# DARTMOUTH COLLEGE

Financial Statements

2016 - 2017

1769

## Report of Independent Auditors

To the Board of Trustees of Dartmouth College

We have audited the accompanying consolidated financial statements of Dartmouth College and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and of operating expenses for the year ended June 30, 2017 and of cash flows for the years ended June 30, 2017 and 2016.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dartmouth College and its subsidiaries as of June 30, 2017 and 2016 and the changes in their net assets for the year ended June 30, 2017 and their cash flows for the years ended June 30, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

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### *Other Matter*

We previously audited the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, of operating expenses and of cash flows for the year then ended (not presented herein), and in our report dated October 25, 2016, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2016 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 26, 2017

## Consolidated Statement of Financial Position

As of June 30, 2017, with comparative information as of June 30, 2016
(in thousands)

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 175,997 | $ 207,932 |
| Receivables and other assets, net | 137,687 | 140,713 |
| Investment related receivables | 52,591 | 51,484 |
| Pledges receivable, net | 244,714 | 211,455 |
| Investments | 6,318,176 | 5,697,656 |
| Land, buildings, equipment, and construction in progress, net | 967,639 | 954,922 |
| **Total assets** | $ 7,896,804 | $ 7,264,162 |
| **Liabilities** | | |
| Accounts payable and other liabilities | $ 94,929 | $ 99,860 |
| Investment related payables | 157,308 | 85,833 |
| Deferred revenues and deposits | 39,975 | 41,048 |
| Liability for split-interest agreements | 52,715 | 49,527 |
| Pension and other employment related obligations | 400,872 | 420,710 |
| Bonds, mortgages, and notes payable, net | 1,211,124 | 1,244,721 |
| Interest rate swap liabilities, at fair value | 175,646 | 250,321 |
| Conditional asset retirement obligations | 25,314 | 24,522 |
| Government advances for student loans | 20,551 | 20,660 |
| **Total liabilities** | 2,178,434 | 2,237,202 |
| **Net Assets** | | |
| Unrestricted | 1,329,106 | 1,104,557 |
| Temporarily restricted | 2,986,934 | 2,570,506 |
| Permanently restricted | 1,402,330 | 1,351,897 |
| **Total net assets** | 5,718,370 | 5,026,960 |
| **Total liabilities and net assets** | $ 7,896,804 | $ 7,264,162 |

*See accompanying notes to the consolidated financial statements.*

## Consolidated Statement of Activities

For the year ended June 30, 2017, with summarized financial information for the year ended June 30, 2016

(in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2017 | Total 2016 |
|---|---|---|---|---|---|
| **Endowment Activities** | | | | | |
| Gifts | $ 37 | $ 21,399 | $ 35,363 | $ 56,799 | $ 71,356 |
| Net investment return | 140,956 | 488,122 | 1,305 | 630,383 | ( 99,549) |
| Distributed for spending | ( 49,407) | ( 175,976) | ( 26) | ( 225,409) | ( 208,633) |
| Other changes | 2,358 | ( 5,544) | 8,067 | 4,881 | 4,796 |
| Amounts transferred (to) from other funds, net | ( 1,715) | 15,691 | 1,460 | 15,436 | 42,943 |
| **Change in net assets from endowment activities** | 92,229 | 343,692 | 46,169 | 482,090 | ( 189,087) |
| **Operating Activities** | | | | | |
| Revenues | | | | | |
| Tuition and fees | 355,454 | - | - | 355,454 | 340,979 |
| Student scholarships | ( 150,460) | - | - | ( 150,460) | ( 141,713) |
| Net tuition and fees | 204,994 | - | - | 204,994 | 199,266 |
| Sponsored research grants and contracts | 171,007 | - | - | 171,007 | 183,083 |
| Dartmouth College Fund and other gifts | 71,763 | 15,236 | - | 86,999 | 87,151 |
| Distributed endowment investment return | 214,126 | 9,419 | - | 223,545 | 206,944 |
| Other operating income | 123,523 | 132 | - | 123,655 | 107,032 |
| Auxiliaries | 77,680 | - | - | 77,680 | 76,089 |
| Net assets released from restrictions | 8,805 | ( 8,805) | - | - | - |
| Total revenues | 871,898 | 15,982 | - | 887,880 | 859,565 |
| Expenses | | | | | |
| Academic and student programs | 557,969 | - | - | 557,969 | 592,068 |
| Sponsored programs | 129,780 | - | - | 129,780 | 133,016 |
| General institutional services | 101,821 | - | - | 101,821 | 107,229 |
| Auxiliaries | 83,553 | - | - | 83,553 | 85,798 |
| Subtotal expenses for ongoing operations | 873,123 | - | - | 873,123 | 918,111 |
| Change in net assets from ongoing operations | ( 1,225) | 15,982 | - | 14,757 | ( 58,546) |
| Restructuring expenses | | - | - | | 53,459 |
| Environmental remediation and related expenses | 26,950 | - | - | 26,950 | - |
| **Change in net assets from operating activities** | ( 28,175) | 15,982 | - | ( 12,193) | ( 112,005) |
| **Non-operating Activities** | | | | | |
| Gifts | - | 60,245 | 1,600 | 61,845 | 66,129 |
| Other non-operating changes, net | 44,822 | 6,583 | - | 51,405 | ( 1,569) |
| Loss on extinguishment of debt | - | - | - | - | ( 31,732) |
| Distributed endowment investment return | 559 | 1,305 | - | 1,864 | 1,689 |
| Increase in outstanding pledges, net | - | 31,524 | 1,735 | 33,259 | 47,087 |
| Pension and postretirement benefit related changes other than net periodic benefit costs | 37,422 | - | - | 37,422 | 69,052 |
| Disposals and non-capitalized expenditures | ( 8,540) | ( 912) | - | ( 9,452) | ( 7,180) |
| Change in unrealized gain (loss) related to interest rate swap agreements | 74,675 | - | - | 74,675 | ( 82,904) |
| Net assets released from restrictions | 10,023 | ( 10,023) | - | - | - |
| Amounts transferred (to) from endowment, net | 1,408 | ( 16,844) | | ( 15,436) | ( 42,943) |
| Net change in split-interest agreements | 126 | ( 15,124) | 929 | ( 14,069) | ( 18,038) |
| **Change in net assets from non-operating activities** | 160,495 | 56,754 | 4,264 | 221,513 | ( 409) |
| **Change in net assets** | 224,549 | 416,428 | 50,433 | 691,410 | ( 301,501) |
| **Net Assets, beginning of year** | 1,104,557 | 2,570,506 | 1,351,897 | 5,026,960 | 5,328,461 |
| **Net Assets, end of year** | $ 1,329,106 | $ 2,986,934 | $ 1,402,330 | $ 5,718,370 | $ 5,026,960 |

