

PRESIDENT JIM YONG KIM: Thank you. Let me start by just thanking everybody in the Dartmouth community for the overwhelmingly warm welcome that you've given to me and to our family.

We've become very well adjusted here. I was at the Hanover Chamber of Commerce meeting the other night, and I talked about how we have found so many wonderful things about this community. So let me start by thanking you.

Today, we're going to go through an exercise that many colleges and universities are going through. We're going to be quite a bit more explicit and direct than some of our peers. I'm going to try to share with you exactly what we know about our current financial situation and where we think we have to go. [Note: The projected figures used in this presentation are estimates.]

Our Agenda

1. Our Strategic Framework
2. Financial Update and Projections
3. Communications and Next Steps



We're going to talk about our strategic framework, why is it that we're doing the things that we're doing, to give you a pretty clear view of what our financial situation is and what we think it will be in years going forward. Then we'll talk about how we're going to manage this process as we go forward.

Overview

- **Nature of the problem:**
 - Significant gaps starting next year, FY11, and growing
 - Financials **structurally imbalanced**: expenses > revenues
- **We need to:**
 - Assume **more realistic endowment returns**
 - Achieve **a more sustainable endowment distribution**
- **Things may get worse before they get better**



We have significant gaps starting next year (slide previous page.) There are simplistic ways of understanding it. Our endowment dropped. We have to be extremely careful and cautious and prudent about the way we spend the remaining endowment. No matter how you look at it, our financials are unbalanced. We are spending more than we're bringing in. We've got to get on top of that situation right away.

We have made some changes in the way we look at the next five years, compared to where we were in June. Those changes are based on more realistic assumptions about the endowment. The assumptions are not doomsday assumptions at all. In fact, they are relatively positive assumptions about what is going to happen in the economy.

We have to get to what we think is a more sustainable endowment distribution. In fact, we have to get to an endowment distribution that is more like where we've been historically -- and in a range that all colleges and universities see as appropriate and good stewardship of endowments.

Nobody knows what's going to happen with the economy. It's a very real possibility that things will get worse before they get better. What I can promise you is, if things do get worse, we're going to be right back here. We will talk to you again about how we have to adjust one more time, if, for example, our endowment drops again.

Peer Endowment Returns Performance

Ivy-Plus Institutions										
Institutions	Brown	Columbia	Cornell	Dartmouth	Harvard	MIT	Stanford	Princeton	Penn	Yale
FY09 Endow Market Return	-23.1%	-16.1%	-26.1%	-19.6%	-27.3%	-17.1%	-25.9%	-23.7%	-15.7%	-25%

Other Institutions				
Institutions	Amherst	Duke	Northwestern	Williams
FY09 Endow Market Return	-20%	-24.4%	-24%	-18.4%



We share the same fate with almost all the major colleges and universities (slide above) who've been more or less endowment dependent. You can see that there's been a big drop. Dartmouth's actual endowment rate drop was 19.6 percent.

But if you add on to that what we've spent from the endowment, the overall reduction in endowment comes out at 23 percent. So, we're about in range: we're not in as bad a position as others, but clearly every college and university across the country is trying to respond in some rational, reasonable way.

Many of you may have heard that the University of California's system just announced a 32 percent tuition increase, which has students up in arms taking over buildings in Berkeley. They take over buildings in Berkeley a lot anyway, but the 32 percent was quite a shock. But that's simply what they need to do, to get where they have to be in terms of just making their budget.

So, we're in a bit more difficulty than some schools, we're in a better situation than others. At another time, if you're more interested, we can talk about how the other

schools are doing. We're watching them carefully, and I suspect they're watching us as well.

Actions Our Peers Are Taking

- Enact expense cuts in FY10, with more planned for FY11 & FY12
- Reduce workforce
- Freeze staff and faculty salaries
- Slow or freeze hiring staff and faculty
- Halt capital expansion



Everyone has enacted expense cuts (slide above), with more planned. I think what you saw is a first wave of cuts and then another wave of even greater cuts. Princeton, which has three times our endowment per student, thought that they might not have to go through layoffs, and of course now they are. And so, everyone's been impacted as we have. Almost all of them have reduced their workforce. Almost all of them have frozen staff and faculty salaries. They've slowed or frozen hiring, and many institutions have halted capital expansion in some way.

Strategic Priorities to Achieve Our Goals

- Protect the **"Dartmouth Experience"** for our students
- Provide opportunities for **students of all incomes/backgrounds**
- Recruit and retain the **highest quality scholar-teachers**; support **world-class research**
- Provide a workplace that **respects the contributions of staff** and pursues **administrative effectiveness and efficiency**
- **Invest strategically** to:
 - achieve distinction & take advantage of new opportunities
 - innovate in emerging fields
- Leverage **closer collaboration** across departments and between professional schools



For us, I think we have to start with a really clear set of principles (slide above). Now, in presenting you with these principles, I'm not telling you that we've decided the answers to these questions, for example, the question of what is "The Dartmouth Experience?" That's a conversation that we're having. The Board told us when we met in November that the "Dartmouth Experience" is the unparalleled educational experience for students; the ability of our faculty to continue to do the highest quality research, as well as bring that research into the classroom to teach the students; and the ability for all students, regardless of financial status, to attend Dartmouth. We provide a workplace that respects the contributions of staff. We pursue administrative efficiencies. We invest strategically.

In other words, they weren't just saying, "Here's a budget number: make the cuts." They were saying, "We've got a structural gap. Revenues are not keeping up with expenses. We've got a structural gap because of this unprecedented drop in the endowment. And we've got to respond."

The Board also said, "This is also a time to invest strategically to achieve distinction and take advantage of opportunities." There are some really wonderful opportunities right now for us to grow our work in some areas. The Board was clear that we should not back

away from those opportunities because of the current budget situation. They also want us to continue to innovate in emerging fields. They've also suggested that this period could give us an opportunity to improve collaboration across departments and across schools.

This is not simply a budget-cutting exercise. We've said all along that there are three ways that we're going to do what we need to do to get revenues and expenses in line.

We're going to have to make some cuts, there's no question about it. We're also going to have to raise funds and find new sources of revenue. Are there innovative ways for us, for example, make the Dartmouth Experience open to more people? Distance learning? All kinds of suggestions are coming that are very exciting and could potentially help us out of this situation. So this is not an across-the-board exercise.

Our Aspirations for 2019 – Dartmouth's 250th Anniversary

- *Global leadership in undergraduate, graduate & professional student teaching: build beyond our #1 ranking in USN&WR*
- *Enhanced reputation for: leading faculty; outstanding liberal arts curriculum; unparalleled chances for students to engage in research; world-renowned professional schools; global educational experiences*
- *Known as the leader in cutting-edge, interdisciplinary research & teaching*
- *Be truly "the Big Green" – create the most sustainable campus possible*
- *Be the institution of choice for the brightest and best faculty, students and staff*

Ensure Dartmouth graduates are sought after and recognized as outstanding: learners, scholars, problem-solvers, team players, leaders, communicators, culturally aware, ethical & civically minded global citizens



In the meantime, as we think about the different ways of responding to this particular situation, I think we also have to think ahead (slide above). When I accepted the Wentworth Bowl from Jim Wright, I was fully aware that I was taking over as President of a 240-year-old institution. Board members and others have been asking me, "What will Dartmouth look like in 2019, at our 250th anniversary?" A number of us, especially

senior staff, faculty and some students, and others, have talked this over. Here is what we'd like to see Dartmouth become by the 250th anniversary.

