



DARTMOUTH COLLEGE

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year Ended June 30, 2004

DARTMOUTH COLLEGE

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2004

Table of Contents

	Page
Independent Auditors' Report	1
Audited Financial Statements for the year ended June 30, 2004	3
Schedule of Expenditures of Federal Awards and Accompanying Notes – Year ended June 30, 2004	22
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	32
Schedule of Findings and Questioned Costs	34



KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

Independent Auditors' Report

The Board of Trustees
Dartmouth College:

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

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

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

In our opinion, except for the effects of such adjustments deemed necessary had we examined evidence regarding the fair value of the unrecognized trust interests discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Dartmouth College as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2004 on our consideration of Dartmouth College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

September 15, 2004

Dartmouth College

Statement of Financial Position

As of June 30, 2004 (in thousands)

Assets

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

Liabilities

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

Total Net Assets	\$ 3,076,295
-------------------------	---------------------

Dartmouth College

Statement of Activities

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

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

See accompanying notes to the financial statements.

Dartmouth College

Statement of Operating Expenses
For the year ended June 30, 2004 (in thousands)

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

See accompanying notes to the financial statements.

Dartmouth College

Statement of Cash Flows

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

Cash flows from operating activities	
Total increase in net assets	\$ 387,075
Adjustments to reconcile total increase in net assets to net cash used by operating activities	
Depreciation	30,854
Other non-cash transactions	(11,781)
Changes in operating assets and liabilities	
Receivables and other assets, net	(624)
Pledges receivable, net	(27,602)
Accounts payable and other liabilities	369
Deferred revenues and deposits	1,751
Pension and other employment related obligations	15,951
Contributions, investment income, and other changes restricted for long-term investment	(61,163)
Net realized and unrealized investment gains	(361,688)
Net cash used by operating activities	(26,858)
Cash flows from investing activities	
Student loans granted	(10,587)
Student loans repaid	10,516
Purchases of land, buildings, and equipment	(31,922)
Net change in liability for split-interest agreements	2,260
Net change in liability for unsettled trades	9,024
Purchases of investments	(1,512,240)
Sales of investments	1,542,990
Net cash provided by investing activities	10,041
Cash flows from financing activities	
Government advances for student loans	901
Repayment of bonds, mortgages, and note	(1,857)
Decrease in investments held by bond trustee	11,144
Contributions, investment income, and other changes restricted for long-term investment	
Investment in facilities	17,371
Investment in endowment, life income, and similar funds	43,792
Net cash provided by financing activities	71,351
Net increase in cash and cash equivalents	54,534
Cash and cash equivalents, beginning of year	185,458
Cash and cash equivalents, end of year	\$ 239,992

See accompanying notes to the financial statements.

Dartmouth College
Notes to Financial Statements.

A. Summary of Significant Accounting Policies

Description of Organization

Dartmouth College (the College) is a private, nonprofit, co-educational, nonsectarian institution of higher education with approximately 4,400 undergraduate and 1,200 graduate students. Established in 1769, the College includes the four-year co-educational undergraduate college, with graduate schools of business, engineering, and medicine, and 18 graduate programs in the Arts and Sciences.

Basis of Presentation

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

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

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

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

Dartmouth College
Notes to Financial Statements

Use of Estimates

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

Statement of Activities

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

Non-operating activities presented in the Statement of Activities consist of gifts, grants, other earnings, and endowment investment return appropriated by the College's Board of Trustees for loan programs and the construction or purchase of capital assets, including construction in progress, net change in life income and similar split-interest agreements, and the net change in pledges receivable.

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

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

Cash and Cash Equivalents

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

Tuition and Fees and Student Scholarships

Tuition and fees revenue is recognized in the fiscal year in which substantially all of the academic program occurs. Tuition and fees revenue from undergraduate enrollment represents approximately 70 percent of tuition and fees revenue. Student scholarships provided by the College are presented in the Statement of Activities as a reduction in tuition and fees revenue. In addition the College acts as an agent for the recipient of scholarships from other sponsors in the amount of \$3,244,000 for the year ended June 30, 2004 which is not presented in the Statement of Activities. With the exception of international applicants, the College admits students to its undergraduate program without regard to financial need. The financial aid program assists all students with demonstrated need, defined in accordance with a uniform formula, by providing a mix of scholarship grants and loans designed to cover costs of attendance when combined with student and family contributions based on ability to pay.

Dartmouth College
Notes to Financial Statements

Sponsored Research Grants and Contracts

Revenues from government and private sponsored research grants and contracts are recognized when the direct costs associated with the sponsored program are incurred. Revenue from the reimbursement of facilities and administrative costs related to sponsored research is recognized according to predetermined fixed billing rates. Facilities and administrative costs incurred by the College on U.S. government grants and contracts are reimbursed based upon negotiated predetermined cost rates through June 30, 2007. The College recovered facilities and administrative costs of approximately \$40,646,000 in the year ended June 30, 2004.

Taxes

The College is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), except with regard to unrelated business income, which is taxed at corporate income tax rates. The College is also subject to State and local property tax on the value of dormitories and dining and kitchen facilities in excess of \$150,000, as well as on the value of its off-campus rental properties, commercial properties, and other real estate holdings to the extent they are not used or occupied for the College's tax exempt purposes. Certain of the College's real estate entities are exempt from federal income tax under Section 501(c)(2) and 501(c)(25) of the Code.

