

DARTMOUTH COLLEGE

Financial Statements

2009 - 2010





KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Dartmouth College:

We have audited the accompanying statement of financial position of Dartmouth College (the College) as of June 30, 2010, and the related statements of activities, operating expenses, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2009 financial statements and, in our report dated October 23, 2009, because we were unable to examine evidence regarding the fair value of certain unrecognized trust interests, we expressed a qualified opinion on those financial statements.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note L, assets and changes in net assets do not include the College's interests in certain third-party charitable trusts for which current fair values are not available. Accordingly, we were unable to apply adequate procedures to satisfy ourselves as to such fair values, and the effects of this departure from U.S. generally accepted accounting principles on the College's financial position and changes in net assets cannot be determined.

In our opinion, except for the effects of such adjustments deemed necessary had we examined evidence regarding the fair value of the unrecognized trust interests discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Dartmouth College as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 5, 2010

Dartmouth College

Statement of Financial Position

As of June 30, 2010, with comparative information as of June 30, 2009
(in thousands)

	2010	2009
Assets		
Cash and cash equivalents	\$ 300,703	\$ 432,409
Receivables and other assets, net	188,748	162,810
Pledges receivable, net	212,718	201,662
Investments held by bond trustees	86,466	155,124
Investments, at fair value	3,615,596	3,156,884
Collateral on securities loaned	-	38,520
Land, buildings, equipment, and construction in progress, net	781,183	755,431
Total assets	5,185,414	4,902,840
Liabilities		
Accounts payable and other liabilities	156,807	70,620
Deferred revenues and deposits	31,454	30,353
Liability for split-interest agreements	45,064	43,664
Pension and other employment related obligations	326,457	251,131
Bonds, mortgages, and notes payable, net	945,102	949,887
Interest rate swap liabilities, at fair value	117,174	81,260
Liabilities for collateral on securities loaned	-	38,520
Conditional asset retirement obligations	21,845	21,675
Government advances for student loans	19,873	19,655
Total liabilities	1,663,776	1,506,765
Total Net Assets	\$ 3,521,638	\$ 3,396,075
Net Assets		
Unrestricted	\$ 863,744	\$ 885,213
Temporarily restricted	1,744,414	1,670,230
Permanently restricted	913,480	840,632
Total Net Assets	\$ 3,521,638	\$ 3,396,075

See accompanying notes to the financial statements.

Dartmouth College

Statement of Activities

For the year ended June 30, 2010, with summarized financial information for the year ended June 30, 2009

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
Endowment Activities					
Gifts	\$ 63	\$ 14,203	\$ 46,036	\$ 60,302	\$ 53,909
Net investment return	87,399	210,052	863	298,314	(691,492)
Distributed for spending	(50,371)	(154,088)	-	(204,459)	(229,623)
Other changes	(6,937)	(1,905)	12,321	3,479	7,321
Amounts transferred from other funds, net	2,260	4,834	8,678	15,772	24,620
Change in net assets from endowment activities	32,414	73,096	67,898	173,408	(835,265)
Operating Activities					
Revenues					
Tuition and fees	247,819	-	-	247,819	231,833
Student scholarships	(108,256)	-	-	(108,256)	(99,014)
Net tuition and fees	139,563	-	-	139,563	132,819
Sponsored research grants and contracts	168,130	-	-	168,130	172,638
Dartmouth College Fund and other gifts	53,952	5,204	-	59,156	54,908
Distributed endowment investment return	195,470	6,920	-	202,390	227,184
Other operating income	104,174	59	-	104,233	55,346
Auxiliaries	59,738	-	-	59,738	58,084
Net assets released from donor restrictions	7,529	(7,529)	-	-	-
Total revenues	728,556	4,654	-	733,210	700,979
Expenses					
Academic and student programs	446,884	-	-	446,884	454,542
Sponsored programs	121,744	-	-	121,744	124,437
General institutional services	82,986	-	-	82,986	90,196
Auxiliaries	65,449	-	-	65,449	65,873
Total expenses	717,063	-	-	717,063	735,048
Change in net assets from operating activities	11,493	4,654	-	16,147	(34,069)
Non-operating Activities					
Gifts	-	22,882	-	22,882	15,988
Other non-operating changes, net	20,725	2,089	-	22,814	(7,099)
Distributed endowment investment return	481	1,588	-	2,069	2,439
Increase in outstanding pledges	-	6,443	4,613	11,056	33,488
Pension and postretirement benefit related changes					
other than net periodic benefit costs	(61,082)	-	-	(61,082)	1,214
Disposals and non-capitalized expenditures	(12,641)	(1,086)	-	(13,727)	(2,930)
Net realized and unrealized loss related to					
interest rate swap agreements	(35,914)	-	-	(35,914)	(40,006)
Nets assets released from income restrictions	25,324	(25,324)	-	-	-
Amounts transferred to endowment, net	(2,269)	(13,503)	-	(15,772)	(24,620)
Net change in split-interest agreements	-	3,345	337	3,682	(25,045)
Change in net assets from non-operating activities	(65,376)	(3,566)	4,950	(63,992)	(46,571)
Change in net assets	(21,469)	74,184	72,848	125,563	(915,905)
Net Assets, beginning of year	885,213	1,670,230	840,632	3,396,075	4,311,980
Net Assets, end of year	\$ 863,744	\$ 1,744,414	\$ 913,480	\$ 3,521,638	\$ 3,396,075

See accompanying notes to the financial statements.