It's hard to do better than to be ranked number-one. We all know that *U.S. News and World Report* gets it wrong a lot of times. But when they get it right, we should point it out, right? They deemed us number-one for commitment to undergraduate teaching among national universities. It's hard to build on that, but we will. We'll be even better. More people need to know about what a fantastic undergraduate experience we have here. Our professional and graduate schools are going to continue to get better in terms of their rankings. We know we can do that, it's within our reach.

We have leading faculty. Our faculty are among the most widely-cited of faculty throughout the United States. We have an outstanding curriculum. We are offering really unparalleled opportunities for undergraduates to do research. We have world-renowned professional schools. Our global educational experiences are unparalleled. We have three times the number of undergraduate students taking advantage of study abroad as any other of our peers. Those things that we do well, we have to do even better.

We have an opportunity here at Dartmouth for interdisciplinary research that is also unparalleled. It's the size of our community. I don't think there is another place that has so much concentrated excellence in which the walls between departments and schools are so low. They're still there, but I think they're much lower than at other places, and we feel we can break them down even further to do very exciting things. Even in the four months that I've been here, we've had some of the most exciting discussions about the possibilities for the professional schools and the faculty of Arts and Sciences to begin looking at new areas to make advances that perhaps only we at Dartmouth can achieve.

We want to be truly the Big Green. I think that there's a lot of room for us to make Dartmouth the most sustainable campus in the United States. As we do that, we will also save money. I think it's a great goal. I think we have a great tradition of being green here at Dartmouth in every sense, and I think we can continue to grow.

We also want to be the institution of choice for the brightest and best faculty, students and staff. I think that Dartmouth, as I've said many, many times, is a really well-kept secret. We have to make it not such a well-kept secret. We have to make this the place to go to take on certain areas of study, the place absolutely to go as a young high school student looking for the best possible educational experience.

Most importantly, we're very lucky that we can do three things here. We teach students. We generate new knowledge through research. We also have a direct impact on making the world a better place through our medical school, through our business school, through our engineering school. We actually have been able to directly affect the world in a positive way. We do all those three things. But at the end of the day, we have to make sure that Dartmouth graduates are the most sought-after young people of anyone in the world. They have to be learners, scholars, problem solvers, leaders, and communicators.

You know, graduates of the Tuck School of Business are known as great team players. You ask somebody in the business world, "What is Tuck known for?" "They produce great team players." Part of it is because Paul Danos has said that so many times to people, people now repeat it back. But it's true. I think that is related to Hanover, I think that is related to this environment, I think it is related to Dartmouth as a culture. We want our graduates to be known as the ones you want on your team, the ones you want to join you in your workplace or in your graduate school because they've had the best experience that they could possibly have. We have to be there. We will accept no less than this at the 250th anniversary, and that's what our Board expects. That's what our alums expect, that's what all of you expect.

Principles Guiding Our Budget Process

- Plan for the next five years; be aspirational
- Adopt twin goals of cost savings and improved quality
- Restructure now to enable rapid recovery, to minimize risk and to reduce volatility
- Place "everything on the table"
- Make strategic, rather than across-the-board cuts
- Continue to invest for the future
- Seek new revenue sources; solicit innovative ideas
- Commit to open, respectful and constructive debate



How are we going to go through this process? We have to plan for the next five years. In addition to being very much aware of the budget gap, we have to be aspirational. We want to save costs, but we also want to improve quality. Now, I've had a lot of experience working in quality improvement and health care, and health care is one of these places where the notion that quality is free seems to be true: that as we improve quality in health care, costs seem to go down. Can we do the same thing in a higher-educational institution? I hope so. It's something that we have to shoot for. If we can achieve that, I think that we will set a standard that other higher educational institutions will be struggling to follow.

The most difficult part is that we have to restructure now to enable rapid recovery, to minimize risk and reduce volatility. You know, endowments were created to reduce volatility. In other words, the endowments were the way that we got through the rainy day. But what happened at all colleges and universities is we began relying more and more on the endowment as endowments grew. So now, rather than endowments being our hedge against volatility, they have become the source of our volatility. All across the United States, colleges and universities are facing the fact that they've relied so much on

their endowments that, when there was an unexpected 20 percent plunge, everything had to be rethought. That's where we are. It's a lesson we've all learned together.

The good news is that we are still here and we are still strong. Lehman Brothers, Bear Stearns, they aren't here anymore. Who would have thought even five or ten years ago that those institutions would not exist? This is a problem that's hit us. What we need to do now is to respond effectively and quickly.

Everything's on the table. That doesn't mean that everything's going to get cut. Every single part of the budget has to be looked at and we have to make strategic decisions. Some things will get smaller, some things will get bigger. If we don't continue to invest for the future, we're going to be in big trouble.

Some colleges and universities, perhaps, are thinking that we'd be a great place from which to poach faculty. We can't let that happen. We've got to retain our best faculty. This is a very important value for me, but it's also the absolutely most important value. We have to make sure that we retain the very top notch faculty and support them, in a way that they will see Dartmouth as the place to be if they want to do great scholarship, and have a wonderful experience teaching young people.

Key Financial Facts

- **Revenue:** What's known, where's the risk
- **Focus on the Endowment:** Key factors affecting the distribution
- **Expenses:** What's growing, what's fixed, where's the spending
- **Personnel:** What's been happening with the largest part of our expense base
- **How Does It All Add Up? What's the Gap?**



We've got to seek new revenue sources (slide previous page). We've been very encouraged by the suggestions that have already begun to come in. There are a lot of innovative, new ideas, to grow the revenue base in a way that will allow us to get even better in this time of difficulty.

We want to have a discussion with all of you. I've already been talking to a lot of groups, the faculty of Arts and Sciences, and various student groups, about the situation. We're very committed to open, respectful, and constructive debate. But it's going to be a debate. We're going to have to look at each other's value propositions, look at the way that we are all contributing to Dartmouth, and find a way forward that makes the most sense for Dartmouth.

Revenue: Sources and Restrictions

FY09 Revenue Actual – Internal Management Format (Non-GAAP) (\$000's)		
Revenue Item	FY08 Total	FY09 Total
Tuition	219,508	230,133
Endowment Distribution	161,300	203,670¹
Sponsored Research	132,095	136,237
Other Revenues	67,996	71,549
DCF & Unrestricted Gifts	56,171	49,621
Room & Board	40,880	42,327
Indirect Cost Recoveries	41,380	42,033
Clinic and Hospital	36,354	35,908
Restricted Gifts	18,152	13,942
Investment Income	5,957	(35,240)
TOTAL REVENUE	779,796	787,578
TOTAL EXPENSE	(783,292)	(819,864)