Affiliation with Dartmouth-Hitchcock Medical Center

The College, through the Dartmouth Medical School (DMS) is a member of the Dartmouth-Hitchcock Medical Center (DHMC), a confederation of health care organizations intended to coordinate medical education and health care delivery for the residents of New Hampshire and Vermont. DHMC is a nonprofit, tax-exempt corporation organized under New Hampshire State Law. The other members of DHMC are: (i) Mary Hitchcock Memorial Hospital (Hitchcock Hospital), (ii) Dartmouth-Hitchcock Clinic (Clinic), and (iii) Veteran's Administration of White River Junction, Vermont (VA). The staff of the Clinic serves as the primary resource for clinical faculty at DMS, with the Hitchcock Hospital and the VA acting as principal sites of clinical instruction for the students of DMS. Each member is a separately organized, governed, and operated institution, with the College having no ownership interest in any other member. Certain costs, including salaries, facilities use (including construction planning and management, and facilities operation and maintenance), and direct and indirect research, incurred by DMS and the other members of DHMC, are shared among the members based on negotiated allocations of the costs on an annual or project specific basis. The members of DHMC are also parties to a Condominium Ownership Agreement that governs the ownership and operation of the DHMC facilities. During the year ended June 30, 2004, the College paid approximately \$15 million and received approximately \$17 million in connection with these arrangements, which amounts are reflected in the Statement of Activities.

Insurance

The College maintains several insurance arrangements with the objective of providing the most cost effective and comprehensive coverage for most insurable risks. Both conventional and alternative insurance coverage approaches, including utilization of appropriate self-insured retention amounts, are in force to cover trustee errors and omissions, crime bond, comprehensive general and automobile liability, pension trust fiduciary errors and omissions liability, and real and personal property losses. Workers' compensation losses are covered by an insured program, in excess of a deductible. The College, together with other institutions, has formed three captive insurance companies that arrange and provide professional liability, general liability, property damage, and medical malpractice insurance to cover the institutional risks for the shareholders of the captive insurance companies. The College's investments in these captive insurance companies are carried at cost in the accompanying financial statements.

The College's annual premium payments for conventional insurance coverage are included in operating expenses. Estimated liabilities for losses under the College's self-insurance retention limits are reflected in the Statement of Financial Position and the Statement of Activities, which include estimates for known losses and for losses incurred but not yet reported. Self-insurance reserves are necessarily based on estimates of historical loss

Dartmouth College
Notes to Financial Statements

experience, and while management believes that the reserves are adequate, the ultimate liabilities may be different than the amounts provided.

Gifts and Pledges Receivable

Total contributions to the College include gifts that are received and the net change in pledges receivable during a period. Gifts and pledges are recognized as increases in the appropriate category of net assets in the period the gift or pledge is received. The net change in total pledges is recorded as a net increase (decrease) in non-operating activities in the Statement of Activities. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Unconditional pledges are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are stated at the estimated present value (discounted at rates ranging from 1.3% to 6.2%) of future cash flows, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Investments

Investments in marketable securities are carried at estimated fair values as established by the major securities markets. Investments in diversified venture capital holdings and certain other limited partnership interests are carried at estimated fair values, generally as of the March 31 prior to the College's fiscal year end, based upon financial information provided by the general partners, and adjusted for additional investments or partnership distributions after March 31. Because many of these investments are not readily marketable, the estimates of fair value necessarily involve assumptions and estimation methods which are uncertain, and therefore the estimates could differ from actual results. Certain real estate holdings are carried at estimated market value, and minority interests in certain real estate limited partnerships and captive insurance companies are carried at cost. Purchases and sales of securities are recorded on the trade date, and realized gains and losses are determined on the basis of the average cost of securities sold. Derivative financial instruments held for investment purposes are carried at estimated fair values with resulting gains and losses included in investment return.

Total investment return (interest, dividends, rents, royalties, and net realized and unrealized gains and losses) earned by the College's endowment investments is reported as endowment activity, while the net income earned by the non-endowment investments is included in other operating income. Fees paid to external investment managers are generally based on contractual percentages of the fair market value of assets under management or on annual total investment return. These fees, as well as certain other expenses associated with endowment investment management and custody, including certain internal costs, amounted to approximately \$10,194,000 for the year ended June 30, 2004 and have been netted against endowment return in the accompanying Statement of Activities.

Endowment

The College's endowment and similar funds consist of gifts restricted by donors for long-term support of the College's activities, unrestricted net assets designated by the Board of Trustees for the long-term support of the College's activities, and the accumulated investment return on these gifts and designated net assets. Accumulated investment return consists of total endowment investment return that has not been appropriated by the Board of Trustees for expenditure to support the operating and non-operating activities of the College. Generally, only a portion of accumulated investment return is made available for spending each year in accordance with a Board of Trustees-approved endowment utilization policy and New Hampshire State Law. However, certain donor restricted endowment funds do allow for the expenditure of principal, and College designated endowment funds are unrestricted net assets that may be re-designated for expenditure upon authorization by the Board of Trustees.

Unrestricted endowment net assets include College funds and certain unrestricted gifts from donors, and any accumulated investment return thereon, which may be expended; however, by Trustee designation, these net assets may remain invested in the endowment for the long-term support of College activities. Investment return on unrestricted endowment net assets and the annual distribution of a portion of accumulated investment return to

Dartmouth College
Notes to Financial Statements

operating and non-operating activities are presented as changes in unrestricted net assets in the accompanying Statement of Activities. Temporarily restricted endowment net assets include certain expendable endowment gifts, and any retained income and appreciation thereon, which are restricted by the donor to a specific purpose or by law. When the temporary restrictions on these funds have been met, the gifts ordinarily remain in the endowment by Trustee designation to continue supporting the same activities as those specified by the donors, but the net assets are reclassified to unrestricted endowment net assets. Permanently restricted endowment net assets include the original gift amount of true endowment gifts, and for certain gifts, at the direction of the donor, the investment earnings that are to remain invested in perpetuity. Investment return on temporarily and most of the permanently restricted net assets and the annual distribution of a portion of the accumulated investment return to operating and non-operating activities are presented as changes in temporarily restricted net assets in the accompanying Statement of Activities.

