

Dartmouth College

Entity Identification Number 020222111

Report on Federal Awards Programs in

Accordance with OMB Circular A-133

June 30, 2003

Dartmouth College
OMB Circular A-133 Supplementary Report
Index
June 30, 2003

Page(s)

Part I - Financial Statements and Schedule of Expenditures of Federal Awards

Report of Independent Auditors on the Financial Statements and Schedule of Expenditures of Federal Awards	1-2
Financial Statements of Dartmouth College	3-26
Schedule of Expenditures of Federal Awards	27-32
Notes to Schedule of Expenditures of Federal Awards.....	33-34

Part II - Reports on Internal Controls and Compliance

Report of Independent Auditors on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35-36
Report of Independent Auditors on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	37-38

Part III- - Audit Findings and Questioned Costs

Schedule of Findings and Questioned Costs	39-40
Status of Previously Reported Findings	41

Part I

Financial Statements

**Report of Independent Auditors on the
Financial Statements of Dartmouth College
and Schedule of Expenditures of Federal Awards**

To the Board of Trustees of Dartmouth College

In our opinion, the accompanying statements of financial position and the related statements of activities, of expenditures and of cash flows present fairly, in all material respects, the financial position of Dartmouth College (the "College") at June 30, 2003, 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. These financial statements are the responsibility of the College's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2002 financial statements, and in our report dated September 12, 2002, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2003 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended June 30, 2003. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2003 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.

Linn Waterhouse Cooper LLP

September 12, 2003

Dartmouth College

Statements of Financial Position

As of June 30, 2003 and 2002
(in thousands)

	2003	2002
Assets		
Cash and cash equivalents	\$ 185,458	\$ 152,981
Receivables and other assets, net	124,750	127,921
Pledges receivable, net	69,106	70,338
Bond investments held by trustee, at cost	71,253	105,754
Investments, at estimated fair value	2,432,725	2,457,530
Land, buildings, equipment, and construction in progress, net	510,753	484,538
Total assets	3,394,045	3,399,062
Liabilities		
Accounts payable and other liabilities	148,772	139,630
Deferred revenues and deposits	39,589	37,584
Pension and other employment related obligations	84,707	60,868
Bonds, mortgages, and note payable, net	413,017	395,670
Government advances for student loans	18,740	18,544
Total liabilities	704,825	652,296
Total Net Assets	\$ 2,689,220	\$ 2,746,766
Net Assets		
Unrestricted	\$ 937,621	\$ 952,065
Temporarily restricted	1,204,773	1,254,608
Permanently restricted	546,826	540,093
Total Net Assets	\$ 2,689,220	\$ 2,746,766

The accompanying notes are an integral part of the financial statements.