Dartmouth College

Statement of Operating Expenses

For the year ended June 30, 2010 with summarized financial information for the year ended June 30, 2009
(in thousands)

	Academic and Student Programs	Sponsored Programs	General Institutional Services				Auxiliaries	Total Expenses	
			Administrative Support	Plant Operation & Maintenance	Development	Total		2010	2009
Salaries and wages	\$ 179,850	\$ 56,270	\$ 23,209	\$ 18,790	\$ 17,308	\$ 59,307	\$ 15,569	\$ 310,996	\$ 313,049
Employee benefits	74,316	17,321	8,240	7,447	6,717	22,404	6,133	120,174	125,747
Fellowships and student support	8,696	3,545	-	-	-	-	-	12,241	11,971
Materials, equipment, and supplies	30,469	11,178	5,168	1,596	1,715	8,479	15,215	65,341	71,754
Purchased services	35,743	30,287	4,556	4,807	5,327	14,690	2,166	82,886	83,854
Utilities, taxes, and occupancy	-	-	-	35,972	-	35,972	6,071	42,043	44,453
Depreciation	30,767	-	2,296	5,548	54	7,898	6,089	44,754	41,917
Lodging, travel, and similar costs	14,927	2,940	771	30	1,111	1,912	93	19,872	22,181
Interest and amortization	-	-	-	15,246	-	15,246	43	15,289	16,970
Other expenses	1,893	203	810	47	341	1,198	173	3,467	3,152
	<u>376,661</u>	<u>121,744</u>	<u>45,050</u>	<u>89,483</u>	<u>32,573</u>	<u>167,106</u>	<u>51,552</u>	<u>717,063</u>	<u>\$ 735,048</u>
Plant operation & maintenance	<u>70,223</u>	<u>-</u>	<u>5,240</u>	<u>(89,483)</u>	<u>123</u>	<u>(84,120)</u>	<u>13,897</u>	<u>-</u>	
Total expenses for FY10	<u>\$ 446,884</u>	<u>\$ 121,744</u>	<u>\$ 50,290</u>	<u>\$ -</u>	<u>\$ 32,696</u>	<u>\$ 82,986</u>	<u>\$ 65,449</u>	<u>\$ 717,063</u>	
Total expenses for FY09	<u>\$ 454,542</u>	<u>\$ 124,437</u>	<u>\$ 55,028</u>	<u>\$ -</u>	<u>\$ 35,168</u>	<u>\$ 90,196</u>	<u>\$ 65,873</u>		<u>\$ 735,048</u>

See accompanying notes to the financial statements.

Dartmouth College

Statement of Cash Flows

For the year ended June 30, 2010, with comparative information for the year ended June 30, 2009
(in thousands)

	2010	2009
Cash flows from operating activities		
Total change in net assets	\$ 125,563	(\$ 915,905)
Adjustments to reconcile total change in net assets to net cash used by operating activities:		
Depreciation, amortization, and loss on debt refinancing	45,089	40,655
Change in estimated value of interest rate swap agreements	35,914	40,006
Other non-cash transactions	2,177	2,054
Contributions, investment income, and other changes restricted for long-term investment	(85,625)	(74,207)
Net realized and unrealized investment return	(333,286)	773,510
Changes in operating assets and liabilities:		
Receivables and other assets, net	(66)	11,054
Pledges receivable, net	(11,056)	(33,488)
Accounts payable and other liabilities	5,029	(5,222)
Deferred revenues and deposits	1,101	(1,013)
Pension and other employment related obligations	75,326	18,357
Net cash used by operating activities	(139,834)	(144,199)
Cash flows from investing activities		
Student loans granted	(13,315)	(14,705)
Student loans repaid	5,918	8,498
Purchases of land, buildings, and equipment	(72,711)	(90,842)
Proceeds from the sale of land, buildings, and equipment	8	9
Net change in split-interest agreements	1,400	(16,817)
Net change in unsettled trades	62,541	(1,954)
Purchases of investments	(8,743,957)	(2,017,344)
Sales and maturities of investments	8,618,531	2,221,034
Net cash provided by (used by) investing activities	(141,585)	87,879
Cash flows from financing activities		
Proceeds from issuance of bonds, notes payable, and swap agreements	-	537,550
Repayment of bonds, mortgages, notes payable, and swap agreements	(4,788)	(113,067)
Change in investments held by bond trustee	68,658	(101,167)
Contributions, investment income, and other changes restricted for long-term investment in:		
Facilities	17,096	10,045
Endowment, life income, and similar funds	68,529	64,162
Changes in government advances for student loans	218	166
Net cash provided by financing activities	149,713	397,689
Net change in cash and cash equivalents	(131,706)	341,369
Cash and cash equivalents, beginning of year	432,409	91,040
Cash and cash equivalents, end of year	\$ 300,703	\$ 432,409

See accompanying notes to the financial statements.

Dartmouth College
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Description of Organization

Dartmouth College (the College) is a private, nonprofit, co-educational, nonsectarian institution of higher education with approximately 4,200 undergraduate and 1,800 graduate students. Established in 1769, the College includes the four-year co-educational undergraduate college, with graduate schools of business, engineering, and medicine, and several graduate programs in the Arts and Sciences.

Basis of Presentation

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

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

Temporarily restricted net assets carry donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because actions are taken to fulfill the restrictions. Temporarily restricted net assets include unexpended endowment return, unexpended restricted use gifts, term endowment funds, loan funds, uncollected pledges, and life income and similar funds. Donor-restricted resources intended for capital projects are released from their temporary restrictions and presented as unrestricted support when the related asset is placed in service. Temporarily restricted endowment distribution and donor-restricted gifts which are received, and either spent or deemed spent within the same fiscal year, are reported as unrestricted.

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

Comparative Financial Information

The 2010 financial statements are presented with certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2009, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the fiscal year 2010 presentation.

Dartmouth College
Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in these financial statements are the fair value of investments, interest rate swap agreements and bonds payable (for disclosure only), pension and postretirement benefit obligations, conditional asset retirement obligations, liabilities for self-insured programs and split-interest agreements, and allowances for uncollectible accounts and pledges receivable. Actual results could differ from these estimates, particularly in the current economic environment.

Statement of Activities

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

Non-operating activities presented in the Statement of Activities consist of gifts, grants, investment income, other earnings, and endowment investment return appropriated by the College's Board of Trustees for loan programs and the construction or purchase of capital assets, non-capitalizable construction in progress, net change in life income and similar split-interest agreements, the net change in pledges receivable, the net change in the estimated value of interest rate swap agreements, and postretirement benefit changes other than net periodic benefits costs.

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

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

Cash and Cash Equivalents

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

Tuition and Fees and Student Scholarships

Tuition and fees revenue is recognized in the fiscal year in which substantially all of the academic program occurs. Tuition and fees revenue from undergraduate enrollment represents approximately 70 percent of tuition and fees revenue. Student scholarships provided by the College are presented in the Statement of Activities as a reduction in tuition and fees revenue. In addition, the College acts as an agent for recipients of scholarships from other sponsors in the amounts of \$5,952,000 and \$4,296,000 for the years ended June 30, 2010 and 2009, respectively, which are not presented in the Statement of Activities. The College admits students to its undergraduate program without regard to financial need. The financial aid program assists all students with demonstrated need, defined in accordance with a uniform formula, by providing a mix of scholarship grants and work-study employment designed to cover costs of attendance when combined with student and family contributions, based on ability to pay.