The College employs a total return endowment utilization policy that establishes the amount of investment return made available for spending each fiscal year. The amount appropriated for expenditure each year is independent of the actual return for the year, but the appropriated amount cannot exceed the total accumulated return in a fund at the time of distribution. The endowment utilization policy approved by the Board of Trustees limits the annual appropriation of accumulated endowment investment return to fall within a range of 4.25% to 6.50% of the average market value of the endowment investments over the twelve quarters ended as of the previous June 30th. Investment return earned in excess of the amount appropriated annually is reinvested in the funds, but can be appropriated in future years in accordance with the utilization policy. The net appreciation on most of the permanently and temporarily restricted endowment funds is reported together with temporarily restricted net assets until such time as all or a portion of the appreciation is appropriated for spending in accordance with the utilization policy and applicable State Law.

Split-Interest Agreements

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

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

Investments Held by Bond Trustee

Investments held by Bond Trustee consist primarily of unexpended debt proceeds that have been invested in accordance with the various resolutions and loan agreements in connection with the New Hampshire Health and Education Facilities Authority (NHHEFA) Bonds. Unexpended debt proceeds are invested in cash, temporary investments, and fixed income securities and are reported at market value.

Land, Buildings, Equipment, and Construction in Progress

Land, buildings, equipment (including software development costs), and construction in progress are recorded at cost at the date of acquisition or, if acquired by gift, at the estimated fair value as of the date of the gift. Purchases, construction, and renovations of plant assets which exceed the College's specified dollar threshold and

Dartmouth College
Notes to Financial Statements

have a useful life greater than one year are capitalized, while scheduled maintenance and minor renovations of less than that amount are charged to operations.

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

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

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

Collections

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

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

B. Receivables and Other Assets

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

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

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

Dartmouth College
Notes to Financial Statements

C. Gifts and Pledges Receivable

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

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

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

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

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

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

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

Dartmouth College
Notes to Financial Statements

E. Investments

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

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

A net payable for unsettled trades of \$37,120,000 at June 30, 2004, is included in accounts payable and other liabilities in the accompanying Statement of Financial Position. Limited partnerships and similar investments consist of limited partnership interests in venture capital, oil and gas, and other private debt and equity funds. Other investments include real estate limited partnerships, real estate holdings, and other non-marketable assets.

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

The College from time to time enters into foreign currency forward contracts to protect long-term investments denominated in foreign currency from currency risk. At June 30, 2004 the College held forward contracts to buy foreign currencies in the amount of \$84,440,000 and to sell foreign currencies in the amount of \$8,328,000. The College has also recorded an associated net unrealized loss of \$2,135,000 on forward contracts held as of June 30, 2004.

At June 30, 2004 the College also held options and futures contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. The College has recorded net unrealized gain of \$133,000 pertaining to options contracts held. The difference between the exercise price of open written options contracts and the estimated value of the related underlying securities resulted in a net short position of \$43,000. The College is obligated to pledge to the appropriate broker, cash or securities to be held as collateral,

Dartmouth College
Notes to Financial Statements

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

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

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

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

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

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

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

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

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

Dartmouth College
Notes to Financial Statements

F. Bonds, Mortgages, and Note Payable

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

Revenue bonds issued through NHHEFA for the acquisition, installation, construction, renovation, and equipping of various academic, research, and administrative facilities:	
Series '03, serial bonds maturing through the year 2023 at variable rates (ranging from 0.63% to 1.20% from July 1, 2003 – June 30, 2004)	\$ 112,200
Series '02, term bonds maturing in the year 2032 at variable rates (ranging from 0.63% to 1.20% from July 1, 2003 – June 30, 2004)	101,000
Series '99, term bonds maturing in the year 2019 at a rate of 5.92%	8,845
Series '98, term bonds maturing in the year 2028 at a rate of 5.12%	33,000
Series '97A, term bonds maturing in the year 2028 at a rate of 5.37%	52,000
Series '97, term bonds maturing in the years 2007 and 2027 at rates of 5.05% and 5.85%, respectively	36,740
Revenue bonds issued by DELC through NHHEFA:	
Series '99, term bonds maturing in the year 2039 at a rate of 6.19%	9,940
Series '85 and Series '98A, serial coupon and term bonds maturing through 2025 at rates ranging from 4.45% to 5.55%	26,895
Subtotal NHHEFA bonds	<u>\$ 380,620</u>
Mortgages on real estate investments, various maturities through 2024 at fixed and variable rates, ranging during the year ended June 30, 2004 from 2.55% to 7.10%	31,387
Other note payable, maturing in 2012 at a rate of 5.50%	2,110
Subtotal bonds, mortgages, and note payable	<u>\$ 414,117</u>
Less : original issue discount and premium, net	(2,884)
Total bonds, mortgages, and note payable	<u><u>\$ 411,233</u></u>

Interest expense on debt used to finance facilities projects totaled \$9,353,000 for the year ended June 30, 2004. Interest expense on debt used to finance student loans totaled \$2,075,000 for the year ended June 30, 2004 and is presented as a deduction from other non-operating earnings in the Statement of Activities. Interest expense on mortgages and other note payable totaled \$1,836,000 for the year ended June 30, 2004 and is presented as a deduction in endowment net investment return in the Statement of Activities.