Dartmouth College

Statements of Activities

For the year ended June 30, 2003, with summarized financial information for the year ended June 30, 2002
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2003	2002
Endowment Activities					
Gifts	\$ 632	\$ 178	\$ 13,453	\$ 14,263	\$ 20,930
Net investment return	10,068	28,016	529	38,613	(136,988)
Distributed for spending	(30,960)	(87,912)	-	(118,872)	(124,742)
Other changes	5,735	(5,012)	1,940	2,663	4,945
Amounts transferred from (to) other funds, net	(5,582)	1,434	2,054	(2,094)	8,234
Increase (decrease) in net assets from endowment activities	(20,107)	(63,296)	17,976	(65,427)	(227,621)
Operating Activities					
Revenues					
Tuition and fees	168,929	-	-	168,929	158,433
Student scholarships	(55,930)	-	-	(55,930)	(48,774)
Sponsored research grants and contracts	148,791	-	-	148,791	123,680
Dartmouth College Fund and other gifts	45,354	2,583	-	47,937	37,424
Distributed endowment investment return	113,880	3,619	-	117,499	123,342
Other operating income	58,689	310	-	58,999	55,608
Auxiliaries	49,674	-	-	49,674	49,652
Net assets released from donor restrictions	7,276	(7,276)	-	-	-
Total revenues	536,663	(764)	-	535,899	499,365
Expenditures					
Instruction, faculty, and student support	424,068	-	-	424,068	389,826
General institutional services	58,355	-	-	58,355	50,994
Auxiliaries	50,213	-	-	50,213	51,297
Total expenditures	532,636	-	-	532,636	492,117
Increase (decrease) in net assets from operating activities	4,027	(764)	-	3,263	7,248
<i>Designated or restricted for specific purposes</i>	<i>2,557</i>	<i>(764)</i>	<i>-</i>	<i>1,793</i>	<i>7,194</i>
<i>Increase in undesignated net assets (Note A)</i>	<i>1,470</i>	<i>-</i>	<i>-</i>	<i>1,470</i>	<i>54</i>
Non-operating Activities					
Gifts	668	17,549	-	18,217	11,968
Grants and other earnings	5,831	6,319	239	12,389	5,268
Distributed endowment investment return	312	750	311	1,373	1,400
Increase (decrease) in outstanding pledges	-	11,575	(12,807)	(1,232)	39,107
Contribution to Dresden School District	(9,700)	-	-	(9,700)	-
Additional minimum pension liability	(11,073)	-	-	(11,073)	-
Disposals and non-capitalized expenditures	(5,768)	(2,188)	-	(7,956)	(13,048)
Loss on debt refinancing	(5,720)	-	-	(5,720)	(654)
Amounts released from gift, income, and plant restrictions	28,735	(28,735)	-	-	-
Amounts transferred to endowment, net	(1,649)	3,548	195	2,094	(8,234)
Net change in life income, annuity, and similar funds	-	5,407	819	6,226	(9,086)
Increase (decrease) in net assets from non-operating activities	1,636	14,225	(11,243)	4,618	26,721
Increase (decrease) in net assets	(14,444)	(49,835)	6,733	(57,546)	(193,652)
Net Assets, beginning of year	952,065	1,254,608	540,093	2,746,766	2,940,418
Net Assets, end of year	\$ 937,621	\$ 1,204,773	\$ 546,826	\$ 2,689,220	\$ 2,746,766

The accompanying notes are an integral part of the financial statements.

Dartmouth College

Statements of Expenditures
For the year ended June 30, 2003 with summarized financial information for the year ended June 30, 2002
(in thousands)

	Instruction, Faculty, and Student Support		General Institutional Services			Auxiliaries		Total Expenditures
	Academic and Student Programs	Sponsored Programs	Total	Administrative Support	Plant Operation & Maintenance	Development	Total	
Compensation	\$ 177,969	\$ 62,138	\$ 240,107	\$ 21,387	-	\$ 18,100	\$ 59,895	\$ 315,655
Fellowships and student support	5,347	3,162	8,509	-	-	-	-	8,509
Materials, equipment, and supplies	27,770	14,595	42,365	1,031	2,126	1,979	5,136	61,146
Purchased services	23,585	28,811	52,396	675	1,329	3,353	5,357	60,426
Utilities, taxes, and occupancy	-	-	-	-	18,617	-	18,617	2,206
Depreciation	19,507	-	19,507	1,696	4,088	454	6,238	20,823
Lodging, travel, and similar costs	15,953	3,466	19,419	922	82	2,057	3,061	29,159
Interest and amortization	-	-	-	-	-	-	-	277
Other expenditures	-	330	330	759	12,702	166	925	12,906
Subtotal expenditures	270,131	112,502	382,633	26,470	59,352	26,109	111,931	532,636
Plant Operation & Maintenance	39,927	1,508	41,435	3,768	(59,352)	2,008	(53,576)	12,141
Total Expenditures for 2003	\$ 310,058	\$ 114,010	\$ 424,068	\$ 30,238	\$ -	\$ 28,117	\$ 58,355	\$ 532,636
Total Expenditures for 2002	\$ 295,935	\$ 93,891	\$ 389,826	\$ 27,784	\$ -	\$ 23,210	\$ 50,994	\$ 492,117

The accompanying notes are an integral part of the financial statements.