1. Excludes \$26M distribution that was reinvested into the endowment

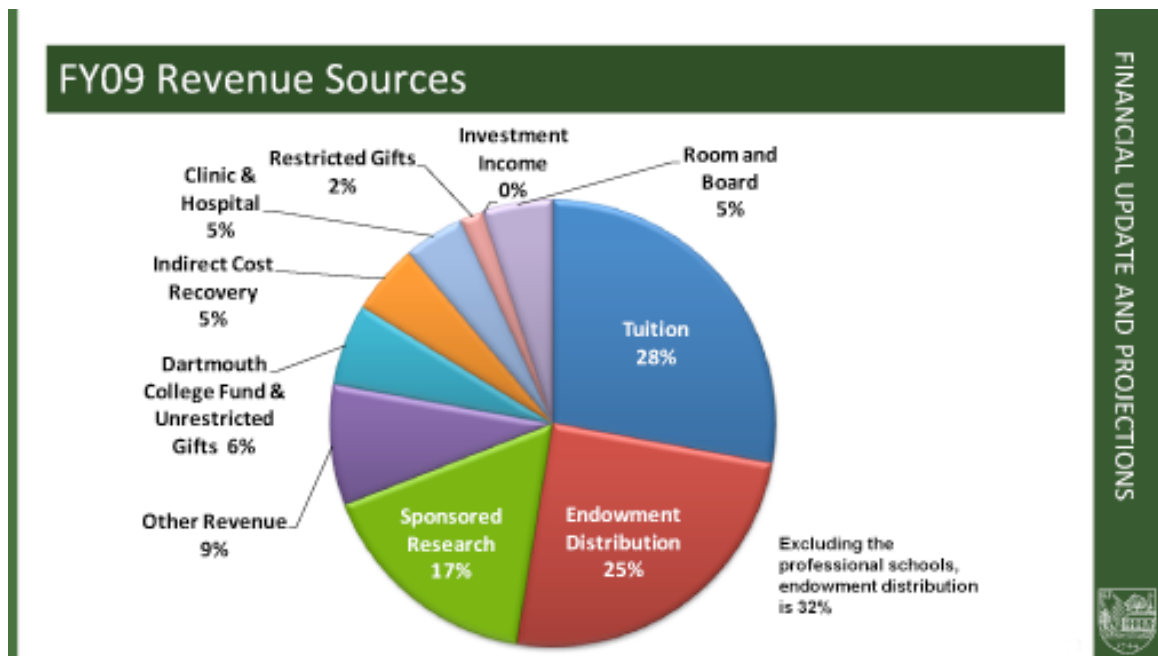
FINANCIAL UPDATE AND PROJECTIONS

Here we go, let's take a look at the numbers (slide above). What I'm going to share with you today is our revenue, what's known, where's the risk. We will look at our endowment and describe our thinking about how we want to move forward. We will look at what our expenses are, and a snapshot of what's been happening over the last seven or eight years in terms of our personnel. And then we will take a look at the gap.

Here are all our revenue sources. One of the things you'll notice is the endowment distribution from 2008 to 2009 went up \$40 million. That's a 25 percent jump, which seems like a lot. And that's not even the entire distribution. The entire distribution was \$26 million more, but that was actually put back into the endowment.

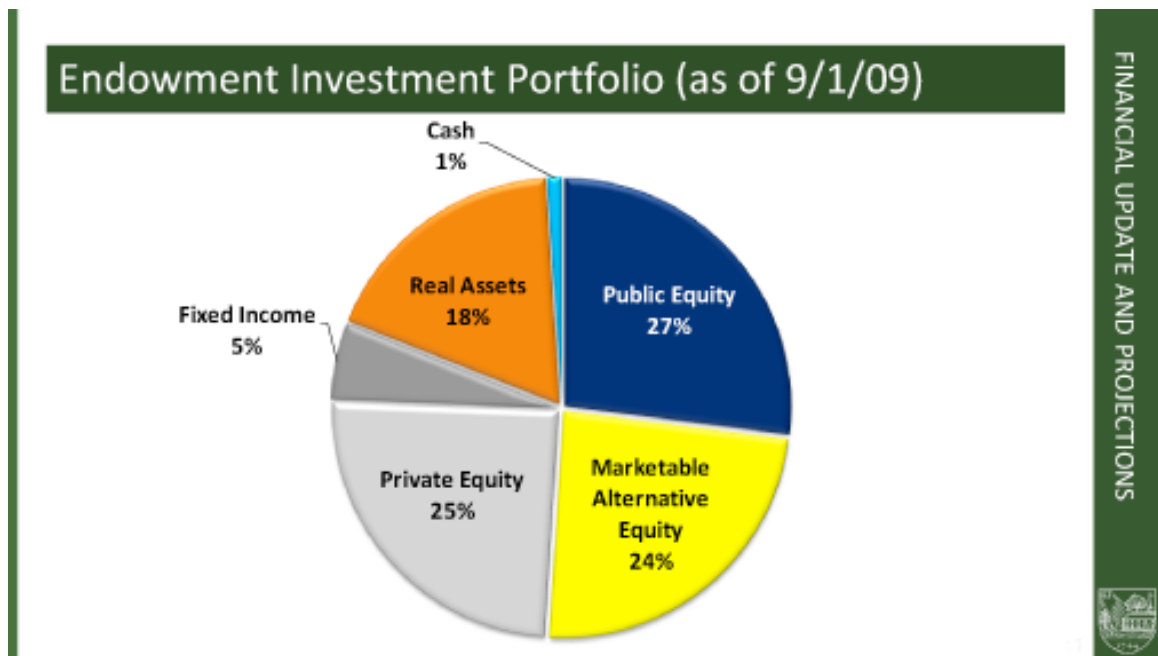
Now, why did we do this? It made perfect sense. Some of you will remember that Senator Charles Grassley of Iowa was putting intensive pressure on colleges and universities with large endowments to spend more. He made the argument that this is not fair in terms of intergenerational equity. In other words, he argued that hoarding your endowment now to benefit future generations of students is not fair. You should let the current generation of students also benefit from the rapid growth of the endowment. So spend more, spend more, spend more. And so in the name of intergenerational equity, in order to make use of the growth in the endowment for today's students, we distributed more.

Now, if you look at the other revenue sources, there's tuition, there's sponsored research, which is completely fixed. Look here, the Dartmouth College Fund and unrestricted gifts, \$49 million. That's not a lot. That's the most unrestricted part of our revenue other than a big chunk of the endowment. So the point is, the revenue sources are fairly limited.



This is what it looks like in a pie chart (slide above). Tuition is a huge piece of it. Endowment distribution is the next largest part. Now, 25 percent is for the entirety of Dartmouth College, including professional and other schools. But if you exclude the professional schools and look at just the college of Arts and Sciences, endowment distribution is 32 percent of the overall revenue. So if it's 32 percent of the revenue, you can see that fluctuations in the endowment are going to have a huge impact on what we spend.

There are people in the room who know so much more about this than I do. But as a simple-minded doctor-anthropologist, I have worked very hard to try to understand this. I'm going to do my best to explain to you the pieces of it that are relevant for us as we think about the budget situation.



First of all, this is what our investment portfolio looks like (slide above). Public equity is what you buy and sell on the market. On any given day, you'll know what that stock is worth because every day, the value of it goes up and down. Public equity is 27 percent, but our goal traditionally has been around 40 percent. The reason it's gone down is because this is the part of our endowment that's most easily converted into cash. If we need cash to pay for operating expenses, often what we do is sell public equity. In the process of selling public equity to raise cash, the percentage of our overall endowment that was made up of public equity went from 40 percent to 27 percent. That's a concern because right now, as the stock market recovers, the portion of our endowment that is most likely to grow along with the stock market is the public equity.

The conundrum is that part of the endowment which is most likely to grow quickly with the economic recovery is precisely that part of the endowment which we've had to sell because it's the most easily converted to cash.

Now down here, marketable alternative equities are basically hedge funds. These are more complicated instruments. We can turn them into cash, but not on a day-to-day basis.

And also, it's hard to know on any given day exactly what some of these funds are worth. So these are more complicated, and therefore a little bit more difficult to turn into cash. Private equities are a different kind of investment that is the least liquid. In other words, private equity is the most difficult to turn into cash.