*See accompanying notes to the consolidated financial statements.*

## Consolidated Statement of Operating Expenses

For the year ended June 30, 2017, with summarized financial information for the year ended June 30, 2016
(in thousands)

| | | | General Institutional Services | | | | | Total Expenses | |
|---|---|---|---|---|---|---|---|---|---|
| | Academic & Student Programs | Sponsored Programs | Administrative Support | Facilities Operation & Maintenance | Development | Total | Auxiliaries | 2017 | 2016 |
| **Salaries and wages** | $ 230,629 | $ 50,216 | $ 30,757 | $ 19,504 | $ 20,510 | $ 70,771 | $ 15,038 | $ 366,654 | $ 390,962 |
| **Employee benefits** | 84,089 | 18,309 | 11,214 | 7,111 | 7,478 | 25,803 | 5,483 | 133,684 | 154,613 |
| **Fellowships and student support** | 13,496 | 3,567 | - | - | - | - | 27 | 17,090 | 15,921 |
| **Materials, equipment, and supplies** | 37,608 | 9,090 | 6,904 | 629 | 1,012 | 8,545 | 17,127 | 72,370 | 78,018 |
| **Purchased services** | 45,569 | 44,713 | 5,365 | 3,548 | 4,437 | 13,350 | 11,381 | 115,013 | 102,398 |
| **Utilities, taxes, and occupancy** | 1,844 | 145 | - | 27,757 | 553 | 28,310 | 7,835 | 38,134 | 45,572 |
| **Depreciation and amortization** | 47,246 | - | 4,020 | 4,822 | 293 | 9,135 | 9,808 | 66,189 | 66,582 |
| **Lodging, travel, and similar costs** | 22,791 | 3,447 | 1,381 | 89 | 2,273 | 3,743 | 168 | 30,149 | 29,739 |
| **Interest** | - | - | - | 25,943 | - | 25,943 | 1,413 | 27,356 | 27,118 |
| **Other expenses** | 4,559 | 293 | 571 | 353 | 502 | 1,426 | 206 | 6,484 | 7,188 |
| | 487,831 | 129,780 | 60,212 | 89,756 | 37,058 | 187,026 | 68,486 | 873,123 | 918,111 |
| **Facilities operation & maintenance** | 70,138 | - | 4,470 | (89,756) | 81 | (85,205) | 15,067 | 0 | |
| **Total expenses for FY17** | $ 557,969 | $ 129,780 | $ 64,682 | $ - | $ 37,139 | $ 101,821 | $ 83,553 | $ 873,123 | |
| **Total expenses for FY16** | $ 592,068 | $ 133,016 | $ 66,400 | $ - | $ 40,829 | $ 107,229 | $ 85,798 | | $ 918,111 |

*See accompanying notes to the consolidated financial statements.*

## Consolidated Statement of Cash Flows

For the year ended June 30, 2017, with comparative information for the year ended June 30, 2016
(in thousands)

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Total change in net assets | $ 691,410 | $ (301,501) |
| Adjustments to reconcile total change in net assets to net cash used by operating activities: | | |
| Depreciation and amortization | 66,499 | 67,326 |
| Change in estimated value of interest rate swap agreements | (74,675) | 82,904 |
| Change in estimated pension and post-retirement benefit obligation | (26,056) | (45,198) |
| Net change in split-interest liability | 3,188 | (367) |
| Change in pledges receivable, net | (33,259) | (47,087) |
| Other non-cash transactions | 854 | 1,025 |
| Contributions, investment income, and other changes restricted for long-term investment | (106,153) | (130,870) |
| Net realized and changes unrealized (gains) losses | (717,837) | 119,262 |
| Changes in operating assets and liabilities: | | |
| Receivables and other assets, net | 597 | (1,003) |
| Accounts payable and other liabilities | (5,452) | 33,072 |
| Deferred revenues and deposits | (1,073) | (2,250) |
| Employment related obligations | 6,218 | 14,554 |
| Net cash used in operating activities | (195,739) | (210,133) |
| **Cash flows from investing activities** | | |
| Student loans granted | (6,977) | (11,767) |
| Student loans repaid | 10,559 | 11,076 |
| Purchases of land, buildings, and equipment | (79,629) | (51,888) |
| Purchases of investments | (3,838,691) | (4,807,803) |
| Sales and maturities of investments | 4,006,376 | 4,708,455 |
| Net cash provided by (used in) investing activities | 91,638 | (151,927) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of debt | - | 642,065 |
| Repayment of debt | ( 33,878) | (492,248) |
| Contributions, investment income, and other changes restricted for long-term investment in: | | |
| Facilities | 34,159 | 47,375 |
| Endowment, life income, and similar funds | 71,994 | 83,495 |
| Changes in government advances for student loans | (109) | 168 |
| Net cash provided by financing activities | 72,166 | 280,855 |
| **Net change in cash and cash equivalents** | (31,935) | (81,205) |
| Cash and cash equivalents, beginning of year | 207,932 | 289,137 |
| Cash and cash equivalents, end of year | $ 175,997 | $ 207,932 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for interest | $ 50,703 | $ 63,470 |
| Accounts payable related building and equipment additions | $ 1,313 | $ 1,416 |
| Contributed securities received | $ 41,735 | $ 46,055 |

*See accompanying notes to the consolidated 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 4,300 undergraduate and 2,100 graduate students. Established in 1769, Dartmouth includes the four-year undergraduate college, with graduate schools of business, engineering, medicine, and arts and sciences.

**Basis of Presentation**
The accompanying consolidated financial statements have been prepared on the accrual basis. Dartmouth's consolidated 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 Hanover, NH area; the Dartmouth Education Loan Corporation (DELC), which provides scholarships and loans to Dartmouth students who are unable to finance their education through other sources; and various separately incorporated entities which support experiential learning and other 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, divisions or 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 or 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, certain 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 has 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, life income and similar funds, and certain pledges.

**Comparative Financial Information**
The 2017 consolidated financial statements are presented with certain prior-year comparative information summarized 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 consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the fiscal year 2017 presentation.

**Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in these consolidated financial statements are the fair value of investments, interest rate swap agreements, 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.

**Recent Accounting Pronouncements**

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU is effective for Dartmouth's fiscal 2020; however, as permitted by the ASU, Dartmouth chose to early adopt the provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) in fiscal 2016. Dartmouth is evaluating the impact of the remainder of the new guidance on the consolidated financial statements.

In fiscal 2017, Dartmouth adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. The adoption of ASU 2015-03 is considered a change in accounting principle, and has been applied on a retrospective basis. For fiscal year ended June 30, 2017 and 2016, Dartmouth reclassified unamortized debt issuance costs from deferred assets to bonds payable liability in the amounts of $3,025,000 and $3,263,000, respectively.

**Consolidated Statement of Activities**

Operating activities presented in the Consolidated 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. Amortization expense of capitalized information technology costs is allocated to the functional classification that the technology supports. 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 Consolidated Statement of Activities consist of gifts for facilities projects and gifts whose purpose has not yet been finalized, 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 benefit costs.

Endowment activities presented in the Consolidated Statement of Activities consist of gifts that are restricted by donors to invest 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 may include U.S. treasury funds, money market accounts, certificates of deposit, commercial paper, foreign currency and currency related contracts, and liquid short-term investments with maturities of 90 days or less at the date of acquisition. Cash and cash equivalents are carried at fair value and considered Level 1 in the fair value hierarchy.

**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 65 percent of tuition and fees revenue for the years ended June 30, 2017 and 2016. Student scholarships provided by Dartmouth are presented in the Consolidated 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 $3,475,000 and $4,089,000 for the years ended June 30, 2017 and 2016, respectively, which are not presented in the Consolidated Statement of Activities.

Prior to fiscal 2017, all students admitted to Dartmouth's undergraduate program were admitted without regard to financial need. Beginning in fiscal 2017, for international applicants only, Dartmouth considers the financial need of those applicants as part of the admissions process. All admitted students are offered financial aid to fully meet their demonstrated need, which is defined using a uniform formula that determines the ability to pay based on the family's income and assets, along with many other factors. The full amount of demonstrated need is met with a financial aid package that includes a combination of employment eligibility, grants, and in some cases, loans.

**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 is based upon negotiated predetermined cost rates through June 30, 2017. Dartmouth recovered facilities and administrative costs of approximately $42,718,000 and $42,354,000 during the years ended June 30, 2017 and 2016, 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. As of June 30, 2017, tax years ended June 30, 2014 through June 30, 2016 remain open and are subject to federal and state taxing authority examination. Dartmouth believes it has taken no significant uncertain tax positions.