Dartmouth College

Statements of Cash Flows

For the Years ended June 30, 2003 and 2002

(in thousands)

	2003	2002
Cash flows from operating activities		
Total decrease in net assets	(\$ 57,546)	(\$ 193,652)
Adjustments to reconcile total decrease in net assets to net cash provided by operating activities		
Depreciation	29,159	28,481
Other non-cash transactions	5,836	5,750
Changes in operating assets and liabilities		
Receivable and other assets, net	1,781	(18,258)
Pledges receivable, net	1,232	(39,108)
Accounts payable and other liabilities	13,765	5,306
Deferred revenue and deposits	2,005	4,503
Pension and other employment related obligations	23,839	7,981
Contributions, investment income, and other changes restricted for long-term investment(33,982)		(58,589)
Realized and unrealized (gains)/losses, net	(4,400)	200,587
Net cash used by operating activities	(18,311)	(56,999)
Cash flows from investing activities		
Student loans granted	(9,891)	(8,717)
Student loans repaid	11,281	10,071
Purchases of land, buildings, and equipment	(58,423)	(57,939)
Net change in liability for split-interest agreements	(4,664)	(3,441)
Net change in liability for unsettled trades	41	(46,562)
Purchases of investments	(1,135,554)	(1,765,071)
Sales of investments	1,164,759	1,865,626
Net cash used by investing activities	(32,451)	(6,033)
Cash flows from financing activities		
Government advances for student loans	196	870
Proceeds from issuance of bonds, mortgages, and note	129,543	109,800
Repayment of bonds, mortgages, and note	(114,983)	(2,389)
Decrease (increase) in bond investments held by trustee	34,501	(64,674)
Contributions, investment income, and other changes restricted for long-term investment		
Investment in facilities	10,729	15,365
Investment in endowment, life income, and similar funds	23,253	43,224
Net cash provided by financing activities	83,239	102,196
Net increase in cash and cash equivalents	32,477	39,164
Cash and cash equivalents, beginning of year	152,981	113,817
Cash and cash equivalents, end of year	\$ 185,458	\$ 152,981

The accompanying notes are an integral part of 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 consolidated financial statements of Dartmouth 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 various real estate holdings in the local area; the Dartmouth Education Loan Corporation (DELCO), 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 generally accepted accounting principles, net assets, revenues, expenses, 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 educational 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 in the year they are received.

Dartmouth College
Notes to Financial Statements

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.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2002, from which the summarized information was derived. Certain reclassifications have been made to the financial statements for the year ended June 30, 2002, to conform to the financial statement presentation for the year ended June 30, 2003.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenditures during the reporting period. The most significant estimates in these financial statements for the years ended June 30, 2003 and 2002 are the estimated fair value of investments and bonds payable, 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.

Operating and Non-operating 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

Dartmouth College
Notes to Financial Statements

administration are reported as general institutional services. Depreciation and plant operations and maintenance expenses are allocated to functional classifications of expenditures based on the primary use of each asset. Interest expense is allocated to functional classifications of expenditures based on the primary 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 capital asset projects, net change in life income and similar split-interest agreements, and the net change in pledges receivable.

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 as it is billed to the enrolled student population of approximately 5,600. 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 amounts of \$2,947,000 and \$2,681,000 for the years ended June 30, 2003 and 2002, respectively, which are 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.

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 indirect costs related to sponsored research is recognized according to predetermined fixed billing rates.

Dartmouth College
Notes to Financial Statements

Income 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.

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 two 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.

Dartmouth College
Notes to 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 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 are recognized as an increase in the appropriate category of net assets in the period the gift 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 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 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. Other investments, including certain real estate holdings and minority interests in captive insurance companies are carried at cost or estimated market value. 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 \$8,631,000

Dartmouth College
Notes to Financial Statements

and \$9,492,000 for the years ended June 30, 2003 and 2002, respectively, and are deducted from 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 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

Dartmouth College
Notes to Financial Statements

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 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 the 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. The estimated net present value of investments for which the College is not the trustee have been reflected only to the extent the information has been provided by the trustee. The College reports the net change in split-interest agreements as a non-operating change in net assets in the Statement of Activities.

Investments Held by Trustee

Investments held by 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 cost, which approximates 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 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.