Now, there are some institutions that have lost so much public equity that they've had to try to sell private equity. It's often very hard to do. In fact, some institutions have tried to sell private equity in the past at a fraction of its original value and weren't able to sell it. We don't want to get into a situation where we're all in these relatively more-difficult-to-sell, more-difficult-to-turn-into-cash instruments. What we want is a balance.

Now, the problem with only 27 percent of our endowment in public equity is if the endowment doesn't grow at all, one scenario is that we're going to have to keep spending public equity.

The other alternative, of course, is we have lines of credit. We could take lines of credit and that would give us cash, but then we're incurring debt.

So, right now this is where we are. We'd like to get to a position where we have a bit more public equity. We hope that the hedge funds in the private equity will now rebound (rather than being "under water," which means that they're worth less now than what we bought them for, and therefore not giving us any dividends.) They're going to rebound more slowly than public equity, but we're hoping that they'll come back.

The difficulty is, if we don't have any growth in the endowment -- if the economy continues on a flat line or even goes down again -- we could find ourselves in a position where we're going to have to spend public equity much more quickly than we'd like or, alternatively, take out more debt.

The events of the last year-and-a-half have changed everyone's thinking about how to manage endowments. You may have read a story in the *Boston Globe* about how Harvard lost \$1.8 billion in cash from taking too much of their working capital and putting it into the endowment fund. We didn't have that situation happen to us at nearly the scale. But

everyone's thinking about this anew. There is much more volatility than any of us would like. We've got to find ways of decreasing the volatility based on whatever the endowment may do on any given day.

Next, I want to look at what we're assuming about endowment returns and how we are calculating the distribution formula. That means:

- One, what do we think our endowment is going to do over the next five years? To plan, we've got to make our best guess of what the endowment is going to do.
- The next issue is, what's the distribution formula going to be? How are we going to calculate in any given year how much of our endowment we spend in that year for operating expenses?

Endowment Returns and Distribution Formula							
	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
Returns	0.5%	-19.6%					
June Projection Model			0%	5%	10%	10%	10%
High Distribution/Positive Economy			5%	3%	8%	8%	8%
Sustainable Rate/Positive Economy			5%	3%	8%	8%	8%
Sustainable Rate/Slow Recovery			3%	-10%	8%	3%	5%
High Distribution/Slow Recovery			3%	-10%	8%	3%	5%
Distribution Formula							
June Projection Model	= 70% * (Prior yr \$ distrib * (HEPI + 1%)) + 30% * (4 Qtr AMV * 6%)						
High Distribution/Positive Economy	= 70% * (Prior yr \$ distrib * HEPI) + 30% * (4 Qtr AMV * 5%)						
Sustainable Rate/Positive Economy	= 5.4% in FY11, 5.3% in FY12, then 70/30 formula						
Sustainable Rate/Slow Recovery	= 5.4% in FY11, 5.3% in FY12, then 70/30 formula						
High Distribution/Slow Recovery	= 70% * (Prior yr \$ distrib * HEPI) + 30% * (4 Qtr AMV * 5%)						



This past June (slide previous page) the assumption was that we wouldn't grow at all this fiscal year (FY 2010). We might grow 5 percent in FY '11, and 10 percent in FY '12, '13, and '14.

Now, with the full understanding of what our returns were for this past year, we calculated that our 10-year endowment performance was, on average, 8 percent a year. The point is that if you look at that particular mix of instruments that we had from that particular investment strategy, it actually worked really well. An 8 percent average growth over the last 10 years put us in the 95th percentile of endowment performances.

One can say, "Well gosh, we were in a position and we fell 19.6 percent. Isn't that terrible?" Well, actually over a 10-year span, even with that drop of 19.6 percent, our average increase was 8 percent, in the 95th percentile. We have done really well. That strategy has worked for us. Our investment office has done a great job.

But now, we should base our projections on the evidence that we have in hand. The evidence is that our 10-year performance is 8 percent. Therefore, instead of thinking that we were going to grow at 10 percent in '12, '13 and '14, we have brought that down to 8 percent. That is an evidence-based assumption about how we're going to grow. We also think instead of zero percent this year, we're actually going to grow about 5 percent. We're hoping that we get 3 percent positive growth.

The point is that this projection, even though it's lower than what we thought in June, still pegs performance at a track record that was in the 95th percentile. Some people worry that this is too optimistic a projection. From our perspective, this is simply our best evidence-based projection. This is very important, because the way you make these assumptions has everything to do with how we think about our spending going forward.

Now, in terms of the distribution formula, this will seem like rocket science to you. I had to look at it 20 times before I actually understood it myself. There were really two different ways of approaching the distribution that are out there today. And in June, we were looking at this model. So this model just says that 70 percent of the distribution is

going to be based on the prior-year dollar distribution plus an inflation factor, in this case plus an additional 1 percent. The model that we were thinking about in June simply says that we're not going to peg a particular percentage. What we're going to do is get to a point and then, for each following year, we're going to look at what we distributed the year before, and make that 70 percent of the number, and then 30 percent of the number would be the four-quarter average market value of the endowment times 6 percent.

That way of doing it says that each additional year's distribution will be based on the previous year's dollar distribution, not percentage. What could happen with this particular model? Here's what we fear the most. If you're saying that last year we distributed \$200 million, 70 percent of the number will be based on the \$200 million. And then, what you're going to get to is, if your endowment then drops another 20 percent, the percentage of the endowment you have to spend to get to \$200 million goes up. So we're at 7 percent this year, in 2010, which is quite high. We could be at 9 percent or 10 percent next year, if the endowment drops again. While people think that there are advantages -- because it sort of smoothes more, or you have the same amount of dollars coming out every year -- the danger is if the endowment drops again. Then you're spending huge chunks of your endowment on any given year. That will begin to get you in trouble, especially with the public equity, the part of our endowment that you can turn into cash. So that's one model: just base it on the previous year's dollar distribution.

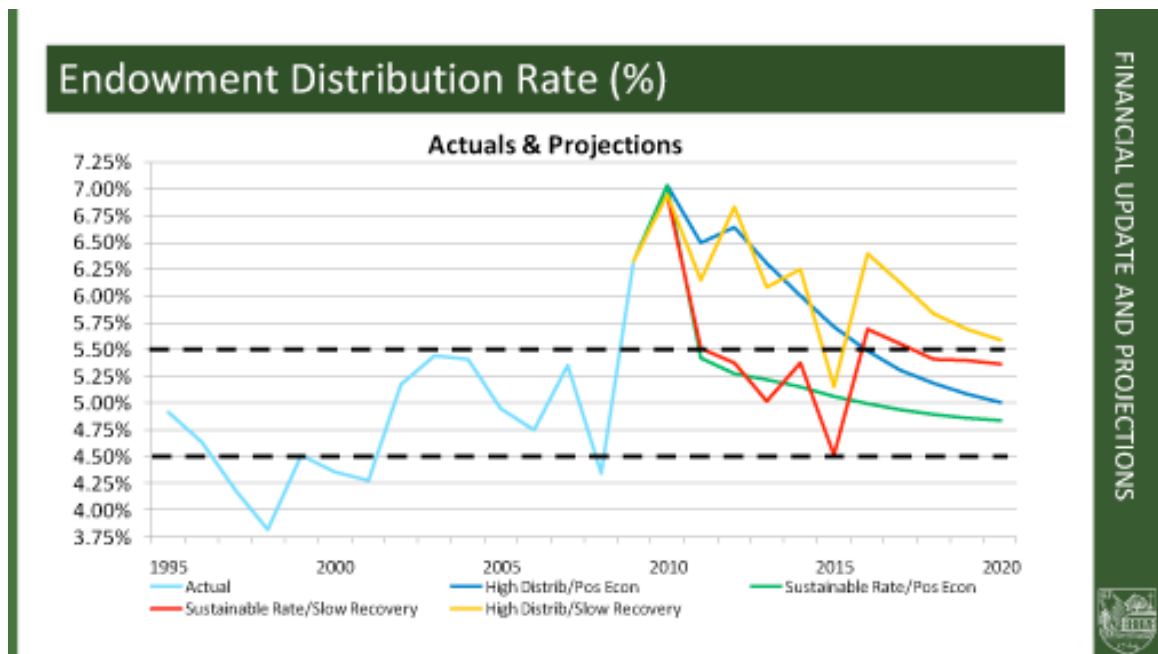
Another model, which is the one that was recommended to us by the Board of Trustees, is to bring the rate down to our historic range right away. In the first year, go to 5.4 percent from 7 percent, then to 5.3 percent. In other words, peg the distribution at a percent, not at the previous year's dollar distribution. And then, use the 70/30 formula after that, once we get down to a manageable range.