Sponsored Research Grants and Contracts

Revenues from government and private sponsored research grants and contracts are recognized when the direct costs associated with the sponsored program are incurred. Revenue from the reimbursement of facilities and administrative costs incurred by the College on U.S. government grants and contracts is based upon negotiated predetermined cost rates through June 30, 2011. The College recovered facilities and administrative costs of approximately \$42,958,000 and \$41,965,000 in the years ended June 30, 2010 and 2009, respectively.

Dartmouth College

Notes to Financial Statements

Taxes

The College is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), except with regard to unrelated business income, which is taxed at corporate income tax rates. The College is also subject to state and local property tax on the value of dormitories and dining and kitchen facilities in excess of \$150,000, as well as on the value of its off-campus rental properties, commercial properties, and other real estate holdings to the extent they are not used or occupied for the College's tax exempt purposes. Certain of the College's real estate entities are exempt from federal income tax under Sections 501(c)(2) and 501(c)(25) of the Code. The College believes it has taken no significant uncertain tax positions.

Affiliation with Dartmouth-Hitchcock Medical Center

The College, through the Dartmouth Medical School (DMS) is a member of the Dartmouth-Hitchcock Medical Center (DHMC), a confederation of health care organizations intended to coordinate medical education and health care delivery for the residents of New Hampshire and Vermont. DHMC is a nonprofit, tax-exempt corporation organized under New Hampshire State Law. The other members of DHMC are: (i) Mary Hitchcock Memorial Hospital (Hitchcock Hospital), (ii) Dartmouth-Hitchcock Clinic (Clinic), and (iii) Veterans Administration Medical Center of White River Junction, Vermont (VAMC). The staff of the Clinic serves as the primary resource for clinical faculty at DMS, with the Hitchcock Hospital and the VAMC acting as principal sites of clinical instruction for the students of DMS. Each member is a separately organized, governed, and operated institution, with the College having no ownership interest in any other member.

Certain costs, including salaries, facilities use (including construction planning and management, and facilities operation and maintenance), and direct and indirect research, incurred by DMS and the other members of DHMC are shared among the members based on negotiated allocations of the costs on an annual or project specific basis. The members of DHMC, 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, 2010 and 2009, the College paid approximately \$24.2 million and \$20.7 million, respectively, and received approximately \$26.2 million and \$24.3 million, respectively, in connection with these arrangements.

Insurance

The College maintains several insurance arrangements with the objective of providing the most cost effective and comprehensive coverage for most insurable risks. Both conventional and alternative insurance coverage approaches, including utilization of appropriate deductible or self-insured retention amounts, are in place to cover trustee errors and omissions and employment practices, crime bond, comprehensive 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. The College currently participates in three risk retention groups that provide general liability and professional and medical malpractice liability insurance.

The College's annual premium payments for conventional insurance coverage are included in operating expenses. Estimated liabilities for losses under the College's deductible and/or self-insurance retention limits are reflected in the Statement of Financial Position, which includes estimates for known losses and for losses incurred but not yet reported. Insurance reserves are based on actuarial analysis and 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 the College include gifts that are received and the net change in pledges receivable during a period. Gifts and pledges are recognized as increases in the appropriate category of net assets in the period the gift or pledge is received. The net change in total pledges is recorded as a net increase (decrease) in non-operating activities in the Statement of Activities. Contributions of 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.

Dartmouth College
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Investments

Investments are carried at fair value. Because many of these investments are not readily marketable, the estimates of fair value involve assumptions and estimation methods which are uncertain, and therefore the estimates could differ from actual results. Purchases and sales of securities are recorded on the trade date, and realized gains and losses are determined on the basis of the average cost of securities sold. Derivative financial instruments held for investment purposes are carried at estimated fair values with resulting gains and losses included in investment return.

Total investment return (interest, dividends, rents, royalties, and net realized and unrealized gains and losses) earned by the College's endowment investments is included in endowment activities, while the net income earned by the non-endowment investments is included in other operating and non-operating income. Fees paid to external investment managers are generally based on contractual percentages of the fair market value of assets under management or on annual total investment return. These fees, as well as certain other expenses associated with endowment investment management and custody, including certain internal costs, amounted to approximately \$9,896,000 and \$9,665,000 for the years ended June 30, 2010 and 2009, respectively, and have been netted against endowment return in the accompanying Statement of Activities.

Endowment

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

The Audit Subcommittee of the Board of Trustees has interpreted the New Hampshire Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the original value of gifts, as of the gift date, to donor-restricted endowment funds, absent any explicit donor restrictions to the contrary in the gift instrument. As a result of this interpretation for accounting and financial statement purposes, the College classifies the original value of assets donated to permanent endowment as permanently restricted net assets, along with any investment earnings that are directed by the donor to be reinvested in perpetuity (i.e., historic book value).

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

Split-Interest Agreements

Certain donors have established irrevocable split-interest agreements with the College, primarily charitable gift annuities, pooled life income funds, and irrevocable charitable remainder trusts, whereby the donated assets are invested and distributions are made to the donor and/or other beneficiaries in accordance with the agreement for a specified period of time, at which time the remaining assets and future investment return are retained by the College. The College may or may not, at the discretion of the donor, serve as trustee for the split-interest agreement.

The College has recorded the estimated fair value of the investments associated with irrevocable split-interest agreements and an estimated liability, using a discount rate of 3.2% (2.8% for FY09), for the net present value of the future cash outflows to beneficiaries of the agreements for which the College serves as trustee. In the case of irrevocable split-interest agreements

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

Investments Held by Bond Trustees

Investments held by Bond Trustees consist primarily of unexpended debt proceeds that have been invested in accordance with the various resolutions and loan agreements in connection with the New Hampshire Health and Education Facilities Authority (NHHEFA) Bonds. Unexpended debt proceeds are invested in cash and short-term investments and are reported at fair value.