Dartmouth College
Notes to Financial Statements

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 (in thousands):

	2003	2002
Student accounts	\$ 6,589	\$ 6,511
Sponsored research grants and contracts	17,658	25,232
Other accounts	29,696	25,539
Notes and student loans	58,290	60,458
Less: allowance for uncollectible accounts	(2,725)	(3,496)
Receivables, net	\$ 109,508	\$ 114,244
Inventory and other assets	15,242	13,677
Total receivables and other assets, net	\$ 124,750	\$ 127,921

Dartmouth College
Notes to Financial Statements

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

Other assets include bond issue costs, of \$1,743,000 and \$2,531,000 as of June 30, 2003 and 2002, respectively, being amortized over the term of the bonds, and prepaid pension costs of \$2,220,000 as of June 30, 2003.

C. Gifts and Pledges Receivable

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

	2003	2002
Gifts to support operations	\$ 47,937	\$ 37,424
Gifts for		
Facilities and student loans	5,869	10,587
Other restricted uses	12,348	1,381
Endowment	14,263	20,930
Life income and similar funds	3,429	6,927
Total gifts and pledge payments	<u>\$ 83,846</u>	<u>\$ 77,249</u>

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

	2003	2002
In one year or less	\$ 26,201	\$ 30,693
Between one year and five years	49,417	47,956
Gross pledges receivable	\$ 75,618	\$ 78,649
Less: present value discount	(3,764)	(4,132)
Less: allowance for uncollectible pledges	(2,748)	(4,179)
Pledges receivable, net	<u>\$ 69,106</u>	<u>\$ 70,338</u>

Dartmouth College
Notes to Financial Statements

D. Investments

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

	2003		2002	
	Cost	Market	Cost	Market
Endowment investments				
Cash equivalents and temporary investments	\$ 74,577	\$ 74,577	\$ 66,682	\$ 66,682
Fixed income securities	256,976	274,371	365,798	375,129
Equity securities	1,064,478	1,233,523	1,165,241	1,205,763
Limited partnerships and similar investments	379,612	397,388	315,994	390,008
Other investments	194,888	212,356	177,995	198,838
Endowment investments	\$ 1,970,531	\$ 2,192,215	\$ 2,091,710	\$ 2,236,420
Split-interest agreement investments				
Cash equivalents and temporary investments	\$ 2,546	\$ 2,546	\$ 2,242	\$ 2,242
Fixed income securities	47,441	51,021	56,233	56,852
Equity securities	59,341	66,495	60,580	68,291
Limited partnerships and similar investments	291	1,030	1,052	939
Other investments	136	133	143	138
Split-interest agreement investments	\$ 109,755	\$ 121,225	\$ 120,250	\$ 128,462
Other investments				
Fixed income securities	\$ 59,200	\$ 60,108	\$ 51,650	\$ 51,967
Equity securities and other investments	44,222	59,177	31,756	40,681
Other investments	\$ 103,422	\$ 119,285	\$ 83,406	\$ 92,648
Total investments	\$ 2,183,708	\$ 2,432,725	\$ 2,295,366	\$ 2,457,530

A net payable for unsettled trades of \$28,096,000 and \$28,055,000 at June 30, 2003 and 2002, respectively, is included in accounts payable and other liabilities in the accompanying Statement of Financial Position. Limited partnerships and other 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.

Dartmouth College
Notes to Financial Statements

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, 2003 and 2002, respectively, the College held forward contracts to buy foreign currencies in the amount of \$69,783,000 and \$61,558,000, and to sell foreign currencies in the amount of \$19,087,000 and \$6,684,000. The College has also recorded associated net unrealized losses of \$168,000 and net unrealized gains of \$4,115,000 on forward contracts held as of June 30, 2003 and 2002, respectively.

At June 30, 2003, 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 \$33,000 and loss of \$289,000 as of June 30, 2003 and 2002, respectively, pertaining to options contracts held. The difference between the exercise price of open written options contracts and the estimated value of the related underlying securities resulted in a net short position of \$525,000 and \$689,000 at June 30, 2003 and 2002, respectively. The College is obligated to pledge to the appropriate broker, cash or securities to be held as collateral, as determined by exchange margin requirements for futures contracts held. At June 30, 2003 and 2002, the market value of the College's pledged collateral on futures contracts was \$1,311,000 and \$2,264,000, respectively. The difference between the estimated value of open futures contracts to sell and purchase securities was a net long position of \$17,705,000 and a net short position of \$6,836,000 as of June 30, 2003 and 2002, respectively.