**Affiliation with Dartmouth-Hitchcock Medical Center**
Dartmouth, through the Geisel School of Medicine (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 of DHMC 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, 2017 and 2016, Dartmouth paid approximately $19.3 million and $19.3 million, respectively, and received approximately $9.1 million and $24.0 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 two 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 Consolidated 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, pledges and pledge payments 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 Consolidated 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 fair value in accordance with U.S. GAAP. 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. Cash and cash equivalents designated for investment purposes is included in Investments and may include money market funds, foreign currency of financial contracts held for investment purposes, and U.S. treasury securities with an original or remaining maturity of three months or less when purchased. These investments are valued based on market price or cost which approximates fair value. Advance contributions to commingled fund investments and redemptions receivable from commingled fund investments at June 30, 2017 and June 30, 2016 are included within Investments as presented on the Consolidated Statement of Financial Position.

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 fair value. Fair values for shares in listed commingled funds are based on the quoted market value or share prices reported as of the last business day of the fiscal year. Dartmouth's interest in certain other private commingled funds and private partnership interests are reported at the net asset value (NAV) as determined by the external fund manager. As permitted by GAAP, Dartmouth uses NAV as a practical expedient to estimate the fair value of Dartmouth's ownership interest, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Dartmouth performs due diligence procedures related to these investments to support recognition at fair value at fiscal year-end. 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 actual results.

Directly held real estate is reflected at fair value in accordance with Dartmouth's valuation policy. Management estimates fair value for these properties using primarily inputs from independent third-party appraisals, which are conducted not less than once every 12 months, but may consider other metrics including discounted cash flow analysis or recent tax assessments, or at cost which approximates fair value for properties held for less than one year or which are being actively developed.

Total investment return (interest, dividends, rents, royalties, and net realized and changes in unrealized gains and losses) earned by Dartmouth's endowment investments is included in endowment activities on the Consolidated Statement of Activities, while the net income earned by the non-endowment investments is included in operating or non-operating activities, as appropriate, on the Consolidated Statement of Activities. Dividend income is recognized, net of applicable withholding taxes, on the ex-dividend date. Non-cash dividends are recorded at the fair value of the securities received on the date of distribution. Interest income and expenses are recorded net of applicable withholding taxes on the accrual basis of accounting. Dartmouth amortizes bond premiums and accretes bond discounts using the effective yield method. Fees charged by external investment managers are generally based on contractual percentages of the fair 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 $15,817,000 and $14,263,000 for the years ended June 30, 2017 and 2016, respectively, and have been netted against total investment return and other operating and non-operating income in the accompanying Consolidated Statement of Activities.

The asset allocation of Dartmouth's investment portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as price, interest rate, sovereign, currency, liquidity, and credit risks. Additionally, investments in real assets through commingled funds and direct real estate expose Dartmouth to a unique set of risks such as operational, environmental, and political risks. Dartmouth anticipates that the value and composition of its investments may, from time to time, fluctuate substantially in response to any or all of the risks described herein.

**Endowment**

Dartmouth's endowment consists 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 and in accordance with purpose designated by the donor.

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 Consolidated 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 are generally presented as changes in temporarily restricted net assets in the Consolidated 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, after 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 2.4% and 1.8% for June 30, 2017 and 2016, respectively, for the net present value of the future cash outflows to beneficiaries of the agreements for which Dartmouth serves as trustee. When Dartmouth is not the trustee of the assets associated with a split-interest agreement, 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, which Dartmouth considers a Level 3 measurement. 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. Dartmouth reports the net change in split-interest agreements as a non-operating change in net assets in the Consolidated Statement of Activities.

**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 | 13 – 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 Consolidated Statement of Financial Position. Purchases of collection items are recorded in the Consolidated Statement of Activities as non-operating 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 consolidated financial statements.

## B. Receivables and Other Assets

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

| | 2017 | 2016 |
|---|---|---|
| Student accounts | $ 1,884 | $ 493 |
| Sponsored research grants and contracts | 20,149 | 18,048 |
| Other accounts | 35,858 | 41,687 |
| Notes and student loans | 61,249 | 64,831 |
| *Less*: allowance for uncollectible accounts | (2,446) | (3,600) |
| Receivables, net | $ 116,694 | $ 121,459 |
| Prepaid costs, inventories, and other assets | 20,993 | 19,254 |
| **Total receivables and other assets, net** | $ 137,687 | $ 140,713 |

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 Consolidated 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):

| | 2017 | 2016 |
|---|---|---|
| Gifts to support operations | $ 86,999 | $ 87,151 |
| Gifts for: | | |
| Facilities and student loans | 34,159 | 47,375 |
| Other restricted uses | 4,838 | 2,973 |
| Endowment | 56,799 | 71,356 |
| Split-interest agreements | 22,848 | 15,781 |
| **Total gifts and pledge payments** | $ 205,643 | $ 224,636 |

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):

| | 2017 | 2016 |
|---|---|---|
| In one year or less | $ 60,631 | $ 74,074 |
| Between one year and five years | 150,323 | 97,385 |
| Six years and after | 47,847 | 49,796 |
| Gross pledges receivable | $ 258,801 | $ 221,255 |
| *Less:* present value discount | (10,722) | (7,955) |
| *Less:* allowance for uncollectible pledges | (3,365) | (1,845) |
| **Pledges receivable, net** | $ 244,714 | $ 211,455 |

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

## D. Investments

Dartmouth's endowment and other investment portfolios include investments in various asset classes, each with different return expectations, risk characteristics, and liquidity provisions.

Fixed Income includes strategies based on capital preservation and 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. Exposures to these investments may include directly held securities as well as investments through commingled funds and derivatives, including fixed income futures and forwards, and interest rate and credit default swaps.

Global Equity includes investments in directly held equity securities and commingled funds, whose managers primarily invest in global public long-only and long/short equity securities with portfolios that are directionally exposed to the market.

Hedge funds include investments in commingled funds whose managers employ discrete and blended strategies, including long/short equity, absolute return, market neutral, distressed and credit strategies. Hedge funds generally hold long and short 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 primarily 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 directly or through publicly traded mutual funds as well as direct real estate. Other real asset investments may include limited partnerships, commingled fund and public index exposure targeting natural resource investments.

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

| | 2017 | 2016 |
|---|---|---|
| Endowment investments | $ 5,069,078 | $ 4,538,696 |
| Split-interest agreement investments | 142,773 | 130,237 |
| Operating and other investments | 1,106,325 | 1,028,723 |
| **Total investments** | $ 6,318,176 | $ 5,697,656 |

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:

Level 1 - Quoted prices (unadjusted) in active markets for identical investments as of the reporting date. The type of investments in Level 1 includes cash and cash equivalents, actively listed and traded equities, U.S. treasury 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. The type of investments in Level 2 includes fixed income securities and derivatives.

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. The type of investments in Level 3 includes directly held real estate and other illiquid investments.

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.