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

Dartmouth College
Notes to Financial Statements

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

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

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

Principal due after the year 2009 includes an \$8,845,000 "balloon" payment on the NHHEFA Series 1999 Bonds which mature in June 2019, a \$15,300,000 "balloon" payment on the DELC Series 1998A Bonds which mature in June 2023, a \$31,740,000 "balloon" payment on NHHEFA Series 1997 Bonds which mature in June 2027, a \$52,000,000 "balloon" payment on NHHEFA Series 1997A Bonds which mature in June 2028, a \$33,000,000 "balloon" payment on NHHEFA Series 1998 Bonds which mature in June 2028, and a \$101,000,000 "balloon" payment on NHHEFA Series 2002 Bonds which mature in June 2032. The NHHEFA bonds are a general obligation collateralized only by a pledge of full faith and credit of the College and DELC, and by funds held from time to time by the trustee for the benefit of the holders of the bonds under the respective bond resolutions. The College has agreed to certain covenants with respect to encumbrance or disposition of the College's core campus and DELC has certain covenants with respect to encumbrance or disposition of its student loan portfolio.

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

G. Retirement and Postretirement Medical Benefits and Other Employment Related Obligations

Liabilities for retirement and postretirement medical benefits, salaries, wages, and other benefits under employment agreements consisted of the following at June 30, 2004 (in thousands):

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

In fiscal year 1998 the College revised its pension benefit for staff and non-union service employees, giving each participant a one-time option to either remain in the defined benefits plan or enroll in the College's defined contribution plan effective January 1, 1998. Staff and non-union service employees hired since that date receive

Dartmouth College
Notes to Financial Statements

retirement benefits under the defined contribution plan. The College's postretirement medical benefits consist of medical insurance coverage for retirees.

Information pertaining to the pension and postretirement medical benefits at June 30, 2004 includes (in thousands):

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

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

Dartmouth College
Notes to Financial Statements

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

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

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

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

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

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

The College also maintains defined contribution retirement plans for non-union employees. These benefits are individually funded and are subject to various vesting requirements. Under these arrangements, the College makes monthly contributions to individual self-directed retirement investment accounts for the participants. These contributions for the year ended June 30, 2004 were \$27,061,000.

Dartmouth College
Notes to Financial Statements

H. Other Operating Income

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

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

I. Net Assets

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

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

Dartmouth College
Notes to Financial Statements

J. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$6,384,000 at June 30, 2004. The College is obligated under certain venture capital, oil and gas, and real estate investment fund contracts, principally limited partnership agreements, to periodically advance additional funding up to contractual levels. At June 30, 2004 the College had an unfunded commitment of \$542,076,000 payable through 2009.

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

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

K. Third Party Charitable Trusts

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

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

DARTMOUTH COLLEGE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

	<u>Pass-through number</u>	<u>Total expenditures</u>
Research and development:		
U.S. Department of Health and Human Services:		
Direct awards (93.RD):		
National Institutes of Health		\$ 79,856,689
National Institutes of Health Research Training		2,713,753
Public Health Services Center		1,706,889
		<hr/>
		84,277,331
Subagreements:		
93.283 Association of American Medical Colleges	MM-0606-03/03	185,763
FLOW American International Health Alliance	UEEKOS-02-PPTR-H	192,079
93.395 Aurora Optics, Inc.,	AURORA	30,885
93.234 Brain Injury Association of New Hampshire	BIANH	54,659
93.000 Beth Israel Deaconess Medical Center	24-8786	7,426
93.286 Beth Israel Deaconess Medical Center	23-51804	359,948
93.286 Beth Israel Deaconess Medical Center	24-82126	26,120
93.837 Beth Israel Deaconess Medical Center	22-58976	(95)
93.837 Beth Israel Deaconess Medical Center	22-58988	(2,734)
93.000 BioReliance Corporation	BRC-1108-28	22,998
93.242 Boston University	MC-463811-N-JW	156,714
93.242 Boston University	PRE-AWARD	72,522
93.394 Brown University	1228-27192	53,214
93.398 Brown University	1042-27212	21,386
93.399 Brown University	1404-27408	35,719
93.393 Brigham and Women's Hospital	707,703	7,333
93.846 Brigham and Women's Hospital	716,723	41,820
93.865 Children's Hospital Boston	F422511	743,650
93.865 Children's Hospital Boston	76,437	232,383
93.234 Community Connections	COMM CONNECTIONS	49,932
93.243 Community Connections	COMM CONN	45,927
93.000 Create, Inc.	28,180	18,173
93.000 Create, Inc.	32,435	22,234
93.000 Emory University School of Medicine	NS37470	93,122
93.000 FHC Inc.	2002-146	13,163
93.000 GenePharm, Inc.	GEPI	48,000
93.143 Harvard University	112,113	101,304
93.393 Harvard University	115,911	88,402
93.393 Harvard University	N/A	67,850
93.393 Harvard University	HARVARD UNIV	(3,117)
93.393 Harvard University	HARVARD 1	(1,471)
93.399 Harvard University	HARVARD	12,171
93.399 Harvard University	HARVARD	79
93.856 Harvard University	148,988	26,711
93.242 University of Iowa	4,000,090,023	3,295
93.242 University of Iowa	1 11843 00	36,266
93.242 Indiana University	INDIANA UNIV	56,551
93.393 Johns Hopkins University	8906-09172-6	117,435
93.399 Johns Hopkins University	JHU SUB	64,742
93.000 Magnimed, Inc.	MAGNIMED	29,001
93.395 Massachusetts General Hospital	MASS GENERAL	211,468
93.399 University of Michigan	F007139	192,780
96.007 University of Michigan	F008350	2,907
93.395 National Childhood Cancer Foundation	11,817	20,285
93.110 National Initiative for Children's Healthcare Quality	NICHQ	49,749
93.000 National Space Biomedical Research Institute	PRE-AWARD	286
93.853 Northwestern University	0600370 S352 695	186,283
93.136 ORC Macro	35110-3S-531	3,442
93.866 Penn State University	1800-DC-DHHS-147	3,214
93.000 Psychological Applications	PSYC	183,538
93.853 Spaulding Rehabilitation Hospital	SRH	30,094