The College participates in a securities lending program that is designed to enhance return on certain asset holdings. At June 30, 2003 and 2002, the College had the rights to \$142,419,000 and \$148,724,000, respectively, 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 under agreement in the case of a borrower's failure to deliver securities for any reason within the time specified by the applicable securities loan agreement. Collateral assets are not included in the assets presented in the Statement of Financial Position because the collateral is not held by the College. The securities temporarily on loan are included in the endowment investments of the College with an estimated fair market value as of June 30, 2003 and 2002, of \$138,102,000 and \$145,129,000, respectively.

Dartmouth College
Notes to Financial Statements

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

	<u>2003</u>	<u>2002</u>
Net assets, beginning of year	\$ 2,186,610	\$ 2,414,231
Gifts	14,263	20,930
Investment return		
Investment income	38,546	49,227
Net gain (loss) in market value		
Realized	(76,907)	22,302
Unrealized	<u>76,974</u>	<u>(208,517)</u>
Total investment return	\$ 38,613	\$ (136,988)
Distribution of endowment return to all funds	(118,872)	(124,742)
Other changes, net	<u>569</u>	<u>13,179</u>
Net assets, end of year	<u>\$ 2,121,183</u>	<u>\$ 2,186,610</u>

Temporarily restricted endowment net assets also include the remaining amount of expendable accumulated appreciation on permanent endowment funds (\$875,299,000 and \$932,721,000 at June 30, 2003 and 2002, respectively). As of June 30, 2003 and 2002, the market value attributable to certain endowment funds was less than the permanently restricted original gift by an aggregate amount of \$2,791,000 and \$2,968,000, respectively, which has been reflected as a reduction in unrestricted net assets in accordance with Financial Accounting Standards Board (FASB) Statement No. 124.

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

	<u>2003</u>	<u>2002</u>
Net assets, beginning of year	\$ 60,288	\$ 69,374
Gifts	3,429	6,927
Net investment return after payments to beneficiaries	(2,261)	(14,246)
Other changes	<u>5,058</u>	<u>(1,767)</u>
Net assets, end of year	<u>\$ 66,514</u>	<u>\$ 60,288</u>

Other changes in net assets attributable to split-interest agreements principally consist of changes in the estimated present value of cash outflows to beneficiaries of the agreements. A payable of \$63,510,000 and \$68,174,000 at June 30, 2003 and 2002, respectively, for the estimated net present value of expected future payments to beneficiaries is included in other liabilities in the Statement of Financial Position.

Dartmouth College
Notes to Financial Statements

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

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

	<u>2003</u>	<u>2002</u>
Land	\$ 12,596	\$ 12,038
Buildings	540,403	515,931
Land improvements	62,141	60,087
Equipment	<u>116,407</u>	<u>102,967</u>
Land, buildings, and equipment	\$ 731,547	\$ 691,023
Less: accumulated depreciation	(271,056)	(244,565)
Construction in progress	<u>50,262</u>	<u>38,080</u>
Total net book value	<u>\$ 510,753</u>	<u>\$ 484,538</u>

Disposals of capitalized assets with accumulated depreciation of \$2,914,000 and \$7,438,000 and a net book value of \$3,027,000 and \$14,028,000 were reported as a non-operating reduction in net assets in the Statement of Activities for the years ended June 30, 2003 and 2002, respectively.

Dartmouth College
Notes to Financial Statements

F. Bonds, Mortgages, and Note Payable

Indebtedness at June 30 consisted of (in thousands):