So those are the two models. One is to simply peg it to what you spent the year before. The other is to get it down to the range that we have normally been in.

Now, it shouldn't be surprising to you that the color for the one that the Board has recommended to us, of course, is the green one. You'll see, though, what the others look

like in terms of distribution rate and in terms of the dollars given out. This green line, which is what we've called "the sustainable rate," gets us down to 5.4 percent right away, in what we have talked about as a positive economy. It gets us back to where we were at the high-water mark sooner than any of the other scenarios.

Let me just make a point: getting to the high water mark is not the concern. Our priority is to manage the endowment effectively, to turn it into something very positive for our budget, as opposed to allowing it to remain the source of volatility for our budget.



Colleges and universities are now using 4.5 percent to 5.5 percent as the target range for endowment spending. That's what's considered normal, best practice. You can see historically from 1995 until 2008 (slide above), we were very much in, and even below, that range. That's what we had always wanted to do. The spike is because we took seriously the notion of intergenerational equity, and thought that our endowment would continue to grow. We thought it would make sense to do things for the students of today

instead of waiting and giving all the benefit to the students of tomorrow. So we went up in our spending.

Now, there are two ways, the two different models:

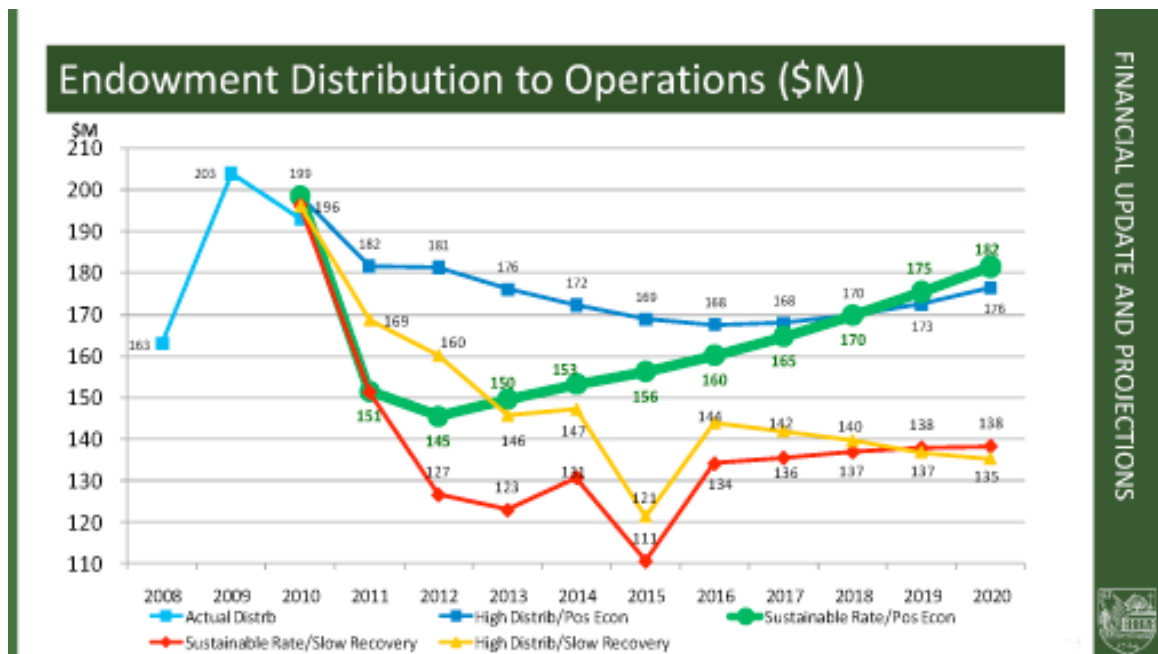
The first model assumes what we call "the positive economy" -- 5 percent growth this year (in the endowment), 3 percent next year, 8 percent every year afterwards. What happens is that if we use the first model, the model that says that endowment distribution will be based on the previous year's endowment distribution, we don't get to the target range for endowment distribution until 2016. So basing it on the previous year's dollar

number is worrisome, in that we could have a lot of volatility and we won't reach, even in a positive economy, our target distribution rate until well after 2015.

With the model recommended by the Board, we go right to the target area and the distribution rate goes down to our target of 5 percent by 2015. Now, what if there is a relatively more unpredictable economy? Let me go back a second. These are the numbers we use for the red line and the yellow line. Let's say we grow 3 percent this year. But let's say we drop 10 percent the year after that, and then we have up and down results after that.

One of the things that colleges and universities did not do, and this is across the board, is that we did not plan for this kind of economy. Nobody did. Very few people really thought, "Well gosh, what if we drop 20 percent?" Nobody even considered that, including Lehman Brothers and Bear Stearns, so we are not in bad company.

So we just tried to think to ourselves, "What would happen if you had this kind of jagged recovery?" Even with a jagged recovery, if we push our rate down immediately to 5.4 percent, then we stay in the range for the whole time. If we don't and we base it on the formula of what we spent the year before, we actually never get there.



So, here are the actual dollar amounts, what that means (slide above). Now, this blue line, of course, is the line where I showed you that we don't get to our target distribution rate until well after 2015. So, this blue line, we think, is unsustainable to begin with because it introduces the possibility that our rate of spending, if the endowment drops, could skyrocket up to 8 or 9 percent.

You'll see there's more money coming out earlier, but we're going down in terms of distribution until 2017. So in other words, we'll be making cuts every year until 2017. If it's an uncertain economy, it never goes up and the amount that is distributed from the endowment will go down every year out to 2020. The blue line is what's been recommended for us. If we go to 5.4 percent right away, after two years, the endowment distribution starts going up and we can get to a point where we can begin to grow.

The recommendation of the Board, with which we agree, is that we've got to take the green path, no surprise. The green path is always the best path. We're going with this endowment distribution model because we think it's consistent with much more realistic expectations of endowment returns. It reduces dependence on the endowment, and

reduces volatility in budget planning. We think it's much more sustainable. It helps us better withstand the risk of another downturn or slower recovery. Just remember folks, if we drop another 10 percent -- we were at 7 percent this year -- it's going to go up. The percentage is going to be higher if we take the other path. We have to also get quickly to a base from which we feel confident that we can grow.