The following Fair Value Leveling table summarizes Dartmouth's investments that are reported at fair value by their fair value hierarchy classification as of June 30, 2017 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments: | | | | |
| Cash and cash equivalents | $ 153,411 | $ - | $ - | $ 153,411 |
| Fixed income | 491,471 | 245,763 | 1 | 737,235 |
| Global equity: | | | | |
| US equity | 423,837 | - | 23 | 423,860 |
| International | 24,601 | - | - | 24,601 |
| Emerging markets | 109,178 | - | - | 109,178 |
| Real assets: | | | | |
| Real estate | 17,367 | - | 189,934 | 207,301 |
| Other real assets | 42,700 | - | - | 42,700 |
| Other investments | - | 85 | 2,151 | 2,236 |
| Contributions in advance | 15,000 | - | - | 15,000 |
| Redemption receivable | 101,396 | - | - | 101,396 |
| Total investments | $ 1,378,961 | $ 245,848 | $ 192,109 | $ 1,816,918 |

The following Fair Value Leveling table summarizes Dartmouth's investments that are reported at fair value by their fair value hierarchy classification as of June 30, 2016 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments: | | | | |
| Cash and cash equivalents | $ 65,410 | $ - | $ - | $ 65,410 |
| Fixed income | 492,876 | 222,410 | 79 | 715,365 |
| Global equity: | | | | |
| US equity | 481,225 | - | 523 | 481,748 |
| International | 37,414 | - | - | 37,414 |
| Emerging markets | 40,971 | - | - | 40,971 |
| Real assets: | | | | |
| Real estate | 18,460 | - | 199,253 | 217,713 |
| Other real assets | 71,466 | - | - | 71,466 |
| Other investments | - | 128 | 1,454 | 1,582 |
| Contributions in advance | 95,377 | - | - | 95,377 |
| Redemption receivable | 76,569 | - | - | 76,569 |
| Total investments | $ 1,379,768 | $ 222,538 | $ 201,309 | $ 1,803,615 |

The following tables present Dartmouth's activity for the fiscal years ended June 30, 2017 and 2016 for investments measured at fair value in Level 3 (in thousands):

| | Fixed Income | US Equity | Real Assets | Other Investments | Total |
|---|---|---|---|---|---|
| Balance as of June 30, 2016 | $ 79 | $ 523 | $ 199,253 | $ 1,454 | $ 201,309 |
| Acquisitions / purchases | - | - | 3,315 | 908 | 4,223 |
| Distributions / sales | (8) | (652) | (27,895) | (211) | (28,766) |
| Realized gain (loss) | 8 | 152 | 13,626 | - | 13,786 |
| Change in unrealized gain (loss) | (78) | - | 1,635 | - | 1,557 |
| Balance as of June 30, 2017 | $ 1 | $ 23 | $ 189,934 | $ 2,151 | $ 192,109 |

| | Fixed Income | US Equity | Real Assets | Other Investments | Total |
|---|---|---|---|---|---|
| Balance as of June 30, 2015 | $ 79 | $ 523 | $ 199,028 | $ 1,728 | $ 201,358 |
| Acquisitions / purchases | - | - | 667 | 8 | 675 |
| Distributions / sales | - | - | (3,769) | (282) | (4,051) |
| Realized gain (loss) | - | - | 185 | - | 185 |
| Change in unrealized gain (loss) | - | - | 3,142 | - | 3,142 |
| Balance as of June 30, 2016 | $ 79 | $ 523 | $ 199,253 | $ 1,454 | $ 201,309 |

All net realized and unrealized gains (losses) in the table above are reflected in the Consolidated Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $23,436,000 and $22,704,000 as of June 30, 2017 and 2016, respectively. The net change in unrealized gains (losses) related to Level 3 investments held at June 30, 2017, and June 30, 2016, are disclosed in the table above. Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur.

The following tables provide quantitative information about the significant unobservable inputs used in the valuation of directly held real estate as of June 30, 2017 and June 30, 2016. Investments in real estate represent the estimated asset value of each of the underlying property investments, which are primarily informed by third party appraisals. Actual results could differ materially from these estimates particularly during periods of investment and/or interest rate volatility.

June 30, 2017 (in thousands):

| Valuation Technique | Fair Value[1] | Unobservable Inputs | Input Value(s) |
|---|---|---|---|
| Third party appraisal-income capitalization approach | $ 168,590 | Capitalization rate | 4.00 – 7.00% |
| Third party appraisal-comparable sales | 15,832 | Recent sales | |
| Third party appraisal-comparable sales | 2,070 | Discount rate | 25.00% |
| Tax assessed value – adjusted annually | 2,753 | State / Local equalization ratios | 0.834 |
| Cost | 689 | Not applicable | Not applicable |
| Total | $ 189,934 | | |

[1]The fair value may be determined using multiple valuation techniques.

June 30, 2016 (in thousands):

| Valuation Technique | Fair Value[1] | Unobservable Inputs | Input Value(s) |
|---|---|---|---|
| Third party appraisal-income capitalization approach | $ 155,954 | Capitalization rate | 4.00 – 8.50% |
| Third party appraisal-comparable sales | 23,924 | Recent sales | |
| Market bid | 16,450 | Not applicable | Not applicable |
| Tax assessed value – adjusted annually | 2,274 | State / Local equalization ratios | 0.876 |
| Cost | 651 | Not applicable | Not applicable |
| Total | $ 199,253 | | |

[1]The fair value may be determined using multiple valuation techniques.

The following Fair Value NAV table lists specified investment terms by asset category for Dartmouth's interest in certain commingled funds and private partnership interests that are reported using NAV as the practical expedient to estimate fair value as of June 30, 2017 (in thousands):

| | Fair Value | Redemption Terms | Days Notice | Remaining Unfunded Commitment | Remaining Life |
|---|---|---|---|---|---|
| Fixed income | $ 61,016 | Monthly | 30 – 40 | $ - | No Limit |
| Global equity: | | | | | |
| US equity[1] | 929,131 | Ranges from monthly to bi-annual | 30 – 90 | 35,000 | No Limit |
| International | 628,969 | Ranges from semi-monthly to quarterly | 3 – 180 | - | No Limit |
| Emerging markets[2] | 214,692 | Ranges from monthly to annually | 45 – 180 | - | No Limit |
| Hedge funds[3] | 1,202,445 | Ranges from quarterly to annually | 30 – 90 | 68,132 | No Limit |
| Private equity / Venture capital | 940,667 | Illiquid | Not applicable | 511,477 | 1 – 12 years |
| Real assets: | | | | | |
| Real estate | 213,982 | Illiquid | Not applicable | 255,343 | 1 – 12 years |
| Other real assets | 310,356 | Quarterly, Illiquid | 30, Not applicable | 209,767 | 1 – 20 years |
| Total | $ 4,501,258 | | | $ 1,079,719 | |

[1] US equity includes funds that have restrictions on the ability to fully redeem up to three years.
[2] Emerging markets includes funds that have restrictions on the ability to fully redeem up to three years.
[3] Hedge funds includes funds that have restrictions on the ability to fully redeem up to five years, excluding illiquid securities and special investments.

The following Fair Value NAV table lists specified investment terms by asset category for Dartmouth's interest in certain commingled funds and private partnership interests that are reported using NAV as the practical expedient to estimate fair value as of June 30, 2016 (in thousands):

| | Fair Value | Redemption Terms | Days Notice | Remaining Unfunded Commitment | Remaining Life |
|---|---|---|---|---|---|
| Fixed income | $ 44,094 | Monthly | 30 – 40 | $ - | No Limit |
| Global equity: | | | | | |
| US equity[1] | 637,179 | Ranges from quarterly to bi-annual | 30 – 90 | 35,000 | No Limit |
| International[2] | 460,033 | Ranges from semi-monthly to quarterly | 3 – 180 | - | No Limit |
| Emerging markets[3] | 219,226 | Ranges from daily to quarterly | 30 – 180 | - | No Limit |
| Hedge funds[4] | 1,155,608 | Ranges from quarterly to annually | 30 – 90 | 54,342 | No Limit |
| Private equity / Venture capital | 874,207 | Illiquid | Not applicable | 548,887 | 1 – 12 years |
| Real assets: | | | | | |
| Real estate | 259,974 | Illiquid | Not applicable | 183,787 | 1 – 12 years |
| Other real assets | 243,720 | Quarterly, Illiquid | 30, Not applicable | 219,068 | 1 – 20 years |
| Total | $ 3,894,041 | | | $ 1,041,084 | |

[1] US equity includes funds that have restrictions on the ability to fully redeem up to three years.
[2] International includes one fund with partial capital in lockup through December 31, 2016.
[3] Emerging markets includes funds that have restrictions on the ability to fully redeem up to three years.
[4] Hedge funds includes funds that have restrictions on the ability to fully redeem up to five years, excluding illiquid securities and special investments.

