Board of Trustees has determined that a well-diversified mix of assets offers the best opportunity for maximum return with acceptable risk over time. Dartmouth relies on a total return strategy in which investment returns are achieved through both capital appreciation (both realized and unrealized) and current yield (interest and dividends). Investment decisions are made with a view toward maximizing long-term return opportunities while maintaining an acceptable level of investment risk and liquidity.

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

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

	2012	2011
Land	\$ 19,090	\$ 19,090
Buildings	1,011,851	870,189
Land improvements	98,601	94,099
Equipment	<u>268,719</u>	<u>235,641</u>
Land, buildings, and equipment	\$ 1,398,261	\$ 1,219,019
Less: accumulated depreciation	(604,284)	(555,726)
Construction in progress	<u>133,717</u>	<u>200,334</u>
Total net book value	<u>\$ 927,694</u>	<u>\$ 863,627</u>

Dartmouth has conditional asset retirement obligations arising from legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets, including asbestos abatement, leasehold improvements, hazardous materials, and equipment disposal and cleanup. The liability was initially recorded at fair value, and is adjusted for accretion expense, and changes in the amount or timing of cash flows. The corresponding asset retirement costs are capitalized as part of the carrying values of the related long-lived assets and depreciated over the useful lives of the assets.

Dartmouth College
Notes to Financial Statements

G. Bonds, Mortgages, and Notes Payable

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

	<u>Fiscal Year</u> <u>Maturity</u>	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
New Hampshire Health and Education Facilities Authority (NHHEFA):				
Tax-Exempt Fixed Rate:				
Series 2009	2019 – 2039	3.30% - 4.77%	\$ 198,875	\$ 198,875
Tax-Exempt Variable Rate:				
Series 2002	2032	.04% - .24%	101,000	101,000
Series 2003	2023	.04% - .24%	89,300	92,800
Series 2007A	2031	.02% - .26%	89,800	89,840
Series 2007B	2041	.02% - .26%	75,000	90,000
NHHEFA through DELC:				
Fixed Rate:				
Series 1985	2025	5.30% - 5.45%	-	9,795
Series 1998A	2023	5.55%	-	15,300
Series 1999	2039	6.19%	-	9,940
Subtotal Tax-Exempt bonds			<u>\$ 553,975</u>	<u>\$ 607,550</u>
Taxable Bonds:				
NHHEFA Variable Rate:				
Series 2007C	2041	.11% - .24%	30,000	30,000
Fixed Rate				
Series 2009	2019	4.75%	250,000	250,000
Series 2012A	2042	4.00%	70,000	-
Series 2012B	2043	3.76%	150,000	-
Subtotal taxable bonds			<u>\$ 500,000</u>	<u>\$ 280,000</u>
Subtotal bonds			<u>\$ 1,053,975</u>	<u>\$ 887,550</u>
Mortgages on real estate investments:				
Fixed Rate	2017 - 2036	4.34% - 5.61%	51,665	48,011
Taxable commercial paper note:				
Variable Rate		.13% to .22%	19,000	7,000
Subtotal bonds, mortgages and notes payable			<u>\$ 1,124,640</u>	<u>\$ 942,561</u>
Original issue premium, net			<u>4,235</u>	<u>4,207</u>
Total bonds, mortgages, and notes payable, net			<u>\$ 1,128,875</u>	<u>\$ 946,768</u>

Included in interest and amortization presented on the Statement of Operating Expenses is interest expense on debt (including payments on interest rate swap agreements) used to finance facilities projects of \$22,628,000 and \$16,638,000, and on other operating indebtedness of \$129,000 and \$141,000 for the years ended June 30, 2012 and 2011, respectively. In addition, interest paid on debt used to finance facilities projects of \$1,696,000 and \$6,976,000 was capitalized in connection with various construction projects for the years ended June 30, 2012 and 2011, respectively.