Expenses: Types & Degree of Flexibility

Actual Expense – Internal Management Format (Non-GAAP) (\$000's)			
Expense Item	FY08 Total	FY09 Total	Spending Flexibility
Staff Compensation	(\$210,715)	(\$219,661)	Some Flexibility
All Other Expenses (supplies, travel, equip, etc.)	(\$133,106)	(\$134,446)	Some Flexibility
Sponsored Research	(\$132,095)	(\$136,237)	No Flexibility
Faculty Compensation	(\$122,947)	(\$126,751)	Limited Flexibility
Facilities	(65,319)	(\$66,570)	Some Flexibility
Undergraduate Financial Aid	(\$57,340)	(\$66,803)	Limited Flexibility
Graduate & Professional Financial Aid	(\$35,901)	(\$39,363)	Limited Flexibility
Debt Service	(\$25,869)	(\$32,409)	No Flexibility
TOTAL EXPENSE	(\$783,292)	(\$819,864)	

FINANCIAL UPDATE AND PROJECTIONS

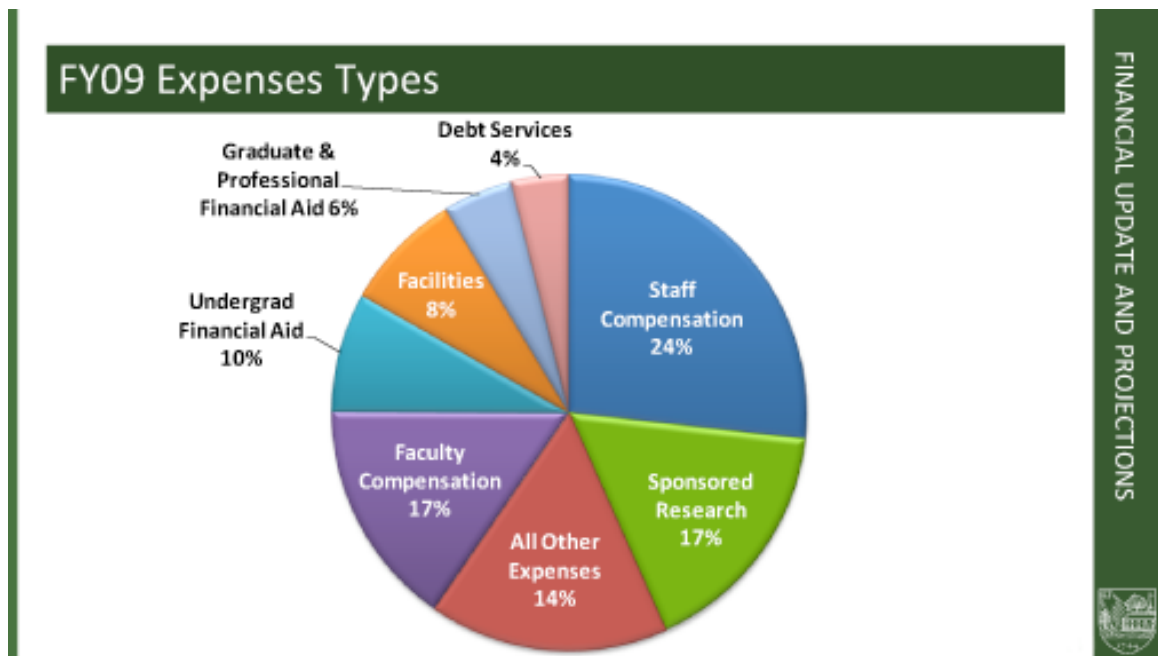


These are our expenses (slide above). It's actually not at all a trivial exercise to put all the expenses together in a chart that's this simple. We're incredibly grateful to everyone in the financial group, Julie Dolan especially. We have worked day and night for a couple of months to try to get these figures, which put the entirety of Dartmouth College together in these columns.

Our expenses are pretty fixed. This is not like a business where sales go up and down and there's a lot of volatility. We know what we have to spend our money on. There is a pretty reasonable degree of predictability in the expenses of a college or university as compared to other businesses.

- You'll see there is some flexibility in staff compensation and other expenses.
- In terms of sponsored research, this is research money that comes to us from the National Institutes of Health (and other sources). That's extremely prescribed. You're told how to spend that money, so there's no flexibility there.
- As for faculty compensation, one of the great things about being in academia is tenure. Tenure frees up our professors to be able to say and think and do whatever they think is right, which is something we must defend. On the other hand, it introduces a lot of fixed costs. So faculty compensation has limited flexibility.
 - Facilities, maybe some.
 - Undergraduate financial aid, graduate and professional financial aid, limited flexibility.
 - In terms of debt service, we've got to pay back our debt.

We're looking at trying to deal with a \$50-million-dollar gap, and then another \$50-million-dollar gap, with a budget that only has limited flexibility.



This (above) is what it looks like in a pie chart.

- Of course, staff compensation is the highest number.
- Sponsored research, we're very happy about this, that it's 17 percent. This is great. It means that not only are we bringing in research money for our professors, but it means we also recovery some indirect costs, and it's good. We want more sponsored research. All of the expenses in travel, that kind of thing, 14 percent.
- Faculty compensation, 17 percent.

Summary of Actual FTEs

	<u>FY 2002</u>	<u>FY2010</u>	<u>8-Yr CAGR*</u>	<u>Change</u>
<i>College-Only¹</i>				
Faculty	383	453	2.1%	70
Non-Teaching Academic Staff	76	61	-2.7%	(15)
TOTAL	2,547	2,054	-0.2%	(34)
<i>Professional Schools</i>				
Faculty	277	314	1.6%	37
Non-Teaching Academic Staff	297	247	-2.3%	(50)
TOTAL	1,279	1,383	1.0%	104

*CAGR = Compound Annual Growth Rate

1. Includes central offices (which service All Dartmouth), Auxiliaries, and A&S



For the "Summary of Actual FTEs" (full-time equivalent employees), these are data from 2002 to fiscal year 2010 (slide above). We wanted to have a really clear sense of what's growing and what's not growing.

- In the "College-Only," the faculty have grown 2.1 percent. The average compound annual growth rate is 2.1 percent with an increase in 70 faculty. Non-teaching academics, research assistants and the like, have actually gone down, as has overall staff.
- In the "Professional Schools," faculty has gone up. Non-teaching academic staff have gone down, and staff have gone up 1.9 percent, but that's in the context of an explosion in research grants. So, we've doubled the amount of sponsored research, a lot of it in the medical school, and that increase in staff, a lot of it is fixed and determined by grants.

We have a lot of staff, but I don't think that in the last ten years there has been any out-of-proportion explosion. We're trying to look back before 2002 to see what happened

before. But in the last eight years, faculty have grown, and staff have grown a little bit less.


Projected Revenue, Endowment, Expense Assumptions

Prior to any operating reductions, savings or new revenue to address budget gap

- **Revenue:**
 - Tuition increases annually
 - New endowment gifts: +\$34M annually
 - Dartmouth College Fund (DCF): 4% growth annually
- **Endowment – Sustainable Rate/Positive Economy:**
 - Positive endowment returns: (5%-FY10, 3%-FY11, 8% in FY12 and beyond)
 - Decreasing the endowment distribution rate to 5.3% by FY12 and to 5.1% by FY14
 - Estimating a \$145M endowment distribution beginning in FY12
- **Expenses:**
 - Faculty compensation pool increases; staff compensation pool increases
 - Fund prior deficits and outstanding commitments by FY14

Must have the ability to strategically invest

FINANCIAL UPDATE AND PROJECTIONS



Here are our assumptions as we go forward (slide above).