Land, Buildings, Equipment, and Construction in Progress

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

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

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

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

Collections

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

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

B. Receivables and Other Assets

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

	2010	2009
Student accounts	\$ 2,107	\$ 2,227
Sponsored research grants and contracts	25,559	26,949
Other accounts	61,685	41,438
Notes and student loans	85,145	77,748
Less: allowance for uncollectible accounts	(2,565)	(2,587)
Receivables, net	\$ 171,931	\$ 145,775
Prepaid costs, inventories, and other assets	16,817	17,035
Total receivables, and other assets, net	\$ 188,748	\$ 162,810

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

C. Gifts and Pledges Receivable

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

	<u>2010</u>	<u>2009</u>
Gifts to support operations	\$ 59,156	\$ 54,908
Gifts for:		
Facilities and student loans	17,106	10,124
Other restricted uses	5,776	5,864
Endowment	60,302	53,909
Split-interest agreements	<u>3,682</u>	<u>1,153</u>
Total gifts and pledge payments	<u>\$ 146,022</u>	<u>\$ 125,958</u>

Unconditional pledges as of June 30 are expected to be realized in the following periods, discounted at rates ranging from 1.8% to 6.2% (in thousands):

	<u>2010</u>	<u>2009</u>
In one year or less	\$ 83,698	\$ 76,776
Between one year and five years	127,250	114,833
Six years and after	<u>31,857</u>	<u>39,028</u>
Gross pledges receivable	\$ 242,805	\$ 230,637
Less: present values discount	(12,968)	(14,698)
Less: allowance for uncollectible pledges	<u>(17,119)</u>	<u>(14,277)</u>
Pledges receivable, net	<u>\$ 212,718</u>	<u>\$ 201,662</u>

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

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

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

	<u>2010</u>	<u>2009</u>
Land	\$ 19,090	\$ 19,098
Buildings	863,004	822,159
Land improvements	93,360	84,982
Equipment	<u>219,291</u>	<u>205,083</u>
Land, buildings, and equipment	\$ 1,194,745	\$ 1,131,322
Less: accumulated depreciation	(512,926)	(475,906)
Construction in progress	<u>99,364</u>	<u>100,015</u>
Total net book value	<u>\$ 781,183</u>	<u>\$ 755,431</u>

The College 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.

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E. Endowment

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 709,490	\$ 1,355,693	\$ 759,711	\$ 2,824,894
Investment return:				
Investment income	3,478	10,660	-	14,138
Net gain in fair value:				
Realized	22,974	68,472	-	91,446
Unrealized	60,947	130,920	863	192,730
Total investment return	87,399	210,052	863	298,314
Gifts	63	14,203	46,036	60,302
Distribution of endowment return to all funds	(50,371)	(154,088)	-	(204,459)
Other changes, net	(4,677)	2,929	20,999	19,251
Endowment net assets, June 30, 2010	<u>\$ 741,904</u>	<u>\$ 1,428,789</u>	<u>\$ 827,609</u>	<u>\$ 2,998,302</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 983,125	\$ 1,969,089	\$ 707,945	\$ 3,660,159
Investment return:				
Investment income	4,607	13,495	-	18,102
Net loss in fair value:				
Realized	(15,055)	(43,787)	-	(58,842)
Unrealized	(184,679)	(465,235)	(838)	(650,752)
Total investment return	(195,127)	(495,527)	(838)	(691,492)
Gifts	149	20,886	32,874	53,909
Distribution of endowment return to all funds	(57,626)	(171,997)	-	(229,623)
Other changes, net	(21,031)	33,242	19,730	31,941
Endowment net assets, June 30, 2009	<u>\$ 709,490</u>	<u>\$ 1,355,693</u>	<u>\$ 759,711</u>	<u>\$ 2,824,894</u>

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

Included in temporarily restricted endowment net assets at the end of the year is the remaining amount of expendable accumulated appreciation on permanent endowment funds of \$1,138,363,000 and \$1,069,933,000 at June 30, 2010 and 2009, respectively.

Endowment net assets consist of the following as of June 30, 2010 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (7,229)	\$ 1,360,667	\$ 827,609	\$ 2,181,047
Board-designated endowment funds	749,133	68,122	-	817,255
Total endowment net assets	<u>\$ 741,904</u>	<u>\$ 1,428,789</u>	<u>\$ 827,609</u>	<u>\$ 2,998,302</u>

Endowment net assets consist of the following as of June 30, 2009 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (18,708)	\$ 1,291,082	\$ 759,711	\$ 2,032,085
Board-designated endowment funds	728,198	64,611	-	792,809
Total endowment net assets	<u>\$ 709,490</u>	<u>\$ 1,355,693</u>	<u>\$ 759,711</u>	<u>\$ 2,824,894</u>

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From time to time, the fair values of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. In accordance with GAAP, events of this nature are reported as reductions in unrestricted net assets and were \$7,229,000 and \$18,708,000 as of June 30, 2010 and 2009, respectively. These events were a result of market declines since the endowment funds were established. A Board of Trustees policy limits the distribution from these funds to current income only.

The College employs a total return endowment utilization policy that establishes the amount of investment return made available for spending each fiscal year. The amount appropriated for expenditure each year is independent of the actual return for the year, but the appropriated amount cannot exceed the total accumulated return in an individual fund at the time of distribution. The endowment distribution formula is the sum of 70% of the prior fiscal year distribution for operating and non-operating activities adjusted for inflation for the prior fiscal year plus 30% of the average market value of the pooled funds for the four quarters of the prior fiscal year multiplied by a percentage established by the Board of Trustees (6.0% for fiscal years 2010 and 2009). The Board of Trustees approved a one-year distribution of an additional 100 basis points for fiscal year 2009, to be used to help fund operating expenses of some strategic facilities projects, with a cap of 7 percent total distribution for any single fund. 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 sufficient returns to support the current operating needs of the College 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. Historical averages indicate that an annual return between 8% and 10% is needed to provide adequate support for operations while protecting against inflation and covering investment management fees for the long term. An additional goal is to generate return that exceeds the measure of inflation, achieving "real" growth of the endowment. To meet the overall investment performance objective for the endowment, the College 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. Investments at Fair Value

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

	2010	2009
Endowment investments	\$ 3,061,762	\$ 2,923,155
Split-interest agreement investments	97,674	93,220
Operating and other investments	456,160	140,509
Total investments	\$ 3,615,596	\$ 3,156,884

For investments held directly by the College for which an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Fair values for shares in commingled funds are based on share prices reported by the funds as of the last business day of the fiscal year. The College's interest in marketable alternative strategies is reported at the net asset value (NAV) reported by the fund managers. NAV is used as practical expedient to estimate the fair value of the College's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the College had no plans or intentions to sell investments at amounts different from NAV.