	<u>2003</u>	<u>2002</u>
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 1.00% to 1.40% from March 12, 2003 – June 30, 2003)	\$ 113,250	\$ -
Series '02, term bonds maturing in the year 2032 at variable rates (ranging from 0.45% to 1.80% from July 1, 2002 – June 30, 2003)	101,000	101,000
Series '99, term bonds maturing in the year 2019 at a rate of 5.92%	8,845	8,845
Series '98, term bonds maturing in the year 2028 at a rate of 5.12%	33,000	33,000
Series '97A, term bonds maturing in the year 2028 at a rate of 5.37%	52,000	52,000
Series '97, term bonds maturing in the years 2007 and 2027 at rates of 5.05% and 5.85%, respectively	36,740	36,740
Series '93, serial coupon and term bonds maturing through 2003 at rates ranging from 4.95% to 5.73%	-	112,125
Revenue bonds issued by DELC through NHHEFA:		
Series '99, term bonds maturing in the year 2039 at a rate of 6.19%	9,940	9,940
Series '85 and Series '98A, serial coupon and term bonds maturing through 2025 at rates ranging from 4.40% to 5.55%	<u>27,070</u>	<u>27,230</u>
Subtotal NHHEFA bonds	<u>\$ 381,845</u>	<u>\$ 380,880</u>
Mortgages on real estate investments, various maturities through 2024 at fixed and variable rates, ranging during the current year from 2.55% to 7.10%	32,250	18,317
Other note payable, maturing in 2003 at a rate of 6.20%	-	2,141
Other note payable, maturing in 2012 at a rate of 5.50%	<u>2,312</u>	<u>-</u>
Subtotal bonds, mortgages, and note payable	<u>\$ 416,407</u>	<u>\$ 401,338</u>
Less: original issue discount and premium, net	(3,390)	(5,668)
Total bonds, mortgages, and note payable	<u>\$ 413,017</u>	<u>\$ 395,670</u>

Interest expense on debt used to finance facilities projects totaled \$12,442,000 and \$11,755,000 for the years ended June 30, 2003 and 2002, respectively. Interest expense on debt used to finance student loans totaled \$2,081,000 and \$2,087,000 for the years ended June 30, 2003 and 2002, respectively, 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 \$1,272,000 and \$581,000 for the years ended June 30, 2003 and 2002, respectively, and is presented as a deduction in endowment net investment return in the Statement of Activities. Of the interest paid on facilities debt, \$1,738,000 and \$1,676,000 was capitalized in connection with various construction projects for the years ended June 30, 2003 and 2002, respectively.

Dartmouth College
Notes to Financial Statements

In March 2003, the College issued the Series 2003 Bonds in order to reduce the College's overall interest costs. The proceeds, along with other College funds, were used to refund the Series 1993 Bonds on June 1, 2003 and to pay the costs of issuance of the Series 2003 Bonds. In connection with this refunding the accompanying Statement of Activities includes a non-operating decrease in unrestricted net assets of \$5,657,000 to account for the Series 1993 unamortized costs of issuance, original issue discount, and a refunding premium.

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

2004	\$ 2,274
2005	2,505
2006	4,602
2007	9,312
2008	5,104
Thereafter	<u>392,610</u>
Total principal due	<u>\$ 416,407</u>

The estimated fair value of the NHHEFA bonds is approximately \$402,913,000 as of June 30, 2003, based on the debt service cash flows of the bonds and certain interest rate assumptions for similar bonds as of June 30, 2003. The fair value of the mortgages and other note payable are not practical to determine due to the nature of the borrowings.

Principal due after the year 2008 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.

Dartmouth College
Notes to Financial Statements

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 (in thousands):

	2003	2002
Retirement and postretirement benefits	\$ 67,239	\$ 43,414
Compensated absences, severance plans, and other commitments	11,424	9,350
Self-insured benefits	6,044	8,104
Total employment related obligations	\$ 84,707	\$ 60,868

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

Dartmouth College
Notes to Financial Statements

Information pertaining to the pension and postretirement medical benefits includes (in thousands):