- In terms of revenue, we have tuition. Tuition increases annually and we calculate that in. We're expecting new endowment gifts of around \$34 million annually. The Dartmouth College Fund, our projection is that it would grow 4 percent. I hear again and again and again from alumni that the Dartmouth College Fund growth is at least partly dependent on how well we do this exercise. If the alumni feel that we have looked under every stone and we have come to a conclusion about what is critical to the Dartmouth experience and what is not, and we've really done our work, then I personally hope that donations to the Dartmouth College Fund will go up. But I don't think it'll happen until alums are really convinced that we've done all the work we're supposed to do.

- Endowment, again, we've talked a lot about this. Here are the assumptions: 5 percent this year, 3 percent next year, 8 percent per year beyond that, which is again the best we can do in terms of an evidence-based number. We're going to decrease the endowment distribution rate to 5.3 percent and then we hope to 5.1 percent by FY '14. We're estimating about \$145 million endowment distribution beginning in fiscal year '12.
- The faculty compensation pool we think will increase. The staff compensation pool will also increase. What percentage that will increase is what we have to talk about. We have to fund prior deficits and outstanding commitments by fiscal year '14.
- We must have the ability to strategically invest. Again, this is a discussion that we've had intensively with our Board. This can't be just about cutting. It has to also be about investing to take advantage of opportunities that are staring us in the face right now.

Revenue & Expense Projections (\$000's)

	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
<u>TOTAL REVENUES</u>	<u>\$832,300</u>	<u>\$820,905</u>	<u>\$833,485</u>	<u>\$864,020</u>	<u>\$890,000</u>
Total Educ'l, General & Aux. Expenses	\$828,665	\$854,970	\$894,260	\$877,655	\$971,940
Fund Prior Deficits & Outstanding Commitments	\$4,650	\$6,970	\$14,600	\$10,620	\$5,000
Contingency (up to 1.5%)	\$1,500	\$3,000	\$6,000	\$10,000	\$15,000
Strategic Faculty Retention & Recruitment Fund		\$4,000	\$5,000	\$8,000	\$8,000
Strategic Investments		\$6,000	\$10,000	\$12,000	\$12,000
<u>TOTAL EXPENSES</u>	<u>\$834,815</u>	<u>\$874,940</u>	<u>\$929,860</u>	<u>\$977,705</u>	<u>\$1,011,940</u>



As for overall educational expenses (slide previous page), these are the things that we'd always been considering.

- These go from 828 to 971. And mostly this is just annual increases. This is what happens to any college or university. You have annual increases, it goes up.
- We had prior deficits, about \$46 million worth, that we now are committed to paying off very quickly in this fashion.
- We think you need a contingency. This is very small. This is what best practice is, to build into your budget some contingency so that if something happens, like oil prices go up, we can pay that off. It's not much more than that.
- We feel very strongly that a strategic faculty retention and recruitment fund has to be included in our projections. Again, the thing that worries me most is we've got great faculty and there are lots of jobs open out there, and I think we also have a very unique faculty who can do research and teach well. So, we're a very, very fertile ground for poaching from other colleges and universities, and I think we simply have to commit to keeping our outstanding faculty here in Hanover.
- Strategic investments, by FY '14, these two together make up 2 percent of the budget, faculty retention and strategic investments. And by strategic investments, we're talking a very small amount for opportunities that all of you will identify and it happens every day. People come up to me and say, "Hey, there's this great opportunity where we could bring in more resources, bring in great people, but we've got to put some money up front to take advantage of that opportunity." This is, again, this is 1.2 percent of the overall budget. We think we just have to have it.

We think that we can gain great efficiencies, if we invest a little bit in improving our business processes.

I don't think we can get out of campaign mode in terms of our Development activities. The campaign ends as of the end of this year, but we can't quit campaigning. So we're going to have to make more investments in Development. Our investment in Development pays back extremely, extremely well in terms of donations.

This is our best guess at what the budget's going to look like over the next five years. Who can know what anything will look like in five years, but this is our best guess and we've been asked to do this. And again, we've worked very hard to try to get rational approach to these kinds of numbers.

We're going to be a billion dollar institution by 2014. But, what you saw in terms of endowment distribution is that if we're going to be a billion dollar institution by 2014 we will have, over that time, decreased our reliance on the endowment. So rather than being 32 or 25 percent of our budget, it's going to be more like 15 percent. And I think that's going to be a much more manageable number going forward.

Projected Revenue, Endowment, & Expenses

Lead to the estimated \$120M budget gap in FY14

	FY10	FY11	FY12	FY13	FY14
ESTIMATED BUDGET GAP	(\$2.5M)	(\$54M)	(\$96M)	(\$114M)	(\$122M)



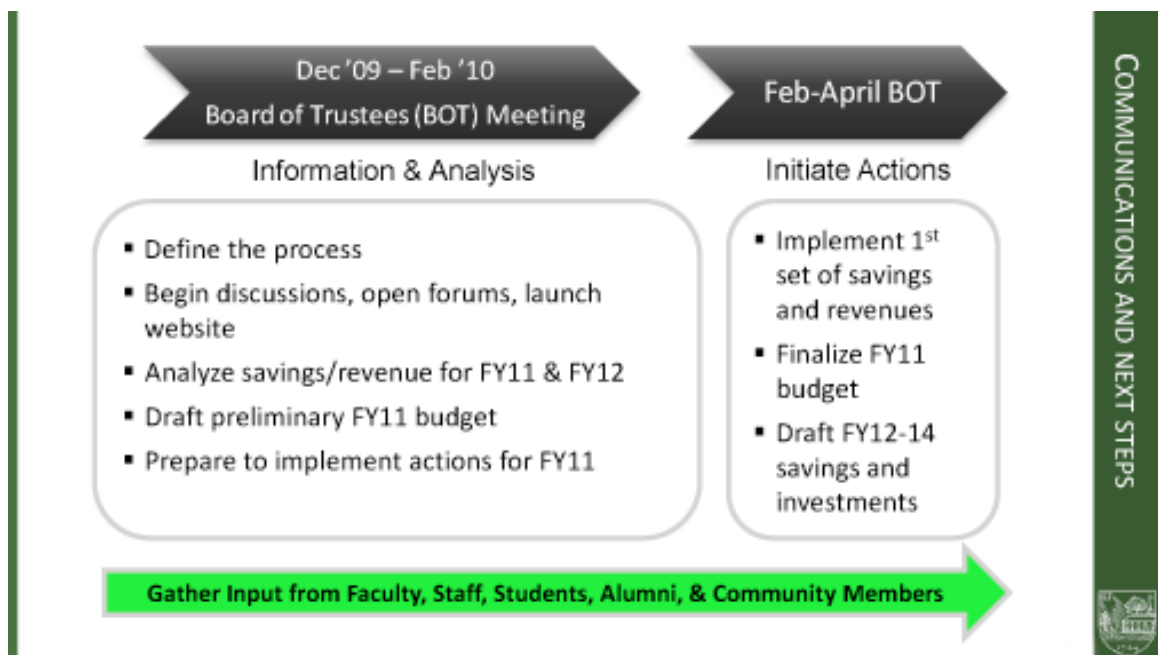
These (slide previous page) are the gaps: \$ 2.5 million this year, \$50 million next year, \$96 million after that. Now, of course, if we get there and we can find \$50 million in reductions, that's not still \$96 million, that goes down. So when we talked about \$50 million this year, and an additional \$50 million next year, that's what we meant. If we do nothing, these are the deficits we are going to have every year, and those will compound and add up.