Investments reported in the Fair Value Leveling and Fair Value NAV tables total $6,318,176,000 and $5,697,656,000 and are presented on the Consolidated Statement of Financial Position as of June 30, 2017 and 2016, respectively.

The following tables set forth the fair value of Dartmouth's derivative instruments for investment purposes by contract type as of June 30, 2017 and 2016 and gains/losses related to derivative activities for the years ended June 30, 2017 and 2016 (in thousands):

June 30, 2017:

| | Notional Exposure | | Fair Value[1] | | |
|---|---|---|---|---|---|
| | Long | Short | Asset | Liability | Net Gain/(Loss)[2] |
| Foreign currency forward contracts | $ 42,958 | $ (44,757) | $ 718 | $ (600) | $ (86) |
| Fixed income futures contracts | 48,197 | (61,497) | 139 | (299) | 1,365 |
| Interest rate swaps[3] | 11,661 | - | 289 | (7) | (60) |
| Credit default swaps | 3,532 | (6,749) | 55 | (415) | (435) |
| Total | $ 106,348 | $ (113,003) | $ 1,201 | $ (1,321) | $ 784 |

June 30, 2016:

| | Notional Exposure | | Fair Value[1] | | |
|---|---|---|---|---|---|
| | Long | Short | Asset | Liability | Net Gain/(Loss)[2] |
| Foreign currency forward contracts | $ 19,182 | $ (11,115) | $ 143 | $ (464) | $ 172 |
| Fixed income futures contracts | 72,754 | (71,487) | 1,309 | (1,972) | (2,630) |
| Interest rate swaps | - | - | - | - | (19) |
| Credit default swaps | 9,131 | (9,101) | 226 | (332) | (115) |
| Total | $ 101,067 | $ (91,703) | $ 1,678 | $ (2,768) | $ (2,592) |

[1] The net fair value of these derivative instruments is included in the Consolidated Statement of Financial Position as investments at fair value.
[2] The net gain/(loss) from these derivative instruments is presented in the operating and non-operating sections of the Consolidated Statement of Activities as other operating income and other non-operating changes.
[3] The notional amount of these contracts represents a structure which pay based on a fixed rate and receive based on a variable rate.

Dartmouth enters into foreign currency forward contracts and government bond futures and forwards 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. In certain circumstances 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, 2017 and 2016, Dartmouth had no pledged collateral on futures contracts for investment purposes.

Dartmouth enters into swap contracts for investment purposes. Interest rate swap contracts are used to efficiently manage portfolio exposures to interest rates. These instruments may be used to hedge the portfolio from unwanted interest rate risk, but also to efficiently implement active duration strategies. These instruments are valued using market-based prices and are included in Level 2 in the Fair Value Leveling table. The fair value of the contracts is included in the Consolidated Statement of Financial Position as investments at fair value. The gain on these contracts is presented in the operating and non-operating sections of the Consolidated Statement of Activities.

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. The seller of a credit default swap bears the obligation to pay the buyer upon occurrence of a contracted credit event in return for a periodic stream of fixed payments from the buyer over the term of the contract. These instruments are valued using market-based prices and are included in Level 2 in the Fair Value Leveling table. The fair value of these credit default swap contracts is included in the Consolidated Statement of Financial Position as investments at fair value. The net gain/loss on these credit default swap contracts is presented in the operating and non-operating sections of the Consolidated 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):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2016 | $ 1,008,220 | $ 2,179,853 | $ 1,286,331 | $ 4,474,404 |
| Net investment return: | | | | |
| Investment income | 3,371 | 13,052 | 34 | 16,457 |
| Net appreciation (depreciation) | 137,585 | 475,070 | 1,271 | 613,926 |
| Total net investment return | 140,956 | 488,122 | 1,305 | 630,383 |
| Gifts | 37 | 21,399 | 35,363 | 56,799 |
| Distribution of endowment return to all funds | (49,407) | (175,976) | (26) | (225,409) |
| Transfers and other changes, net | 643 | 10,147 | 9,527 | 20,317 |
| **Endowment net assets, June 30, 2017** | $ 1,100,449 | $ 2,523,545 | $ 1,332,500 | $ 4,956,494 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2015 | $ 1,075,885 | $ 2,407,876 | $ 1,179,730 | $ 4,663,491 |
| Net investment return: | | | | |
| Investment income | 5,481 | 17,521 | 46 | 23,048 |
| Net appreciation (depreciation) | (28,529) | (93,822) | (246) | (122,597) |
| Total net investment return | (23,048) | (76,301) | (200) | (99,549) |
| Gifts | 63 | 2,327 | 68,966 | 71,356 |
| Distribution of endowment return to all funds | (48,243) | (160,335) | (55) | (208,633) |
| Transfers and other changes, net | 3,563 | 6,286 | 37,890 | 47,739 |
| **Endowment net assets, June 30, 2016** | $ 1,008,220 | $ 2,179,853 | $ 1,286,331 | $ 4,474,404 |

Transfers and other changes, net include additions to the endowment from matured split-interest agreements, net transfers resulting from changes in donor restrictions or Dartmouth designations, and other internal charges including certain fundraising costs.

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 $2,090,499,000 and $1,815,710,000 at June 30, 2017 and 2016, respectively.

Endowment net assets consist of the following as of June 30, 2017 (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 2,523,545 | $ 1,332,500 | $ 3,856,045 |
| Board-designated endowment funds | 1,100,449 | - | - | 1,100,449 |
| Total endowment net assets | $ 1,100,449 | $ 2,523,545 | $ 1,332,500 | $ 4,956,494 |

Endowment net assets consist of the following as of June 30, 2016 (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 2,179,853 | $ 1,286,331 | $ 3,466,184 |
| Board-designated endowment funds | 1,008,220 | - | - | 1,008,220 |
| Total endowment net assets | $ 1,008,220 | $ 2,179,853 | $ 1,286,331 | $ 4,474,404 |

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 due to market declines. In accordance with GAAP, events of this nature are reported as reductions in unrestricted net assets and were $0 and $897,000 as of June 30, 2017 and 2016, respectively. These events were a result of market declines since the endowment funds were established. In order to provide stable funding for the programs supported by the endowment, in fiscal 2017 Dartmouth's Board of Trustees voted to amend the distribution policy to allow spending from a portion of the historic book value on underwater funds provided there are no donor-imposed restrictions that prohibit such spending. No more than 20% of the historic book value may be distributed, except in cases where the donor directs otherwise.