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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 investment in Level 1 includes listed equities held in the name of the College, and excludes listed equities and other securities held indirectly through commingled funds.

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

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

Classification in Level 2 or 3 is based on the College's ability to redeem its interest at or near the date of the statement of financial position, and if the interest can be redeemed in the near term, the investment is classified in Level 2.

The following table summarizes the College's assets and liabilities that are reported at fair value by their fair value hierarchy classification as of June 30, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Assets:						
Investments:						
Cash and cash equivalents	\$ 181,708	\$ -	\$ -	\$ 181,708	Daily	1
Fixed income	74,638	253,683	42,874	371,195	Daily-Annual	1-90
Global equity:						
US equity ¹	154,083	221,670	15	375,768	Daily- Quarterly	1-60
International	16,287	141,580	-	157,867	Monthly	5-10
Emerging markets	2,202	98,011	-	100,213	Monthly- Quarterly	30-120
Marketable alternative strategies ²	-	70,615	699,023	769,638	Annual	30-180
Private equity/venture capital	-	-	960,632	960,632	Illiquid	Not Applicable
Real assets:						
Real estate ³	-	192,876	263,859	456,735	Illiquid	Not Applicable
Other real assets	-	-	238,824	238,824	Illiquid	Not Applicable
Other investments	-	2,598	418	3,016	Not Applicable	Not Applicable
Total investments	428,918	981,033	2,205,645	3,615,596		
Other Assets:						
Investments held by bond trustees	86,466	-	-	86,466	Daily	1
Third-party charitable trusts	-	-	10,658	10,658	Not Applicable	Not Applicable
Total Assets	<u>\$ 515,384</u>	<u>\$ 981,033</u>	<u>\$ 2,216,303</u>	<u>\$ 3,712,720</u>		
Liabilities:						
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 117,174</u>	<u>\$ -</u>	<u>\$ 117,174</u>	Not Applicable	Not Applicable

¹ Level 3 includes one privately held security that is illiquid.

² Marketable alternative strategies include two funds having an initial lock-up expiring on or before December 31, 2010. Other funds may have restrictions on the ability to fully redeem up to three years, excluding illiquid securities and special investments.

³ Real estate investments include limited partnerships, which are illiquid, as well as directly held real estate.

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The following table summarizes the College's assets and liabilities that are reported at fair value by their fair value hierarchy classification as of June 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Assets:						
Investments:						
Cash and cash equivalents	\$ 48,398	\$ -	\$ 6,956	\$ 55,354	Daily	1
Fixed income ¹	40,736	36,907	37,928	115,571	Daily-Annual	1-90
Global equity:						
US equity ²	166,479	171,889	30	338,398	Daily- Quarterly	1-60
International	35,568	215,720	-	251,288	Daily-Monthly	5-14
Emerging markets	2,390	131,341	-	133,731	Monthly- Quarterly	30-120
Marketable alternative strategies ³	-	48,676	719,001	767,677	Quarterly- Annual	30-180
Private equity/venture capital	-	-	765,453	765,453	Illiquid	Not Applicable
Real assets:						
Real estate ⁴	-	199,492	300,263	499,755	Illiquid	Not Applicable
Other real assets	-	-	226,072	226,072	Illiquid	Not Applicable
Other investments	2	3,164	419	3,585	Not Applicable	Not Applicable
Total investments	293,573	807,189	2,056,122	3,156,884		
Other Assets:						
Investments held by bond trustees	155,124	-	-	155,124	Daily	1
Third-party charitable trusts	-	-	9,973	9,973	Not Applicable	Not Applicable
Total Assets	<u>\$ 448,697</u>	<u>\$ 807,189</u>	<u>\$ 2,066,095</u>	<u>\$ 3,312,981</u>		
Liabilities:						
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 81,260</u>	<u>\$ -</u>	<u>\$ 81,260</u>	Not Applicable	Not Applicable

¹ Fixed income investments include one fund that was gated.

² Level 3 includes one privately held security that is illiquid.

³ Marketable alternative strategies include two funds having an initial lock-up expiring on or before December 31, 2010 and one fund was gated. Other funds may have restrictions on the ability to fully redeem up to three years, excluding illiquid securities and special investments.

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

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

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

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

The College also invests in venture capital, private equity, real estate, other real assets, and other debt related strategies through private limited partnerships. These investments often require the estimation of fair value by the fund managers in the absence of readily determinable market values. The private portfolio is based primarily in the United States but includes

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managers who may invest globally. The College also owns directly held real estate which is included in the endowment and is valued at fair value.

The following tables present the College's activity for the fiscal years ended June 30, 2010 and 2009 for investments measured at fair value in Level 3 (in thousands):

	Marketable Alternative Strategies	Private Equity/Venture Partnerships	Real Assets	Other	Total
Balance as of June 30, 2009	\$ 719,001	\$ 765,453	\$ 526,335	\$ 55,306	\$ 2,066,095
Transfers	(16,661)	-	-	26	(16,635)
Acquisitions / purchases	100,410	117,357	88,161	2,443	308,371
Distributions / sales	(184,283)	(102,683)	(39,353)	(9,094)	(335,413)
Investment return	56,568	32,634	13,792	(161)	102,833
Unrealized gains on investments	23,988	147,871	(86,252)	5,445	91,052
Balance as of June 30, 2010	<u>\$ 699,023</u>	<u>\$ 960,632</u>	<u>\$ 502,683</u>	<u>\$ 53,965</u>	<u>\$ 2,216,303</u>

	Marketable Alternative Strategies	Private Equity/Venture Partnerships	Real Assets	Other	Total
Balance as of June 30, 2008	\$ 1,026,003	\$ 882,129	\$ 555,343	\$ 95,117	\$ 2,558,592
Acquisitions / purchases	1,000	165,777	142,949	2,691	312,417
Distributions / sales	(194,108)	(46,402)	(56,547)	(41,468)	(338,525)
Investment return	27,882	14,108	14,662	-	56,652
Unrealized losses on investments	(141,776)	(250,159)	(130,072)	(1,034)	(523,041)
Balance as of June 30, 2009	<u>\$ 719,001</u>	<u>\$ 765,453</u>	<u>\$ 526,335</u>	<u>\$ 55,306</u>	<u>\$ 2,066,095</u>

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

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

At June 30, 2010, the College's outstanding commitments to limited partnerships totaled \$676,279,000. The anticipated draw down for these commitments is typically between 1 and 5 years with remaining fund lives typically between 1 and 12 years. The structure of these investments is such that there is no ability to redeem.