Interest expense on debt used to finance student loans totaled \$1,318,000 and \$1,993,000 for the years ended June 30, 2012 and 2011, respectively, and is presented as a deduction from other non-operating earnings in the Statement of Activities. Interest expense on other non-operating indebtedness totaled \$17,772,000 and \$17,749,000 for the years ended June 30, 2012 and 2011, respectively, and is presented as a deduction from other non-operating earnings in the Statement of Activities. Interest expense on mortgages and debt used to finance endowment-related real estate projects totaled \$2,623,000 and \$2,439,000 for the years ended June 30, 2012 and 2011, respectively, and is presented as a deduction in endowment net investment return in the Statement of Activities. Total interest expenses included in the Statement of Activities is \$44,470,000 and \$38,960,000 for the years ended June 30, 2012 and 2011, respectively.

Dartmouth College
Notes to Financial Statements

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

June 30	Principal Due
2013	\$ 25,953
2014	8,516
2015	8,882
2016	9,155
2017	27,628
Thereafter	1,044,506
Total	\$ 1,124,640

Principal due after June 30, 2017, includes the following “balloon” payments due on Dartmouth’s indebtedness (in thousands):

June 30	Indebtedness	Payment
2019	NHHEFA Series 2009 bonds	\$ 7,920
2019	2009 Series A bonds	\$ 250,000
2027	NHHEFA Series 2007A bonds	\$ 31,820
2028	NHHEFA Series 2009 bonds	\$ 32,190
2028	NHHEFA Series 2007A bonds	\$ 52,060
2029	NHHEFA Series 2009 bonds	\$ 20,000
2031	NHHEFA Series 2007A bonds	\$ 5,120
2032	NHHEFA Series 2002 bonds	\$ 101,000
2036	NHHEFA Series 2007B bonds	\$ 18,000
2039	NHHEFA Series 2009 bonds	\$ 138,765
2041	NHHEFA Series 2007B bonds	\$ 57,000
2041	NHHEFA Series 2007C bonds	\$ 30,000
2042	2012 Series A bonds	\$ 70,000
2043	2012 Series B bonds	\$ 150,000

The estimated fair value of the bonds was approximately \$1,146,338,000 and \$930,245,000 as of June 30, 2012 and 2011, respectively, based on the debt service cash flows of the bonds and certain interest rate assumptions for similar bonds.

The NHHEFA bonds are a general obligation collateralized only by Dartmouth’s pledge of full faith and credit 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. Dartmouth has agreed to certain covenants with respect to encumbrance or disposition of its core campus.

During fiscal year 2009, Dartmouth entered into six interest rate swap agreements. Information related to these interest rate swap agreements as of June 30, 2012, including the fixed interest rate paid by Dartmouth and percent of LIBOR BBA (1 month) received on the notional principal, is presented in the table below (in thousands):

Expiration Date	Notional Amount	Fixed Interest Rate %	% of LIBOR BBA
06/01/2032	\$ 100,000	3.75	67
06/01/2041	\$ 100,000	3.73	70
06/01/2027	\$ 31,950	3.77	72
06/01/2028	\$ 52,730	3.78	72
06/01/2042	\$ 100,000	3.73	70
06/01/2043	\$ 165,000	3.73	70

The fair value of these agreements at June 30, 2012 and 2011, based on various factors contained in the interest rate swap agreements and certain interest rate assumptions, was approximately \$216,306,000 and \$89,403,000, respectively. The increase of \$126,903,000 in the liability for the year ended June 30, 2012 is presented as an unrealized loss and the decrease of \$27,771,000 in the liability for the year ended June 30, 2011 is presented as an unrealized gain in the non-operating section of

Dartmouth College
Notes to Financial Statements

the Statement of Activities. Net payments or receipts under the swap agreements associated with facilities debt are reflected as interest expense. These financial instruments involve counter-party credit exposure. During fiscal 2011, Dartmouth added a new counter-party through the novation of two of the swap agreements. The counter-parties for these swap transactions are three major financial institutions that meet Dartmouth's criteria for financial stability and creditworthiness.

Dartmouth maintains stand-by bond purchase agreements totaling approximately \$420,000,000 to provide alternative liquidity to support its variable rate bonds. There were no amounts outstanding at June 30, 2012 and 2011 under these agreements.

Dartmouth has a \$75,000,000 line of credit with a maturity date of December 29, 2014. There have been no borrowings under this line of credit.