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. The resulting fiscal 2017 endowment distribution of $225,409,000 represents a 5.0% distribution rate when measured against the previous year's June 30$^{th}$ endowment value. 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. 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):

| | 2017 | 2016 |
|---|---|---|
| Land | $ 19,651 | $ 19,158 |
| Buildings | 1,318,032 | 1,283,309 |
| Land improvements | 119,286 | 114,498 |
| Equipment and software | 352,416 | 339,917 |
| Land, buildings, and equipment | $ 1,809,385 | $ 1,756,882 |
| *Less*: accumulated depreciation | (898,130) | (835,201) |
| Construction in progress | 56,384 | 33,241 |
| **Total net book value** | $ 967,639 | $ 954,922 |

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.

## G. Bonds, Mortgages, and Notes Payable

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

| | Fiscal Year Maturity | 2017 Interest Rate | 2017 | 2016 |
|---|---|---|---|---|
| New Hampshire Health and Education Facilities Authority (NHHEFA): | | | | |
| Tax-Exempt Fixed Rate: | | | | |
| Series 2009 | 2019 – 2039 | 5.00% | $ 52,800 | $ 52,800 |
| Tax-Exempt Variable Rate: | | | | |
| Series 2003 | 2023 | .38% - .92% | 53,700 | 61,600 |
| Series 2007B | 2041 | .25% - .93% | 75,000 | 75,000 |
| Series 2015AB | 2040 | .86% - 1.22% | 101,000 | 101,000 |
| Series 2015CD | 2038 | .86% - 1.22% | 89,665 | 89,665 |
| Series 2016A | 2043 | 1.14% | 165,000 | 165,000 |
| **Subtotal tax-exempt bonds** | | | $ 537,165 | $ 545,065 |
| Taxable Bonds: | | | | |
| Fixed Rate | | | | |
| Series 2009 | 2019 | 4.75% | 150,000 | 150,000 |
| Series 2012A | 2042 | 4.00% | 70,000 | 70,000 |
| Series 2012B | 2043 | 3.76% | 150,000 | 150,000 |
| Series 2016A | 2046 | 3.47% | 250,000 | 250,000 |
| **Subtotal taxable bonds** | | | $ 620,000 | $ 620,000 |
| **Subtotal bonds** | | | $ 1,157,165 | $ 1,165,065 |
| Mortgages on real estate investments: | | | | |
| Fixed Rate | 2017 – 2037 | 4.34% - 5.61% | 26,387 | 46,065 |
| Taxable commercial paper note: | | | | |
| Variable Rate | | 0.5% - 1.05% | 30,000 | 36,300 |
| **Subtotal bonds, mortgages and notes payable** | | | $ 1,213,552 | $ 1,247,430 |
| Original issue premium, net | | | 597 | 554 |
| Unamortized debt issuance costs | | | (3,025) | (3,263) |
| **Total bonds, mortgages, and notes payable, net** | | | $ 1,211,124 | $ 1,244,721 |

In fiscal year 2016, Dartmouth College refunded $101,000,000 NHHEFA Series 2002 and $89,700,000 NHHEFA Series 2007A variable rate demand bonds and replaced them with a floating rate direct placement of debt with a bank. The $30,000,000 NHHEFA Series 2007C taxable variable rate demand bonds were also refunded at the same time and replaced with taxable commercial paper notes.

In fiscal year 2016, Dartmouth issued New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds Dartmouth College Issue, Series 2016A (the "Series 2016A Bonds") in the amount of $165,000,000. The primary purpose of this issue was to refinance $146,075,000 of the NHHEFA Series 2009 Bonds.

In fiscal year 2016, Dartmouth redeemed $100,000,000 of the Series 2009 taxable bonds. Dartmouth incurred a $10,830,000 make-whole call premium on the early redemption, which is included in loss on extinguishment of debt in the Consolidated Statement of Activities.

In fiscal year 2016, Dartmouth issued $250,000,000 of fixed rate taxable debt to be used for future strategic initiatives.

Interest expense for the years ended June 30 consists of (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Consolidated Statement of Activities: | | |
| Endowment Activities | | |
| Interest expense on mortgage and debt used to finance endowment-related real estate projects, presented as a reduction in endowment investment return | $ 2,499 | $ 2,618 |
| Operating Activities (amounts included in "Interest and Amortization" on the Consolidated Statement of Operating Expenses) | | |
| Interest expense of debt (including payments on interest rate swap agreements) used to finance facilities projects | 27,142 | 27,102 |
| Interest expense on other operating indebtedness | 344 | 273 |
| Non-Operating Activities (amounts presented as a deduction from other non-operating earnings) | | |
| Interest expense on debt used to finance student loans | 1,406 | 1,406 |
| Interest expense on other non-operating indebtedness | 18,312 | 21,533 |
| Total interest expense on the Consolidated Statement of Activities | $ 49,703 | $ 52,932 |
| Consolidated Statement of Financial Position: | | |
| Interest paid on debt used to finance facilities projects capitalized in connection with various construction projects | $ 44 | $ 460 |

Scheduled principal payments due for each of the next five years ending June 30 and thereafter are as follows, excluding maturity of commercial paper and unamortized discounts and premiums are (in thousands):

| June 30 | Principal Due |
|---|---|
| 2018 | 9,854 |
| 2019 | 168,154 |
| 2020 | 10,616 |
| 2021 | 11,005 |
| 2022 | 11,412 |
| Thereafter | 972,511 |
| Total | $ 1,183,552 |

Principal due after June 30, 2022, includes the following "balloon" payments due on Dartmouth's indebtedness (in thousands):

| June 30 | Indebtedness | Payment |
|---|---|---|
| 2028 | NHHEFA Series 2009 bonds | $ 32,190 |
| 2029 | NHHEFA Series 2009 bonds | 12,690 |
| 2036 | NHHEFA Series 2007B bonds | 18,000 |
| 2038 | 2015 Series C&D bonds | 89,665 |
| 2040 | 2015 Series A&B bonds | 101,000 |
| 2041 | NHHEFA Series 2007B bonds | 57,000 |
| 2042 | 2012 Series A bonds | 70,000 |
| 2043 | 2012 Series B bonds | 150,000 |
| 2043 | NHHEFA Series 2016A bonds | 165,000 |
| 2046 | 2016 Series A bonds | 250,000 |

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, 2017, 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:

| Expiration Date | Notional Amount (in thousands) | Fixed Interest Rate % | % of LIBOR BBA |
|---|---|---|---|
| 06/01/2027 | $ 31,910 | 3.77 | 72 |
| 06/01/2028 | 52,585 | 3.78 | 72 |
| 06/01/2032 | 100,000 | 3.75 | 67 |
| 06/01/2041 | 100,000 | 3.73 | 70 |
| 06/01/2042 | 100,000 | 3.73 | 70 |
| 06/01/2043 | 165,000 | 3.74 | 70 |

The fair value of these agreements at June 30, 2017 and 2016 based on various factors contained in the interest rate swap agreements and certain interest rate assumptions, was approximately $175,646,000 and $250,321,000, respectively, and is considered a Level 2 measurement. The decrease in the liability of $74,675,000 for the year ended June 30, 2017 is presented as an unrealized gain and the increase in the liability of $82,904,000 for the year ended June 30, 2016 is presented as a change in unrealized loss in the non-operating section of the Consolidated 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.

Commercial paper consists of notes issued in the short-term taxable market, and is sold at a discount from par. The maturities of individual notes are issued in ranges from one day to no more than 270 days, and fall on average in a range of thirty to ninety days. Dartmouth reports commercial paper at carrying value, which closely approximates fair value for those liabilities.

Dartmouth maintains stand-by bond purchase agreements with financial institutions totaling approximately $128,700,000 to provide alternative liquidity to support its variable rate demand bonds in the event that the bonds cannot be remarketed. Financing obtained through these stand-by credit agreements to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues, and mature over a three or a five-year period following repurchase. The agreements have various maturity dates between June 2019 and December 2019. There were no amounts outstanding at June 30, 2017 and 2016 under these agreements.