In the end, we have got to make sure that revenue is greater than expense. We have to make sure that the growth rate of our revenue outpaces the growth rate of our expenses. If we solve this \$100 million problem by FY '12, then revenues will outpace expenses.

Where are we going to look? Well, as we've said, everything is on the table (slide 30), but that doesn't mean everything is going to get cut. Lots of people have told me about the things that they hold most dear, and that absolutely can't be cut. More than anything else, when we decide that we're going to keep something or grow something, I have to be really, really clear as to why that's important so that we can explain to the Board and everyone else, "Look, we might have to cut back in some of these other areas, but this critical. In fact, we have to grow it." We have to think about everything.

- Can we do better with administrative restructuring and reductions? We think so.
- Non-compensation savings? We've got to look at it.
- Compensation and benefits? Again, we have to look at everything. We have to do tough work in terms of figuring out what the different kinds of changes will give us in terms of overall expense savings.
- On financial aid savings, I've said again and again and again, this process will not lead to a single student not being able to afford Dartmouth. That's not going to happen. On the other hand, we have to look at financial aid. Do all of our packages make sense? Are there ways of gaining savings that won't hurt our need-blind approach?

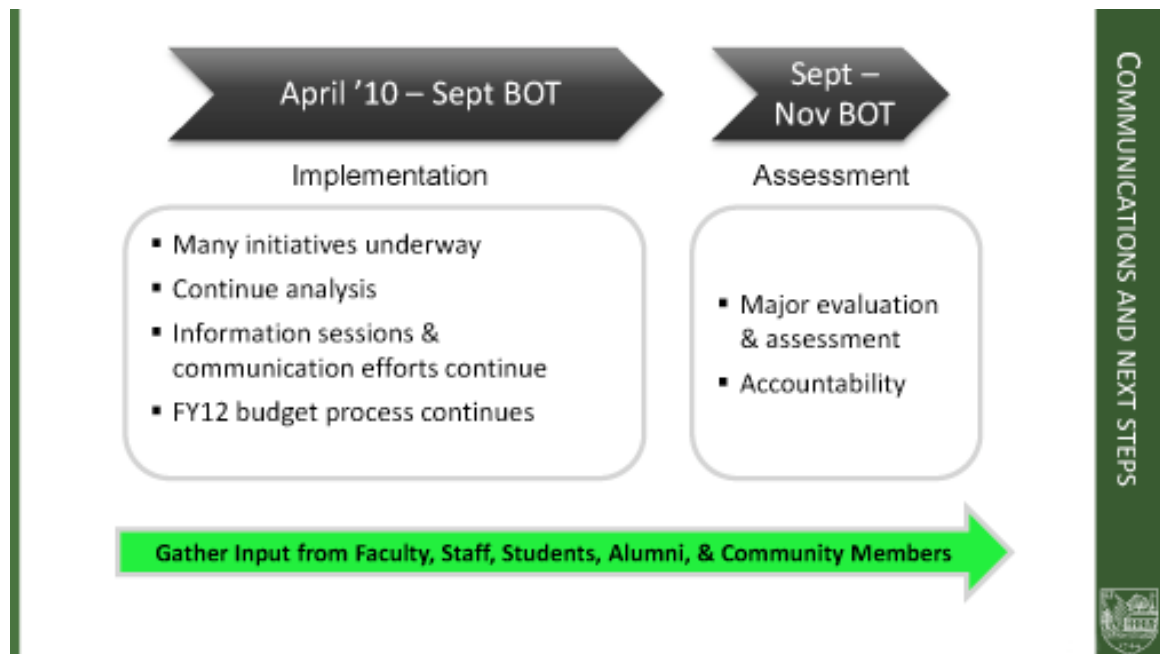
- Capital project savings and new revenues. We're very committed to the Life Sciences Building and the Visual Arts Center. Are there ways of saving money and bringing in new donations so that these critically important new buildings are less of a strain on our budget going forward? We have to look at it.
- Each division, department, and school will be asked to look for savings. Again, we're not going to give you a number across the board. Some programs will grow. We have to look at new programs and revenue. There are lots of different possibilities that we've already talked about that could garner lots of new revenue, we hope. We've got to keep thinking.



Here's what the process will look like (slide above). Between now and February, what we're doing right now is defining the process. We don't have all the committees set up, but we've been talking to a lot of people. Steve Kadish [senior vice president] and Carol Folt [acting provost and dean of the faculty of Arts and Sciences] have been leading that process. This is one of our discussions, an open forum. We've launched the website where already people have given us a lot of good feedback. We have to analyze all the

savings and revenue for both fiscal year '11 and '12. We have to put a preliminary budget together and we've got to prepare to implement.

February is a Board of Trustees meeting. That's the next milestone for us in terms of presenting our findings to the Board. From February to April, we're going to be implementing the first set of savings and revenues, finalize the budget for the next year and being drafting the fiscal year '12 to '14 budget. And, of course, it's going to be critical to get input from everybody.



From April to September (slide above), we will have launched a lot of the initiatives. We'll continue to analyze what we're getting. We'll continue to monitor our financial situation, of course. We'll continue to have information sessions and to communicate. And the fiscal year '12 budget process will continue. By September, though, what we're going to do is to evaluate how well we've done. We're going to make sure that the savings that were suggested or the savings that were promised actually happened. We're going to hold ourselves and, of course, everybody else at Dartmouth, accountable for actually achieving the kinds of savings that we know we need to achieve.

Our Aspirations for 2019 – Dartmouth’s 250th Anniversary

- *Global leadership in undergraduate, graduate & professional student teaching:* build *beyond* our #1 ranking in *USN&WR*
- *Enhanced reputation for:* leading faculty; outstanding liberal arts curriculum; unparalleled chances for students to engage in research; world-renowned professional schools; global educational experiences
- *Known as the leader in cutting-edge, interdisciplinary research & teaching*
- *Be truly “the Big Green”* – create the most sustainable campus possible
- *Be the institution of choice* for the brightest and best faculty, students and staff

Ensure Dartmouth graduates are sought after and recognized as outstanding:
learners, scholars, problem-solvers, team players, leaders, communicators,
culturally aware, ethical & civically minded global citizens



This is not what I thought I'd be doing in my first four months as president of Dartmouth College. But I have to say that I am more convinced now than I've ever been that this will all happen by 2019. I'm convinced of it. That this place is so special, the relationships here are so unique, the people we have here, staff, faculty, students, are so unique, that there is no doubt in my mind that we'll get there by 2019. There's going to be some tough going in the next few months to probably a couple of years, but we've got to keep our eyes on the prize. This is a 240-year-old institution. Unbelievably, there have only been 16 presidents before me. This institution will be around for a very long time. And the question for us is what will be the nature of our stewardship over the next few years?

Responsibility & Opportunity



"Take care of this house"



At my inauguration, my sister sang the song, "Take Care of This House". It was very emotional because I sat there thinking about what a huge responsibility I've just taken on. And while this is not what anyone would have wanted for Dartmouth today, I am extremely hopeful. Your contributions to the website have already given us a lot of energy and hope that we can figure this out together. There will be layoffs, and I've said that before. But just take one particular piece of data. We laid off 60 people in the last round, and now 25 are back working at different parts of Dartmouth that are growing.

When I say we've got unbelievable opportunities in front of us today, I really mean it. Unbelievable, wonderful opportunities based on the outstanding work of faculty and staff here at Dartmouth College. So, whatever layoffs we make, we hope that our best staff will simply be coming back later and working in another area which has grown over the next few years. I don't think we can get there unless we make the tough decisions.

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