H. Pension 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):

	2012	2011
Retirement and postretirement benefits	\$ 289,168	\$ 236,728
Compensated absences, severance plans, and other commitments	16,630	20,104
Self-insured benefits	10,182	10,991
Total employment related obligations	\$ 315,980	\$ 267,823

In fiscal year 1998, Dartmouth revised its pension benefit for staff and non-union service employees, giving each participant a one-time option to either remain in the defined benefit plan or enroll in the 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. Effective January 1, 2006, all union employees are enrolled in the defined contribution plan.

Dartmouth's postretirement medical benefits consist of medical insurance coverage for retirees. Employees hired prior to July 1, 2009 that are 55 or older and have at least ten consecutive years of service in a benefits-eligible position immediately prior to retirement are currently eligible for Retiree Medical Benefits. Dartmouth currently contributes to the cost of medical benefits based on the employee's annual salary, age, and years of service as of June 30, 2009. Plan benefits currently mirror current employee health benefits for retirees under age of 65. At age 65, the retiree would enroll in the Dartmouth College Medicare Supplement (DCMS) plan. New employees hired on or after July 1, 2009 are eligible to participate in a Retirement Savings Match and are eligible to purchase the retiree group health insurance if they qualify at retirement.

Information pertaining to the pension and postretirement benefits at June 30 include (in thousands):

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in benefit obligation:				
Beginning of year	\$ 105,642	\$ 111,776	\$ 217,928	\$ 261,719
Service cost	2,268	2,944	6,915	11,388
Interest cost	5,407	5,831	12,899	14,897
Plan amendments	-	-	(18,897)	-
Benefits paid	(7,266)	(9,496)	(4,138)	(4,178)
Actuarial (gain)/loss	14,869	5,413	59,977	(65,898)
End of year	\$ 120,920	\$ 105,642	\$ 274,684	\$ 217,928
Change in estimated fair value of plan assets:				
Beginning of year	\$ 92,189	\$ 85,061	\$ -	\$ -
Actual return on plan assets	23,595	11,974	-	-
Employer contributions	4,000	4,650	4,138	4,178
Benefits paid	(7,266)	(9,496)	(4,138)	(4,178)
End of year	\$ 112,518	\$ 92,189	\$ -	\$ -
Funded status (plan assets less than benefits obligation)	\$ (8,402)	\$ (13,453)	\$ (274,684)	\$ (217,928)

Dartmouth College
Notes to Financial Statements

Net periodic benefit (income) cost included the following:

Service cost	\$ 2,268	\$ 2,944	\$ 6,915	\$ 11,388
Interest cost	5,407	5,831	12,899	14,897
Expected return on assets	(6,203)	(6,772)	-	-
Amortization of prior service cost (credit)	240	855	(4,158)	(4,158)
Recognized net actuarial loss	<u>1,668</u>	<u>1,588</u>	<u>-</u>	<u>3,661</u>
Net periodic benefit cost	<u>\$ 3,380</u>	<u>\$ 4,446</u>	<u>\$ 15,656</u>	<u>\$ 25,788</u>

Weighted-average assumptions:

Discount rate used to determine net periodic benefit cost	5.40%	5.40%	6.00%	5.75%
Expected return on plan assets	6.80%	7.50%	-	-
Rate of compensation increase	3.00%	3.00%	-	-
Discount rate used to determine benefit obligations	4.40%	5.40%	4.95%	6.00%

The estimated net (income) cost that will be amortized into net periodic benefit cost during the 2013 fiscal year for the pension benefits and the postretirement benefits are \$3,457,608 and (\$4,516,870), respectively.

The increase (decrease) in unrestricted net assets resulting from the change in pension and post-retirement benefit obligations consisted of the following (in thousands):

	<u>Pension Benefits</u>	<u>Post-retirement Benefits</u>	<u>Total 2012</u>	<u>Total 2011</u>
Amounts recognized in non-operating activities:				
Net actuarial gain (loss)	\$ 2,524	\$ (59,977)	\$ (57,453)	\$ 76,512
Amortization of gain	1,668	-	1,668	5,249
Plan amendments	-	18,897	18,897	-
Amortization of prior service cost (credit)	<u>240</u>	<u>(4,158)</u>	<u>(3,918)</u>	<u>(3,303)</u>
Total non-operating gain (loss)	4,432	(45,238)	(40,806)	78,458
Amounts recognized in operating activities:				
Net periodic benefit cost	<u>(3,380)</u>	<u>(15,656)</u>	<u>(19,036)</u>	<u>(30,234)</u>
Total gain (loss)	<u>\$ 1,052</u>	<u>\$ (60,894)</u>	<u>\$ (59,842)</u>	<u>\$ 48,224</u>