A receivable for unsettled trades of \$23,512,000 and \$4,724,000 at June 30, 2010 and 2009, respectively, is included in receivables and other assets in the Statement of Financial Position. A payable for unsettled trades of \$85,647,000 and \$4,319,000 at June 30, 2010 and 2009, respectively, is included in accounts payable and other liabilities in the Statement of Financial Position.

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

The College from time to time enters into foreign currency forward contracts to protect long-term investments denominated in foreign currency from currency risk. At June 30, 2010 and 2009, the College held forward contracts to buy foreign currencies

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in the amount of \$13,999,000 and \$95,000, respectively, and to sell foreign currencies in the amount of \$7,578,000 and \$0, respectively.

At June 30, 2010 and 2009, the College also held options and futures contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. The College recorded a net unrealized loss of \$0 and \$31,000 as of June 30, 2010 and 2009, respectively, pertaining to options contracts held. The difference between the exercise price of open written options contracts and the estimated value of the related underlying securities resulted in a net short position of \$0 and \$7,000 at June 30, 2010 and 2009, respectively. The College is obligated to pledge to the appropriate broker, cash or securities to be held as collateral, as determined by exchange margin requirements for futures contracts held. At June 30, 2010 and 2009, the market value of the College's pledged collateral on futures contracts was \$5,427,000 and \$40,000, respectively. The difference between the estimated value of open futures contracts to sell and purchase securities was a net short position of \$9,200,000 and a net long position of \$3,757,000 as of June 30, 2010 and 2009, respectively.

During 2010, the College terminated its participation in a securities lending program. At June 30, 2009, the College had rights to \$38,520,000 of cash as collateral on deposit for certain securities loaned to brokers and other financial institutions, which are reflected as an asset and related liability. The securities temporarily on loan are included in the endowment investments of the College with an estimated fair market value of \$37,528,000 at June 30, 2009.

G. Bonds, Mortgages, and Notes Payable

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

	2010	2009
Revenue bonds issued through NHHEFA for the acquisition, installation, construction renovation, and equipping of various academic, research, and administrative facilities:		
Series '09, serial bonds maturing through the year 2039, at fixed rates ranging from 3.30% to 4.77%	\$ 198,875	\$ 198,875
Series '07A, serial bonds maturing through the year 2031, at variable rates (ranging from .07% to .30% from July 1, 2009 - June 30, 2010)	89,880	89,920
Series '07B, serial bonds maturing through the year 2041, at variable rates (ranging from .07% to .30% from July 1, 2009 - June 30, 2010)	90,000	90,000
Series '03, serial bonds maturing through the year 2023, at variable rates (ranging from .10% to .35% from July 1, 2009 - June 30, 2010)	96,200	99,500
Series '02, term bonds maturing in the year 2032, at variable rates (ranging from .10% to .35% from July 1, 2009 - June 30, 2010)	101,000	101,000
Revenue bonds issued through NHHEFA for the renovation of other campus facilities:		
Series '07C, taxable, term bonds maturing in the year 2041, at variable rates (ranging from .22% to .37% from July 1, 2009 - June 30, 2010)	30,000	30,000
Revenue bonds issued by DELC through NHHEFA:		
Series '99, term bonds maturing in the year 2039, at a rate of 6.19%	9,940	9,940
Series '85 and Series '98A, serial and term bonds maturing through 2025 at rates ranging from 5.30% to 5.55%	25,425	25,730
Subtotal NHHEFA bonds	\$ 641,320	\$ 644,965
Series '09 taxable, term bonds maturing in the year 2019, at a rate of 4.75%	250,000	250,000
Subtotal bonds	\$ 891,320	\$ 894,965
Mortgages on real estate investments, various maturities through 2037 at fixed and variable rates (ranging from 4.34% to 7.10% from July 1, 2009 - June 30, 2010)	41,944	42,807
Commercial Paper (Taxable Commercial Paper Note, Series A, at a rate of .25%)	7,000	7,000
Note payable, maturing in 2012 at a rate of 5.5%	637	917
Subtotal bonds, mortgages, and notes payable	\$ 940,901	\$ 945,689
Original issue premium, net	4,201	4,198
Total bonds, mortgages, and notes payable, net	\$ 945,102	\$ 949,887

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Included in interest and amortization presented on the Statement of Operating Expenses is interest expense on debt used to finance facilities projects of \$15,351,000 and \$16,514,000, and on other operating indebtedness of \$195,000 and \$305,000 for the years ended June 30, 2010 and 2009, respectively. In addition, interest paid on debt used to finance facilities projects of \$8,112,000 and \$594,000 was capitalized in connection with various construction projects for the years ended June 30, 2010 and 2009, respectively.

Interest expense on debt used to finance student loans totaled \$2,009,000 and \$2,024,000 for the years ended June 30, 2010 and 2009, respectively, and is presented as a deduction from other non-operating earnings in the Statement of Activities. Interest expense on other non-operating indebtedness totaled \$17,449,000 and \$4,955,000 for the years ended June 30, 2010 and 2009, respectively, and is presented as a deduction from other non-operating earnings in the Statement of Activities. Interest expense on mortgages and debt used to finance endowment-related real estate projects totaled \$1,964,000 and \$1,852,000 for the years ended June 30, 2010 and 2009, respectively, and is presented as a deduction in endowment net investment return in the Statement of Activities.