Dartmouth has two lines of credit totaling $250,000,000. The maturity dates are June 30, 2018 and June 30, 2019. There is no outstanding borrowing on either 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):

| | 2017 | 2016 |
|---|---|---|
| Retirement and postretirement benefits | $ 360,114 | $ 380,087 |
| Compensated absences, severance plans, and other commitments | 25,833 | 28,456 |
| Self-insured benefits | 14,925 | 12,167 |
| **Total employment related obligations** | $ 400,872 | $ 420,710 |

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 continuous years of service in a benefits-eligible position immediately prior to retirement are currently eligible for a subsidy toward the purchase of Retiree Medical Benefits. The subsidy amount was based on the employee's annual salary, age, and years of service as of June 30, 2009. For retirees under the age of 65, the medical insurance options are the same as for active employees. 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 medical insurance at full cost if they qualify at retirement.

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

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Change in benefit obligation:** | 2017 | 2016 | 2017 | 2016 |
| Beginning of year | $ 143,699 | $ 132,431 | $ 352,931 | $ 396,179 |
| Service cost | 2,621 | 2,573 | 6,214 | 8,733 |
| Interest cost | 4,505 | 5,579 | 12,193 | 19,010 |
| Benefits paid | (8,732) | (7,736) | (7,775) | (8,072) |
| Actuarial (gain)/loss | (3,195) | 10,852 | (34,523) | (62,919) |
| End of year | $ 138,898 | $ 143,699 | $ 329,040 | $ 352,931 |
| **Change in estimated fair value of plan assets:** | | | | |
| Beginning of year | $ 141,535 | $ 128,317 | $ - | $ - |
| Actual return on plan assets | 6,833 | 16,954 | - | - |
| Employer contributions | - | 4,000 | 7,775 | 8,072 |
| Benefits paid | (8,732) | (7,736) | (7,775) | (8,072) |
| End of year | $ 139,636 | $ 141,535 | $ - | $ - |
| **Funded status (plan assets more (less) than benefits obligation)** | $ 738 | $ (2,164) | $ (329,040) | $ (352,931) |
| **Net periodic benefit (income) cost included the following:** | | | | |
| Service cost | $ 2,621 | $ 2,573 | $ 6,214 | $ 8,733 |
| Interest cost | 4,505 | 5,579 | 12,193 | 19,010 |
| Expected return on assets | (6,967) | (7,086) | - | - |
| Amortization of prior service cost (credit) | - | 240 | (3,487) | (3,487) |
| Recognized net actuarial loss | 1,252 | 967 | 2,073 | 9,397 |
| Net periodic benefit cost | $ 1,411 | $ 2,273 | $ 16,993 | $ 33,653 |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Weighted-average assumptions for determining net periodic benefit cost:** | | | | |
| Discount Rate – Benefit Obligation | 3.68% | 4.40% | 4.15% | 4.85% |
| Discount Rate – Service Cost | 3.93% | 4.40% | 4.47% | 4.85% |
| Discount Rate – Interest Cost | 3.18% | 4.40% | 3.50% | 4.85% |
| Expected return on plan assets | 5.55% | 6.10% | - | - |
| **Weighted-average assumptions for determining benefit obligations:** | | | | |
| Rate of compensation increase | 2.50% | 2.50% | - | - |
| Discount rate used to determine benefit obligations | 3.84% | 3.68% | 4.15% | 4.15% |

The decrease in the post-retirement benefit obligation is primarily due to actual 2017 claims experience, adjusted trend assumptions and a reduction in excise tax liability, which are reflected in the 2017 actuarial gain of $34,523,000.

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

| | Pension Benefits | Postretirement Benefits | Total 2017 | Total 2016 |
|---|---|---|---|---|
| Amounts recognized in non-operating activities: | | | | |
| Net actuarial gain | $ 3,061 | $ 34,523 | $ 37,584 | $ 61,935 |
| Amortization of gain | 1,252 | 2,073 | 3,325 | 10,364 |
| Amortization of prior service cost (credit) | - | (3,487) | (3,487) | (3,247) |
| Total non-operating gain | 4,313 | 33,109 | 37,422 | 69,052 |
| Amounts recognized in operating activities: | | | | |
| Net periodic benefit cost | (1,411) | (16,993) | (18,404) | (35,926) |
| Total gain | $ 2,902 | $ 16,116 | $ 19,018 | $ 33,126 |

The cumulative amounts in unrestricted net assets that have not yet been recognized as components of net periodic benefit cost are as follows (in thousands):

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Prior service cost | $ - | $ - | $ (1,464) | $ (4,951) |
| Net (gain) loss | 9,834 | 14,148 | 23,451 | 60,047 |
| Total | $ 9,834 | $ 14,148 | $ 21,987 | $ 55,096 |

The estimated costs that will be amortized into net periodic benefit costs in fiscal 2018 are as follows (in thousands):

| | Pension Benefits | Postretirement Benefits |
|---|---|---|
| Prior service cost | $ - | $ (1,464) |
| Net (gain) loss | 279 | - |
| Total | $ 279 | $ (1,464) |

The following table lists specified investment terms by asset category for defined benefit pension plan investments in certain commingled funds and private partnership interests that are reported using NAV as the practical expedient as of June 30, 2017 (in thousands):

| | Amount | Redemption Terms | Days Notice | Remaining Unfunded Commitment | Remaining Life |
|---|---|---|---|---|---|
| Fixed income | $ 65,680 | Daily | 2 | $ - | Not applicable |
| Global equity | 69,402 | Daily | 2 | - | Not applicable |
| Private equity / Venture capital | 2,146 | Illiquid | Not applicable | 318 | 1 – 5 years |
| Total | $ 137,228 | | | $ 318 | |

In addition to the investments disclosed above, the Plan also holds $2,408,000 in cash and cash equivalents at June 30, 2017, which is classified as a Level 1 investment in the fair value hierarchy.

The following table lists specified investment terms by asset category for defined benefit pension plan investments in certain commingled funds and private partnership interests that are reported using NAV as the practical expedient as of June 30, 2016 (in thousands):

| | Amount | Redemption Terms | Days Notice | Remaining Unfunded Commitment | Remaining Life |
|---|---|---|---|---|---|
| Fixed income | $ 74,588 | Daily | 2 | $ - | Not applicable |
| Global equity | 63,337 | Daily | 2 | - | Not applicable |
| Private equity / Venture capital | 2,433 | Illiquid | Not applicable | 388 | 1 – 5 years |
| Total | $ 140,358 | | | $ 388 | |

In addition to the investments disclosed above, the Plan also holds $1,177,000 in cash and cash equivalents at June 30, 2016, which is classified as a Level 1 investment in the fair value hierarchy.

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 funding for the defined benefit plan on an actuarially recommended basis. Dartmouth currently does not expect to contribute to the defined benefit plan in fiscal year 2018.

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):

| | Pension Benefits | Postretirement Benefits |
|---|---|---|
| 2018 | $ 12,500 | $ 8,700 |
| 2019 | 9,800 | 9,600 |
| 2020 | 9,900 | 10,600 |
| 2021 | 10,000 | 11,600 |
| 2022 | 10,300 | 12,500 |
| Years 2023 – 2027 | 46,100 | 75,000 |

The accumulated benefit obligation (ABO) of the defined benefit plan was $131,099,000 and $136,800,000 at June 30, 2017 and 2016, respectively.