The following table summarizes the defined benefit pension plan investments by their fair value hierarchy classification as of June 30, 2012 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 570	\$ -	\$ -	\$ 570
Global equity	-	59,584	-	59,584
Fixed income	-	48,216	-	48,216
Limited partnerships	<u>-</u>	<u>-</u>	<u>4,148</u>	<u>4,148</u>
Total investments	<u>\$ 570</u>	<u>\$ 107,800</u>	<u>\$ 4,148</u>	<u>\$ 112,518</u>

The following table summarizes the defined benefit pension plan investments by their fair value hierarchy classification as of June 30, 2011 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,198	\$ -	\$ -	\$ 4,198
Fixed income ¹	-	83,971	-	83,971
Limited partnerships ²	<u>-</u>	<u>-</u>	<u>4,020</u>	<u>4,020</u>
Total investments	<u>\$ 4,198</u>	<u>\$ 83,971</u>	<u>\$ 4,020</u>	<u>\$ 92,189</u>

¹ This category includes fixed income commingled funds and other financial instruments related to fixed income products.

² This category includes investments in venture capital, private equity, and other real asset funds.

Dartmouth College

Notes to Financial Statements

The following table presents activity for the fiscal year ended June 30, 2012 and 2011 for the defined benefit pension plan investments measured at fair value in Level 3 (in thousands):

	Limited	
	<u>Partnerships</u>	<u>Total</u>
Balance as of June 30, 2011	\$ 4,020	\$ 4,020
Acquisitions / purchases	353	353
Distributions / sales	(622)	(622)
Investment return	211	211
Unrealized gains on investments	186	185
Balance as of June 30, 2012	<u>\$ 4,148</u>	<u>\$ 4,148</u>

	Limited		
	<u>Partnerships</u>	<u>Real Estate</u>	<u>Total</u>
Balance as of June 30, 2010	\$ 3,702	\$ 3,461	\$ 7,163
Acquisitions / purchases	355	-	355
Distributions / sales	(682)	(3,638)	(4,320)
Investment return	279	40	319
Unrealized gains on investments	366	137	503
Balance as of June 30, 2011	<u>\$ 4,020</u>	<u>\$ -</u>	<u>\$ 4,020</u>

The overall investment strategy of the defined benefit pension plan (the Plan) is to utilize an asset mix that is designed to meet the near and longer term benefit payment obligations of the Plan. Over time, the asset mix may include global equity and fixed income exposures. Global equity exposure is designed to capture the equity market performance of developed markets while fixed income exposure provides a predictable yield as well as a hedge against changing interest rates by holding corporate bonds and other financial instruments. Other types of investments may include private equity, venture capital, and other private real asset partnerships that employ different underlying strategies. Outside investment advisors are utilized to manage the Plan assets and are selected based on their investment style, philosophy, and past performance. Dartmouth's investment office is responsible for managing the asset allocation and investment risk management of the Plan.

Dartmouth makes annual contributions to maintain plan funding on an actuarially recommended basis. Dartmouth currently expects to contribute approximately \$4,000,000 to the Plan in fiscal year 2013.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the next five years ending June 30 and thereafter as follows (in thousands):

	<u>Pension</u>	<u>Postretirement</u>
	<u>Benefits</u>	<u>Benefits</u>
2013	\$ 11,900	\$ 6,551
2014	8,400	7,025
2015	8,400	7,572
2016	8,600	8,118
2017	8,600	8,733
Years 2018 -2022	42,000	54,441

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 8.0% and 7.75% in year 2013, decrease gradually to 5% and 5.5% in fiscal year 2018, and remain level thereafter. Dartmouth's estimate of postretirement benefit expense and obligations also reflects the impact of the Medicare Prescription Drug Improvement and Modernization Act, which provides for tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage.