DARTMOUTH COLLEGE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

	<u>Pass-through number</u>	<u>Total expenditures</u>
93.865 Stanford University	PY-2661	\$ 20,469
93.283 State of New Hampshire	521217-02	(23,671)
93.283 State of New Hampshire	92,613	503,428
96.007 State of Vermont	4,630	63,215
93.242 Thomas Jefferson University	080-29000-R57804	47,764
93.396 Thomas Jefferson University	080-03000-PW0504	194,357
93.859 Thomas Jefferson University	080-03000-R69301	15,637
93.855 University of Chicago	5-30475-8601	7,067
93.837 University of CT Health Center	P.S. 276004	106,027
93.399 University of California Irvine	2003-1344	29,361
93.399 University of California Irvine	2003-1343	100,034
93.200 University of California Los Angeles	2000 G AQ693	92,913
93.393 University of California Los Angeles	1940 G 9B534	6
93.837 University of California San Francisco	2462SC	213,099
93.854 University of North Carolina	2975-00-0117	12,015
93.856 University of North Carolina at Chapel Hill	5-31553	55,994
93.394 University of Texas	201-2-7902(C)	95,282
93.394 University of Texas	UNTX	88
93.853 University of Pennsylvania	537329-B	43,595
93.393 University of Southern California	H28025	459,615
93.393 University of Southern California	H25990	(1,958)
93.837 University of Utah	9,903,093	152
93.226 University of Vermont	HS11583-03DART	34,835
93.226 University of Washington	600,497	924
93.286 University of Wisconsin	P148993	34,422
93.000 Westat	N02-CP-01037	63,457
93.393 Westat	WESTAT I	797,129
		<u>6,980,862</u>
Total U.S. Department of Health and Human Services		<u>91,258,193</u>
National Science Foundation:		
Direct awards: (47.RD)		<u>8,192,310</u>
Subagreements:		
47.07 Augsburg College	AUGSBURG	67,788
47.05 Boston University	GC176992NGA	499,085
47.074 Colorado State University	G-3047-1	7,581
47.049 Kansas University	FY2004-018	3,051
47.051 Ohio State University	RF00916268	70,083
47.051 Ohio State University	RF848499	25
47.078 Ohio State University	RF00962318	21,996
47.07 University of Connecticut	4454	8,026
47.074 University of North Carolina at Chapel Hill	5-37283	40,092
47.047 University of Utah	2003007	(596)
47.07 University of Wisconsin	640F194	168,793
		<u>885,924</u>
Total National Science Foundation		<u>9,078,234</u>
U.S. Department of Defense:		
Direct awards: (12.RD)		<u>3,216,570</u>
Subagreements:		
12 Creare, Inc.	35,008	2,528
12.3 Creare, Inc.	32,927	21,504
12.63 Creare, Inc.	32,476	34,170
12.3 Precision Magnetic Bearing System, Inc.	03-060	15,989
12.91 Veridian	VSD03200364SC-01	146,665
		<u>220,856</u>
Total U.S. Department of Defense		<u>3,437,426</u>

DARTMOUTH COLLEGE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

	<u>Pass-through number</u>	<u>Total expenditures</u>
U.S. National Aeronautics and Space Administration:		
Direct awards: (43.RD)		\$ 2,498,767
Subagreements:		
43.001 Chandra X-Ray Observatory	AR4-5005X	733
43.001 Creare, Inc.	31892	4,568
43.001 Jet Propulsion Lab	1226828	80,192
43.001 Jet Propulsion Lab	1261147	10,421
43.001 Johns Hopkins University	856634	43,955
43.001 National Space Biomedical Research Institute	NBPF00207	(60)
43.001 National Space Biomedical Research Institute	NCC9-58-92	33,477
43.001 University of New Hampshire	03-700	40,874
43.001 University of New Hampshire	03-700	1,575
43.001 University of Texas	26-1204-07-61	18,818
		234,553
Total U.S. National Aeronautics and Space Administration		2,733,320
U.S. Department of Education:		
Direct awards: (84.RD)		131,012
Total U.S. Department of Education		131,012
U.S. Department of Agriculture:		
Direct awards: (10.RD)		619,798
Total U.S. Department of Agriculture		619,798
National Oceanic and Atmospheric Administration:		
Direct awards: (11.RD)		652,324
Subagreements:		
11.417 University of New Hampshire	03-766	7,439
11.417 University of New Hampshire	03-768	38,603
Total National Oceanic and Atmospheric Administration		698,366
U.S. Department of Commerce:		
Direct awards: (11.6XX)		6,433,632
Total U.S. Department of Commerce		6,433,632
U.S. Department of the Interior, U.S. Geological Survey:		
Subagreements:		
15.805 University of New Hampshire	02-650	4,876
		4,876
U.S. Department of Justice:		
Direct awards: (16.RD)		11,864,966
Total U.S. Department of Justice		11,864,966
Veteran's Administration:		
Direct awards: (27.RD)		102,813
Total Veteran's Administration		102,813
Environmental Protection Agency:		
Direct Awards: (66.RD)		81,373
Subagreements:		
66.5 Consortium for Plant Biotechnology Research, Inc.		20,180
Total Environmental Protection Agency		101,553