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

June 30	Principal Due
2011	\$ 11,976
2012	20,177
2013	14,491
2014	8,458
2015	8,843
Thereafter	876,956
Total	\$ 940,901

Principal due after June 30, 2015, includes the following “balloon” payments due on the College’s indebtedness (in thousands):

June 30	Indebtedness	Payment
2017	Mortgages on real estate investments	\$ 18,100
2019	NHHEFA Series 2009 bonds	\$ 7,920
2019	2009 Series A bonds	\$ 250,000
2023	NHHEFA DELC Series 1998 bonds	\$ 15,300
2027	NHHEFA Series 2007A bonds	\$ 31,820
2028	NHHEFA Series 2009 bonds	\$ 32,190
2028	NHHEFA Series 2007A bonds	\$ 52,060
2029	NHHEFA Series 2009 bonds	\$ 20,000
2031	NHHEFA Series 2007A bonds	\$ 5,120
2032	NHHEFA Series 2002 bonds	\$ 101,000
2036	NHHEFA Series 2007B bonds	\$ 18,000
2039	NHHEFA DELC Series 1999 bonds	\$ 9,940
2039	NHHEFA Series 2009 bonds	\$ 138,765
2041	NHHEFA Series 2007B bonds	\$ 57,000
2041	NHHEFA Series 2007C bonds	\$ 30,000

The estimated fair value of the bonds was approximately \$946,070,000 and \$892,566,000 as of June 30, 2010 and 2009, respectively, based on the debt service cash flows of the bonds and certain interest rate assumptions for similar bonds.

The NHHEFA bonds are a general obligation collateralized only by a pledge of full faith and credit of the College and DELC, and by funds held from time to time by the trustee for the benefit of the holders of the bonds under the respective bond resolutions. The College has agreed to certain covenants with respect to encumbrance or disposition of the College's core campus and DELC has certain covenants with respect to encumbrance or disposition of its student loan portfolio.

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During fiscal year 2009, the College entered into six interest rate swap agreements. Information related to these interest rate swap agreements as of June 30, 2010, including the fixed interest rate paid by the College and percent of LIBOR BBA (1 month) received on the notional principal, is presented in the table below (in thousands):

Expiration Date	Notional Amount	Fixed Interest Rate %	% of LIBOR BBA
06/01/2032	\$ 100,000	3.75	67
06/01/2041	\$ 100,000	3.73	70
06/01/2027	\$ 32,000	3.77	72
06/01/2028	\$ 52,880	3.78	72
06/01/2042	\$ 100,000	3.73	70
06/01/2043	\$ 165,000	3.74	70

The fair value of the College's liability under these agreements on the date they were entered into was approximately \$84,268,000. The fair value of these agreements at June 30, 2010 and 2009, based on various factors contained in the interest rate swap agreements and certain interest rate assumptions, was approximately \$117,174,000 and \$81,260,000, respectively, and is included in other liabilities in the Statement of Financial Position. The increase of \$35,914,000 in the liability for the year ended June 30, 2010 is presented as an unrealized loss and the decrease of \$3,008,000 in the liability for the year ended June 30, 2009 is presented as an unrealized gain in the non-operating section of the Statement of Activities. Net payments or receipts under the swap agreements associated with facilities debt are reflected as interest expense. These financial instruments involve counter-party credit exposure. The counter-parties for these swap transactions are two major financial institutions that meet the College's criteria for financial stability and creditworthiness.

The College maintains stand-by bond purchase agreements totaling approximately \$420,000,000 to provide alternative liquidity to support the College's variable rate bonds. There were no amounts outstanding at June 30, 2010 and 2009 under these agreements.

In August 2008, the College established a \$175,000,000 line of credit to provide near-term liquidity, which matured on August 7, 2009. This line of credit was renewed on that date and has a maturity date of August 7, 2011. There have been no borrowings by the College under this line of credit.

H. Pension and Other Employment Related Obligations

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

	2010	2009
Retirement and postretirement benefits	\$ 295,855	\$ 219,221
Compensated absences, severance plans, and other commitments	20,212	20,745
Self-insured benefits	10,390	11,165
Total employment related obligations	<u>\$ 326,457</u>	<u>\$ 251,131</u>

In fiscal year 1998, the College revised its pension benefit for staff and non-union service employees, giving each participant a one-time option to either remain in the defined benefit plan or enroll in the College's defined contribution plan effective January 1, 1998. Staff and non-union service employees hired since that date receive retirement benefits under the defined contribution plan. Effective January 1, 2006, all union employees are enrolled in the defined contribution plan. The College's postretirement medical benefits consist of medical insurance coverage for retirees.

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

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Change in benefit obligation:				
Beginning of year	\$ 94,402	\$ 90,528	\$ 195,812	\$ 198,860
Service cost	2,667	2,683	8,998	10,298
Interest cost	6,171	6,073	13,538	13,780
Benefits paid	(8,387)	(6,307)	(3,993)	(3,409)
Actuarial (gain)/loss	16,923	1,425	47,364	(23,717)
End of year	\$ 111,776	\$ 94,402	\$ 261,719	\$ 195,812
Change in estimated fair value of plan assets:				
Beginning of year	\$ 75,858	\$ 90,842	\$ -	\$ -
Actual return on plan assets	12,590	(13,677)	-	-
Employer contributions	5,000	5,000	3,993	3,409
Benefits paid	(8,387)	(6,307)	(3,993)	(3,409)
End of year	\$ 85,061	\$ 75,858	\$ -	\$ -
Funded status (plan assets less than benefits obligation)	\$ (26,715)	\$ (18,544)	\$ (261,719)	\$ (195,812)
Net periodic benefit (income) cost included the following:				
Service cost	\$ 2,667	\$ 2,683	\$ 8,998	\$ 10,298
Interest cost	6,171	6,073	13,538	13,780
Expected return on assets	(6,841)	(6,744)	-	-
Amortization of prior service cost (credit)	904	954	(4,158)	(4,158)
Recognized net actuarial loss	-	-	709	2,546
Net periodic benefit cost	\$ 2,901	\$ 2,966	\$ 19,087	\$ 22,466
Weighted-average assumptions:				
Discount rate used to determine net periodic benefit cost	6.80%	7.00%	7.00%	7.00%
Expected return on plan assets	7.50%	7.50%	-	-
Rate of compensation increase	4.00%	5.50%	-	-
Discount rate used to determine benefit obligations	5.40%	6.80%	5.75%	7.00%

The estimated net (income) cost that will be amortized into net periodic benefit cost during the 2011 fiscal year for the pension benefits and the postretirement benefits are \$2,414,000 and (\$497,000), respectively.

On March 4, 2008, the College announced changes to its postretirement health insurance plan that became effective July 1, 2009. The changes include modifications in plan design for retirees and in cost-sharing for current employees. On July 1, 2009, the College determined the percentage of retiree health insurance premium that it will subsidize for each current employee who qualifies at retirement for enrollment in the group health insurance plan. New employees hired on or after July 1, 2009 are eligible to purchase the retiree group health insurance if they qualify at retirement. These plan changes result in lower annual plan expenses beginning in fiscal year 2009.