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	\$ 5,099	\$ (3,963)
Increase (decrease) in postretirement benefit obligation	\$ 55,318	\$ (44,804)

Dartmouth College
Notes to Financial Statements

Dartmouth also maintains defined contribution retirement plans for its employees. These benefits are individually funded and are subject to various vesting requirements. Under these arrangements, Dartmouth makes monthly contributions to individual self-directed retirement investment accounts for the participants. These contributions for the years ended June 30, 2012 and 2011 were \$22,846,000 and \$22,696,000, respectively. Dartmouth also maintains deferred compensation plans. The liabilities for the plans are included in pension and other employment related obligations in the Statement of Financial Position.

I. Other Operating Income

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

	2012	2011
Medical School clinical services and other support	\$ 51,671	\$ 49,951
Foreign study and continuing education programs	12,971	11,558
Student activities and other program revenue	11,429	11,853
Athletics revenues	3,878	3,774
Hopkins Center and Hood Museum	1,412	1,282
Other revenues	23,475	20,194
Investment income	21,872	19,514
Total other operating income	\$ 126,708	\$ 118,126

J. Net Assets

Additional information pertaining to Dartmouth's net assets at June 30 is presented below (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Detail of net assets:				
Operating funds	\$ 328,748	\$ 74,753	\$ -	\$ 403,501
Pledges	-	110,972	31,804	142,776
Postretirement and pension benefit obligations	(283,086)	-	-	(283,086)
Third-party charitable trusts	-	7,712	5,899	13,611
Facilities and capital funds	330,852	40,501	-	371,353
Interest rate swap agreements	(216,306)	-	-	(216,306)
Student loan funds	12,351	29,012	-	41,363
Life income, annuity, and similar funds	-	27,937	30,017	57,954
Endowment funds	833,511	1,700,362	952,511	3,486,384
Total net assets	\$ 1,006,070	\$ 1,991,249	\$ 1,020,231	\$ 4,017,550

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Detail of net assets:				
Operating funds	\$ 289,940	\$ 67,636	\$ -	\$ 357,576
Pledges	-	130,352	43,135	173,487
Postretirement and pension benefit obligations	(231,381)	-	-	(231,381)
Third-party charitable trusts	-	7,291	3,210	10,501
Facilities and capital funds	294,822	50,119	-	344,941
Interest rate swap agreements	(89,403)	-	-	(89,403)
Student loan funds	12,657	27,422	-	40,079
Life income, annuity, and similar funds	-	29,376	30,878	60,254
Endowment funds	832,709	1,684,361	896,336	3,413,406
Total net assets	\$ 1,109,344	\$ 1,996,557	\$ 973,559	\$ 4,079,460

Dartmouth College
Notes to Financial Statements

K. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$14,920,000 at June 30, 2012.

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

In conducting its activities, Dartmouth 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 either a material adverse or favorable effect on Dartmouth's financial position.

L. Third-Party Charitable Trusts

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

As of June 30, 2012 and 2011, third-party trustees have not provided Dartmouth with sufficient information necessary to estimate the fair value of Dartmouth's interest in certain trusts. Dartmouth has not recorded an asset in connection with these trusts due to the uncertainty surrounding the potential value of Dartmouth's interest in these trusts as of June 30, 2012 and 2011. If Dartmouth's interest in these trusts were reflected on the Statement of Financial Position, Dartmouth's assets and net assets would be greater than the amounts reported in the accompanying financial statements.

M. Related Party Transactions

Members of Dartmouth's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with Dartmouth. Dartmouth has a written conflict of interest policy that requires annual reporting by each Trustee, as well as senior management. Additionally, Dartmouth has a policy on Pecuniary Benefit Transactions and Related Party Investments. This policy supplements the Dartmouth College Conflict Policy with regard to pecuniary benefit transactions, as defined by New Hampshire law, including but not limited to Dartmouth investment in investment vehicles in which Trustees have a financial interest. These policies include, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of Dartmouth, and in accordance with applicable conflict of interest laws.

N. Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2012 and through November 10, 2012, the date on which the financial statements were issued.