DARTMOUTH COLLEGE
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

	<u>Pass-through number</u>	<u>Total expenditures</u>
Department of Energy:		
Direct awards: (81.RD)		\$ 947,664
Subagreements:		
81.049 Massachusetts Institute of Technology	5710001545	43,558
81.049 Massachusetts Institute of Technology	5710001337	4,957
81.049 Sarnoff Corporation	4900000176	38,015
81.049 University of Tennessee-Battelle	4000014046	(4,478)
		82,052
Total Department of Energy		1,029,716
Other:		
91.001 United States Institutes of Peace Act		27,114
Central Intelligence Agency		497,503
Veteran's Administration		438,730
Total U.S. Agency for International Development		963,347
Total research and development		128,457,252
Student Financial Assistance:		
U.S. Department of Education:		
Direct awards:		
84.007 Federal Supplemental Educational Opportunity Grants		799,883
84.17 Javits Fellowships		31,018
84.033 Federal Work Study Program		1,468,004
84.063 Federal Pell Grant Program		1,300,021
Total U.S. Department of Education		3,598,926
Total Student Financial Assistance		3,598,926
U.S. Department of Health and Human Services:		
Direct awards:		
93.107 Model State-Supported Area Health Education Centers		416,141
93.11 Maternal and Child Health Federal Consolidated Programs		350,079
93.153 Coordinated HIV Services and Access to Research for Children, Youth, Women, and Families		362,209
93.173 Research Related to Deafness and Communication Disorders		40,120
93.242 Mental Health Research Grants		117,776
93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance		535,909
93.278 Drug Abuse National Research Service Awards for Research Training		45,887
93.282 Mental Health National Research Service Awards for Research Training		40,097
93.283 Centers for Disease Control and Prevention Investigations and Technical Assistance		170,005
93.389 National Center for Research Resources		11,778
93.395 Cancer Treatment Research		101,530
93.779 Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		234,440
93.821 Cell Biology and Biophysics Research		48,839
93.824 Area Health Education Centers		426,960
93.837 Heart and Vascular Diseases Research		57,268
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders		93,691
93.859 Biomedical Research and Research Training		6,934
93.862 Genetics and Developmental Biology Research		45,324
93.879 Medical Library Assistance		42,936
93.884 Grants for Residency Training in General Internal Medicine and/or General Pediatrics		402,563
93.895 Grants for Faculty Development in Family Medicine		204,639
93.896 Predoctoral Training in Primary Care (Family Medicine, General Internal Medicine/ General Pediatrics)		7,104
93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease		430,306
93.984 Academic Administrative Units in Primary Care		338,545
93.989 International Research and Research Training		102,045
		4,633,125

DARTMOUTH COLLEGE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

		<u>Pass-through number</u>	<u>Total expenditures</u>
Subagreements:			
93.393	American College of Radiology	CA80098	\$ 12,500
93.395	American College of Radiology	RTOG	94,862
93	Augusta Mental Health Institute	14B 1001215	19,959
93.398	Boston University	MC-425535-D-JW	2,476
93	Dana Farber Cancer Institute	UNIV OF CHICAGO	180,218
93	Medispectra, Inc.	MEDISPECTRA	130,531
93.395	National Childhood Cancer Foundation	98543-118	11,298
93.399	National Surgical Adjuvant Breast and Bowel Project	PFED18-DAR-01	18,745
93.399	National Surgical Adjuvant Breast and Bowel Project	PFED20-DARA-01	1,962
93.399	National Surgical Adjuvant Breast and Bowel Project	PFED20-DARA-01	1,301
93	New England Institute for Addiction Studies	MET03-1	25,069
93.399	Southwest Oncology Group	CA37429	3,907
93.399	Southwest Oncology Group	PCPT9312	35,130
93.991	State of New Hampshire	850169	110,614
93.667	State of New Hampshire	850987	513,526
93.959	State of New Hampshire	850995	93,554
93.994	State of New Hampshire	610039-03	(1,866)
93.667	State of New Hampshire	612494-03	252,178
93.003	State of New Hampshire	711472-04	360,724
93.913	State of New Hampshire	STNH	74,151
93.003	State of Vermont	3333	88,617
93.994	State of Vermont	2951	21,346
93	University of Massachusetts	S0006021438	24,605
93.283	University of Massachusetts	6027165RFS100035	16,109
93	University of Massachusetts	PO#	2,943
93.283	University of Massachusetts	SPI0212	9,685
93.145	University of Massachusetts Medical Center	6023194	85,573
93.632	University of New Hampshire	03-772	8,640
93.854	University of Texas	DART-5	157,306
93.853	University of Vermont	DART-NS44501	2,943
93.395	Virginia Commonwealth University	522891/P5138306	2,500
			<hr/>
Total U.S. Department of Health and Human Services			2,361,106
			<hr/>
			6,994,231
U.S. Department of Education:			
Direct awards:			
84.17	Jacob Javits FS		(11,031)
84.2	Graduate Assistance		136,967
84.2	Biological Sciences		37,175
			<hr/>
			163,111
84.324	University of New Hampshire	01-475	18,790
Total U.S. Department of Education			<hr/>
			181,901