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For the year ending June 30, 2010, the increase in pension and other employment related obligations, increase in total liabilities, and decrease in unrestricted net assets of \$83,070,000 consists of the following (in thousands):

	Pension Benefits	Postretirement Benefits	Total
Amounts recognized in non-operating activities:			
Net actuarial loss	\$ 11,173	\$ 47,364	\$ 58,537
Amortization of gain	-	(709)	(709)
Amortization of prior service cost (credit)	(904)	4,158	3,254
Total	10,269	50,813	61,082
Amounts recognized in operating activities:			
Net periodic pension cost	2,901	19,087	21,988
Total	\$ 13,170	\$ 69,900	\$ 83,070

The following table summarizes the defined benefit pension plan investments by their fair value hierarchy classification as of June 30, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,288	\$ -	\$ -	\$ 6,288
Fixed income	-	24,888	-	24,888
Global equity:				
US equity ¹	20,974	-	-	20,974
International	19,749	-	-	19,749
Emerging markets	5,999	-	-	5,999
Limited partnerships ²	-	-	3,702	3,702
Real estate ³	-	-	3,461	3,461
Total investments	\$ 53,010	\$ 24,888	\$ 7,163	\$ 85,061

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

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

³ This category represents a fund invested in US Real Estate and real estate assets.

The overall investment strategy of the defined benefit pension plan (the Plan) employs dynamic rebalancing to reduce portfolio level risk as the funded status of the Plan improves. Rebalancing occurs across a diversified asset mix, including securities in the global equity and fixed income markets. The global equity exposure is designed to capture the equity market performance of developed markets. The 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 include investments in private equity and real estate funds that employ different underlying strategies. This asset mix is designed to meet near-term benefit payment obligations as well as provide the potential for longer-term growth. Outside investment advisors are utilized to manage Plan assets and are selected based on their investment style, philosophy, and past performance. The expected long-term return on the investments of the Plan is 7.5%. This rate represents a weighted aggregation of the projected returns for each asset class considering both historical returns and future expectations. The College's Investment Office is responsible for managing the asset allocation and investment risk management of the Plan. The College currently expects to contribute approximately \$5,000,000 to the Plan in fiscal year 2011.

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
2011	\$ 7,600	\$ 5,272
2012	6,500	5,776
2013	7,000	6,476
2014	7,200	7,185
2015	7,800	8,037
Years 2016 -2020	46,500	55,847

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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 8.5% and 8.00% in year 2011, decrease gradually to 5% and 6% in fiscal year 2018, and remain level thereafter. The College'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	\$ 6,353	\$ (4,867)
Increase (decrease) in postretirement benefit obligation	\$ 53,170	\$ (41,735)

The College also maintains defined contribution retirement plans for its employees. These benefits are individually funded and are subject to various vesting requirements. Under these arrangements, the College makes monthly contributions to individual self-directed retirement investment accounts for the participants. These contributions for the years ended June 30, 2010 and 2009 were \$24,120,000 and \$24,282,000, respectively.

I. Other Operating Income

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

	2010	2009
Medical School clinical services and other support	\$ 49,517	\$ 45,000
Foreign study and continuing education programs	11,274	13,239
Student activities and other program revenue	11,260	10,466
Athletics revenues	3,836	3,380
Hopkins Center and Hood Museum	1,193	1,750
Other revenues	13,693	13,282
Investment income (loss)	13,460	(31,771)
Total other operating income	\$ 104,233	\$ 55,346

J. Net Assets

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

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Detail of net assets:				
Operating funds	\$ 230,095	\$ 54,193	\$ -	\$ 284,288
Pledges	-	157,485	55,233	212,718
Postretirement and pension benefit obligations	(288,434)	-	-	(288,434)
Third-party charitable trusts	-	8,066	2,592	10,658
Facilities, equipment, and capital projects	285,023	45,270	-	330,293
Fair value of interest rate swap agreements	(117,174)	-	-	(117,174)
Funding for student loans	12,330	26,105	-	38,435
Life income, annuity, and similar funds	-	24,506	28,046	52,552
Endowment and similar funds	741,904	1,428,789	827,609	2,998,302
Total net assets	\$ 863,744	\$ 1,744,414	\$ 913,480	\$ 3,521,638

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	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Detail of net assets:				
Operating funds	\$ 185,444	\$ 70,434	\$ -	\$ 255,878
Pledges	-	151,042	50,620	201,662
Postretirement and pension benefit obligations	(214,356)	-	-	(214,356)
Third-party charitable trusts	-	7,041	2,932	9,973
Facilities, equipment, and capital projects	272,637	38,810	-	311,447
Fair value of interest rate swap agreements	(81,260)	-	-	(81,260)
Funding for student loans	13,258	25,023	-	38,281
Life income, annuity, and similar funds	-	22,187	27,369	49,556
Endowment and similar funds	709,490	1,355,693	759,711	2,824,894
Total net assets	<u>\$ 885,213</u>	<u>\$ 1,670,230</u>	<u>\$ 840,632</u>	<u>\$ 3,396,075</u>

K. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$75,665,000 at June 30, 2010.

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

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

L. Third-Party Charitable Trusts

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

As of June 30, 2010 and 2009, third-party trustees have not provided the College with sufficient information necessary to estimate the fair value of the College's interest in certain trusts. The College has not recorded an asset in connection with these trusts due to the uncertainty surrounding the potential value of the College's interest in these trusts as of June 30, 2010 and 2009. If the College's interest in these trusts were reflected on the Statement of Financial Position, the College's assets and net assets would be greater than the amounts reported in the accompanying financial statements.

M. Related Party Transactions

Members of the College's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. The College has a written conflict of interest policy that requires annual reporting by each Trustee, as well as senior management. Additionally, the College has a policy on Pecuniary Benefit Transactions and Related Party Investments. This policy supplements the Dartmouth College Conflict Policy with regard to pecuniary benefit transactions, as defined by New Hampshire law, including but not limited to College 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

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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 the College, and in accordance with applicable conflict of interest laws.

N. Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2010 and through November 5, 2010, the date on which the financial statements were issued.