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 8.38% and 9.5% in year 2017, decrease gradually to 4.5% and 4.5% in fiscal year 2026, respectively, 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 | $ 4,205 | $ (3,236) |
| Increase (decrease) in postretirement benefit obligation | $ 62,797 | $ (49,581) |

Through June 30, 2016, Dartmouth estimated the service and interest cost components for pension and post-retirement benefits using a single weighted average discount rate derived from the yield curves used to measure the benefit obligation at the beginning of the period. Effective July 1, 2016, Dartmouth is estimating the costs of the service and interest components through a full yield curve approach by applying the specific spot rates along the yield curve used in the determination of the net periodic expense to the relevant present value of projected cash flows. This change is a refinement to the correlation between projected benefit cash flows and the corresponding yield curve spot rates. Dartmouth has accounted for this change as a change in estimate and is accounting for it prospectively beginning in fiscal 2017.

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 contributions to individual self-directed retirement investment accounts for the participants. These contributions for the years ended June 30, 2017 and 2016 were $24,953,000 and $26,060,000, respectively. Dartmouth also maintains deferred compensation plans. The liabilities for the plans are included in pension and other employment related obligations in the Consolidated 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):

| | 2017 | 2016 |
|---|---|---|
| Medical School clinical services and other support | $ 15,256 | $ 43,881 |
| Foreign study and continuing education programs | 12,127 | 13,214 |
| Student activities and other program revenues | 13,936 | 13,085 |
| Athletics revenues | 5,039 | 4,247 |
| Hopkins Center and Hood Museum revenues | 1,241 | 1,349 |
| Other revenues | 27,960 | 20,354 |
| Investment income | 48,096 | 10,902 |
| **Total other operating income** | $ 123,655 | $ 107,032 |

## J. Net Assets

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

| | **2017** | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Detail of net assets:** | | | | |
| Operating funds | $ 282,061 | $ 72,201 | $ - | $ 354,262 |
| Pledges | - | 208,305 | 36,409 | 244,714 |
| Postretirement and pension benefit obligations | (328,302) | - | - | (328,302) |
| Third-party charitable trusts | - | 7,214 | 3,044 | 10,258 |
| Facilities and capital | 353,662 | 75,118 | - | 428,780 |
| Interest rate swap agreements | (175,646) | - | - | (175,646) |
| Student loan funds | 23,057 | 18,565 | - | 41,622 |
| Other non-operating activities | 73,825 | 21,176 | - | 95,001 |
| Life income, annuity, and similar funds | - | 60,810 | 30,377 | 91,187 |
| Endowment funds | 1,100,449 | 2,523,545 | 1,332,500 | 4,956,494 |
| **Total net assets** | $ 1,329,106 | $ 2,986,934 | $ 1,402,330 | $ 5,718,370 |

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Detail of net assets:** | | | | |
| Operating funds | $ 287,506 | $ 63,574 | $ - | $ 351,080 |
| Pledges | - | 176,780 | 34,675 | 211,455 |
| Postretirement and pension benefit obligations | (355,095) | - | - | (355,095) |
| Third-party charitable trusts | - | 7,036 | 3,375 | 10,411 |
| Facilities and capital | 335,025 | 50,192 | - | 385,217 |
| Interest rate swap agreements | (250,321) | - | - | (250,321) |
| Student loan funds | 20,212 | 23,517 | - | 43,729 |
| Other non-operating activities | 59,010 | 14,689 | - | 73,699 |
| Life income, annuity, and similar funds | - | 54,865 | 27,516 | 82,381 |
| Endowment funds | 1,008,220 | 2,179,853 | 1,286,331 | 4,474,404 |
| **Total net assets** | $ 1,104,557 | $ 2,570,506 | $ 1,351,897 | $ 5,026,960 |

## K. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total $38,123,000 at June 30, 2017.

Investment related commitments as of June 30, 2017 and 2016 are disclosed in the Fair Value NAV tables in Note D, Investments.

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. 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 of Interest Policy with regard to pecuniary benefit transactions, as defined by New Hampshire law, including but not limited to Dartmouth's 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.

## M. Restructuring Costs and Liability

During the year ended June 30, 2016, Dartmouth restructured a number of activities at the Geisel School of Medicine (Geisel) to address increasing financial constraints, to improve Geisel's education and research programs, and to align resources and support for these activities. These changes include: creation of a new department of Medical Education, reorganization of the Basic Science departments, and migration of the operations and fiscal responsibility for clinical academic activities from Dartmouth to Dartmouth-Hitchcock Clinic and Mary Hitchcock Memorial Hospital (operating jointly as "Dartmouth-Hitchcock"). Responsibility for the employment, finances, and operational support for clinical research programs, as well as the clinical practice of psychiatry, transferred from Geisel to Dartmouth-Hitchcock on July 1, 2016.

Restructuring expenses of $53,459,000 are reported in the Consolidated Statement of Activities as of June 30, 2016. Associated accrued liabilities totaled $18,440,000 and $44,917,000 as of June 30, 2017 and 2016, respectively. Of these amounts $13,478,000 and $36,265,000 are reported in Accounts payable and other liabilities line and $4,962,000 and $8,652,000 are reported in the Pension and other employment related obligations line on the Consolidated Statement of Financial Position as of June 30, 2017 and 2016, respectively.

## N. Environmental Remediation and Related Costs

From the mid-1960s until 1978, Dartmouth used a quarter-acre portion of a 223-acre piece of property it owns in Hanover, NH (known as "Rennie Farm") as a licensed burial site for animal carcasses used in medical and other research. Site remediation was approved by the New Hampshire Department of Health and Human Services, Radiological Health Section (RHS) and began in late October 2011. In November 2011, unexpected hazardous chemical waste was encountered. Dartmouth has continued to monitor groundwater quality and has conducted a phased investigation consistent with state environmental requirements. During fiscal 2017 Dartmouth completed the installation of a pump and treat system to treat and remove contaminated groundwater from the source area. Dartmouth will remediate the site and continue monitoring groundwater wells and selected drinking water supply wells with oversight from New Hampshire Department of Environmental Services.

In February 2017, Dartmouth College established a Value Assurance Program ("VAP") to protect the value of eligible properties located in the Rennie Farm neighborhood. The VAP, which is a voluntary program, will run until February 1, 2022. Under the terms of the VAP, owners of eligible properties who meet certain requirements will be compensated if they are unable to sell their home at market value due to the stigma of the Rennie Farm remediation. If an owner of an eligible property is unable to sell his/her home after meeting certain requirements, Dartmouth College will purchase the property.

During fiscal 2017, Dartmouth incurred $5,140,000 in costs related to the environmental remediation of Rennie Farm and establishment of the VAP. Dartmouth has accrued $21,810,000 for estimated future costs of all remediation activities as well as an estimate of expenses of the VAP. Total environmental remediation and related expenses are reported as a separate line in the operating section of the Consolidated Statement of Activities and the accrued liabilities are reported in the accounts payable and other liabilities line in the Consolidated Statement of Financial Position as of June 30, 2017. Actual future remediation costs and VAP expenses could differ from the amounts recorded as of June 30, 2017.

## O. Subsequent Events

On October 20, 2017, Dartmouth issued a conditional notice of redemption to call the $150,000,000 of outstanding Series 2009 Taxable Bonds for redemption on November 20, 2017. The redemption is conditional upon receipt by the Trustee of money sufficient to pay the principal and interest due on the bonds. The redemption price is the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the bonds.

For purposes of determining the effects of other subsequent events on these consolidated financial statements, management has evaluated events subsequent to June 30, 2017 and through October 26, 2017, the date on which the consolidated financial statements were issued, and has concluded that there were no other subsequent events requiring adjustment or disclosure.