DARTMOUTH COLLEGE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

	<u>Pass-through number</u>	<u>Total expenditures</u>
National Science Foundation:		
Direct awards:		
47.041 Engineering Grants		\$ 592
47.049 Mathematical and Physical Sciences		91,016
47.075 Social, Behavioral, and Economic Sciences		6,462
47.076 Education and Human Resources		228,040
Total National Science Foundation		326,110
U.S. National Aeronautics and Space Administration:		
Direct awards:		
43.001 Aerospace Education Services Program		29,226
Subagreements:		
43.002 University of New Hampshire	02-534	52,930
43.002 University of New Hampshire	01-534	76,791
		129,721
Total U.S. National Aeronautics and Space Administration		158,947
Veterans Affairs Administration:		
Direct awards		
27.011 Intergovernmental Personnel Act (IPA) Mobility Program		433,084
Total Veterans Affairs Administration		433,084
U.S. Department of Defense:		
Direct awards:		
12.3 Basic and Applied Scientific Research		3,480
12.420 Military Medical Research and Development		90,145
12.63 Basic, Applied, and Advanced Research in Science and Engineering		65,922
12.8 Air Force Defense Research Sciences Program		—
Total U.S. Department of Defense		159,547
Direct awards		
Other Federal Agencies:		
Direct awards:		
11 National Oceanic and Atmospheric Administration		2,200
16.582 US Department of Justice		1,601
59.007 Management and Technical Assistance for Socially and Economically Disadvantaged Businesses		1,211,422
45.164 Promotion of the Humanities: Public Programs		158,360
45.024 Promotion of the Arts Grants to Organizations and Individuals		49,000
45.011 Performing Arts		—
64 US Department of VA		79,203
89.003 National Historical Publications and Records Grants		(3,416)
97 Department of Homeland Security		8,013
98.001 US Agency for International Development		37,428
Total Other Federal Agencies		1,543,811
Total expenditures of federal awards		\$ 141,853,809

See accompanying notes to schedule of expenditures of federal awards.

DARTMOUTH COLLEGE

Notes to Schedule of Expenditures of Federal Awards

June 30, 2004

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the expenditures of Dartmouth College (the College) under federal government programs for the year ended June 30, 2004. Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not, present its financial position, changes in net assets or cash flows. Negative amounts on the Schedule represent adjustments to expenditures reported in the prior year. The schedule includes CFDA and pass through award numbers when available.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the College and agencies and departments of the federal government and all subawards to the College by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

(2) Summary of Significant Accounting Policies for Federal Award Expenditures

Expenditures for direct and indirect costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the OMB Circular A-21, *Cost Principles for Educational Institutions*, and the regulations of the specific programs. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Summary of Facilities and Administrative Costs

The College recovers facilities and administrative costs (F&A) associated with research and development pursuant to arrangements negotiated with the Department of Health and Human Services (DHHS). The College submitted an F&A costs proposal in early 2003 for negotiated F&A rates that became effective July 1, 2003. The College's F&A costs rates for fiscal year 2004 through 2007 are 58%, 59.48%, 59.98%, and 59.9%, respectively.

(4) Federal Student Loan Programs

Loans made to eligible students and parents under federal student loan programs during the year ended June 30, 2004 are summarized as follows:

Title IV Program:		
Federal Perkins Loan Program (Perkins)	\$	5,743,202
Federal Family Education Loan Programs (FFELP):		
Stafford		15,345,863
Parent Loans for Undergraduate Students (PLUS)		6,454,669

Loans are issued under the Stafford and PLUS programs by participating banks or other lending institutions. The balances and transactions relating to these loans are not included in the College's financial statements.

DARTMOUTH COLLEGE

Notes to Schedule of Expenditures of Federal Awards

June 30, 2004

The Perkins loans are administered and serviced directly by the College. In addition, the College continues to service Health Professions Student Loans (HPSL) and Health Education Assistance Loans (HEAL) which were issued in previous years. Balances and transactions relating to these loans are included in the College's financial statements. The balances outstanding on these loans at June 30, 2004 are as follows:

Perkins	\$	22,361,136
HPSL		240,678
HEAL		3,217,233

For the year ended June 30, 2004, the College claimed \$346,366 in administrative cost allowances related to its student financial assistance programs.

(5) Pass-through Awards

For the year ended June 30, 2004, the College received awards directly from federal agencies which were passed through to subrecipients. The amounts passed through are as follows:

Research and development	\$	14,125,426
Other		<u>1,388,227</u>
Total	\$	<u><u>15,513,653</u></u>

These amounts are included in the total expenditures shown on the Schedule.



KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Board of Trustees
Dartmouth College:

We have audited the financial statements of Dartmouth College as of and for the year ended June 30, 2004, and have issued our qualified report thereon dated September 15, 2004. Except as discussed in our opinion on the financial statements, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Dartmouth College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Dartmouth College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dartmouth College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and management of Dartmouth College, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 15, 2004



KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

**Independent Auditors' Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Board of Trustees
Dartmouth College:

We have audited the compliance of Dartmouth College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. Dartmouth College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Dartmouth College's management. Our responsibility is to express an opinion on Dartmouth College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dartmouth College's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Dartmouth College's compliance with those requirements.

In our opinion, Dartmouth College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2004-2.

Internal Control over Compliance

The management of Dartmouth College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Dartmouth College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and management of Dartmouth College, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 14, 2005

DARTMOUTH COLLEGE
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2004

1. Summary of Auditors' Results:

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified that are not
considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified that are not
considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Clusters</u>
Various	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? X yes no

DARTMOUTH COLLEGE

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

II. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2004-1

Financial Reporting

We noted certain matters in financial reporting that gave rise to a reportable condition. These matters are as follows:

Completeness of Recorded Trust Interests

The College discovered a charitable remainder trust, established in 1993, that had not been evaluated for appropriate financial reporting treatment according to the College's accounting policy and procedures. The College's beneficial interest in this trust could be significant.

The College's system of internal control did not detect this transaction in a timely fashion. However, this deficiency should be considered in the context of the trust's unusual and isolated nature, related valuation difficulties, changes in accounting principles, and the turnover in College personnel since the notification of its existence.

Application of Generally Accepted Accounting Principles (GAAP)

There were certain instances in which GAAP was incorrectly applied in prior years, generally because the College had longstanding alternative policies or viewed the underlying transactions as immaterial. The two major areas where the College's accounting was at variance with the applicable literature, without clearly documented rationale, were the reporting of direct real estate investments within the College's endowment portfolio at cost rather than fair value, and the absence, on the statement of financial position, of an asset and related liability related to the College's securities lending program. In both cases, the College appropriately reflected these adjustments in the 2004 financial statements.

Processing of Journal Entries

We noted the following control deficiencies over the processing of journal entries:

- There are various practices for preparing and posting journal entries among the many business units of the College. However, comprehensive written policies and procedures over the Colleges' journal entry process are not distributed on a regular basis or electronically accessible.
- Although the actual number of users was far less, approximately 1,100 active user accounts have access to post journal entries. The large number of actual users, approximately 300, increases the level of oversight that is required to ensure that entries are appropriate. However, comprehensive periodic reviews of such entries were not performed during the fiscal year under audit.
- Manual, closing and post-closing journal entries are not consistently reviewed or approved by an individual other than the originator. While in some departments secondary reviews are applied to certain journal entries, in many instances, documentation of such review or

DARTMOUTH COLLEGE
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

approval is not evident. The ability to unilaterally record journal entries increases the risk of fraud and error.

It is worth noting that no fraudulent or questionable entries came to light during our audit work. Also, the College's policy regarding certain classes of entries, such as cost transfers among federal accounts, is for such entries to undergo secondary review and approval.

Recommendations:

We believe the College's internal control and related policies and procedures should be enhanced as follows:

- The College's written summary of significant accounting policies should be supplemented by more detailed policies and procedures to ensure that all classes of transactions and accounting estimates are evaluated in light of the most up-to-date and relevant accounting literature. More specifically, the College should establish written policies and procedures to ensure the completeness of its recorded interests in irrevocable charitable trusts, and should establish policies and procedures describing the basis for estimating the fair value of real estate assets held in the endowment portfolio.
- Manual, closing, and post-closing journal entries should be reviewed and signed off prior to posting. In addition, a review of processed entries should be performed regularly, based on pre-defined risk and sensitivity thresholds. Uniform policies and procedures for journal entries should be disseminated.

View of Responsible Official:

The limitations of the current financial accounting systems are an important factor in the College's systematic replacement and updating of critical financial applications over the last few years, and the ongoing effort to replace the general ledger, as well as budget, financial planning, and reporting tools. In addition, we are reassured that the extensive testing performed by the auditors did not identify any instances of incorrectly posted entries.

The information below is a listing of the most significant controls that exist throughout the College to reduce the risks described above to an acceptable level. Finally, given the absence of opportunity for personal gain, there are few incentives for individuals to intentionally record journal entries incorrectly.

- The College's recruitment and hiring practices include evaluating a candidate's skills, education and experience and their aptitude and ability to perform financial management activities in the College's decentralized environment.
- Formal training on the College's transaction accounting policies, including journal entries, and financial management tools is available to all personnel who are responsible for financial oversight at the department, division, school, and College-wide levels.
- Sufficient financial information is accessible to department, division/school, and central financial managers to perform their oversight responsibilities.

DARTMOUTH COLLEGE

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- A Financial Reporting or Budget Analyst is assigned to each division or professional school to provide guidance and access to information about financial accounting policies and procedures.
- Internal financial reporting includes the preparation, and review by senior management and the Board of Trustees, of the quarterly Statements of Operations for the "College-only" and each professional school. The process undertaken in the preparation and review of these quarterly Statements and the related narrative serves as an important monitor of individual transactions, trends, and projections for the year.
- The annual year-end closing and preparation of financial statements in accordance with GAAP, required of the College only annually, includes significant analysis of financial statement balances, including relatively low-dollar threshold reviews by professionals in the Controller's Office, Budget and Financial Planning Offices, and by the most senior fiscal officers throughout the divisions and professional schools.
- We have implemented, effective January 1, 2005, a daily procedure to review individual journal entries that are selected at random or that meet specific criteria, such as dollar level, repetitive amount, etc.

III. Findings and Questioned Costs Relating to Federal Awards:

Finding 2004-2: Physical Inventory of Equipment

Research and Development

Criteria:

OMB Circular A-110 states that "equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

Condition:

Several departments have not had a physical inventory of equipment in a number of years.

Recommendation:

We recommend that Dartmouth College implement the necessary control policies and procedures to ensure a physical inventory count of all equipment purchased with Federal funds is performed at least once every two years.

Questioned Costs:

None.

DARTMOUTH COLLEGE
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

View of Responsible Official:

There are 40 departments on campus that require a physical inventory because they purchase equipment with sponsored funds. These inventories will be scheduled on a weekly basis, and completed and reconciled over the next year in compliance with the College inventory policy. All departments will then be scheduled in intervals to insure that they are inventoried and reconciled within a two-year period. Inventory summaries will be forwarded to department heads at the conclusion of a physical inventory. The Controllers Office and Office of Sponsored Projects will receive copies of the inventory summaries. Additional staff will be dedicated to the inventory process until all 40 inventory sites have been reconciled. Inventories are in process in several departments at this time.

In addition to the above measures, the College is implementing a system of automatic email notifications to department administrators informing them if required information is missing from the Fixed Assets System. The Fixed Assets Manager will receive a summary report displaying the number of assets with incomplete information by department. If departments are consistently delinquent, this will be reviewed with department heads, the Controller, and Sponsored Research.