	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Change in benefit obligation				
Beginning of year	\$ 65,861	\$ 60,392	\$ 72,117	\$ 38,876
Service cost	2,221	2,112	4,740	2,962
Interest cost	4,692	4,455	6,361	4,315
Benefits paid	(3,609)	(3,916)	(2,055)	(1,909)
Actuarial loss	13,937	2,818	54,363	27,873
End of year	<u>\$ 83,102</u>	<u>\$ 65,861</u>	<u>\$ 135,526</u>	<u>\$ 72,117</u>
Change in estimated fair value of plan assets				
Beginning of year	\$ 55,178	\$ 64,225	\$ -	\$ -
Actual return on plan assets	1,585	(5,131)	-	-
Employer contributions	5,000	-	2,055	1,909
Benefits paid	(3,609)	(3,916)	(2,055)	(1,909)
End of year	<u>\$ 58,154</u>	<u>\$ 55,178</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status [plan assets (less) than benefit obligation]	\$ (24,948)	\$ (10,683)	\$ (135,526)	\$ (72,117)
Unrecognized net prior service cost	5,562	6,276	2,264	2,844
Unrecognized net loss	21,606	4,033	80,991	28,824
Accrued benefit cost included in the Statement of Financial Position	<u>\$ 2,220</u>	<u>\$ (374)</u>	<u>\$ (52,271)</u>	<u>\$ (40,449)</u>
Net periodic benefit (income)/cost included the following				
Service cost	\$ 2,221	\$ 2,112	\$ 4,740	\$ 2,962
Interest cost	4,692	4,455	6,361	4,315
Expected return on assets	(5,026)	(6,204)	-	-
Amortization of net asset at transition	-	(425)	-	-
Amortization of prior service cost	714	722	580	580
Recognized net actuarial (gain)/ loss	(195)	(903)	2,196	994
Net periodic benefit (income)/ cost included in the Statement of Activities	<u>\$ 2,406</u>	<u>\$ (243)</u>	<u>\$ 13,877</u>	<u>\$ 8,851</u>
Weighted-average assumptions at end of year				
Discount rate	6.00%	7.25%	6.00%	7.25%
Expected return on plan assets	7.50%	9.00%	-	-
Rate of compensation increase	5.50%	5.50%	-	-

As of June 30, 2003, the accumulated pension benefit obligation of \$72,569,000 exceeded the fair value of pension plan assets by \$14,415,000. In accordance with FASB Statement No. 87, the accompanying financial statements reflect an intangible asset of \$5,562,000 and prepaid pension cost of \$2,220,000 that reduce this amount to the additional minimum liability of \$11,073,000 that has been recorded as a non-operating decrease in net assets and is included in other liabilities.

As of June 30, 2002, the accumulated pension obligation of \$57,742,000 exceeded the fair value of pension plan assets by \$2,565,000. As required by FASB Statement No. 87, the College recorded an intangible asset in the amount of \$2,190,000 and accrued pension cost of \$374,000.

Dartmouth College
Notes to Financial Statements

Assumed health care cost trend rates have a significant effect on the estimated amounts reported for the postretirement benefit plan. The medical cost trend rate has been assumed to be 10% in fiscal 2003, decrease gradually to 5% in fiscal 2009 and remain level thereafter. A one percentage point increase (decrease) in assumed health care cost trend rates would have the following effect:

Increase (decrease) in total of service and interest cost components	\$ 2,568	\$ (1,983)
Increase (decrease) in postretirement benefit obligation	\$ 25,257	\$ (19,984)

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 years ended June 30, 2003 and 2002, respectively, were \$25,465,000 and \$23,394,000.

H. Other Operating Income

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

	<u>2003</u>	<u>2002</u>
Medical School clinical services and other support	\$ 31,101	\$ 29,115
Foreign study and continuing education programs	8,701	6,936
Hopkins Center and Hood Museum	1,560	1,604
Athletics revenues	1,774	1,656
Investment income on working capital	6,819	8,564
Student activities and other program revenues	9,044	7,733
Total other operating income	<u>\$ 58,999</u>	<u>\$ 55,608</u>

Dartmouth College
Notes to Financial Statements

I. Net Assets

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

2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets				
Operating funds				
Undesignated	\$ 3,180	\$ -	\$ -	\$ 3,180
College designated	92,432	-	-	92,432
Donor restricted	-	28,920	-	28,920
Total operating funds	<u>\$ 95,612</u>	<u>\$ 28,920</u>	<u>\$ -</u>	<u>\$ 124,532</u>
Pledges	-	60,942	8,164	69,106
Designated for capital projects	20,728	-	-	20,728
Funding for facilities	222,081	27,376	-	249,457
Funding for student loans	7,238	23,840	6,622	37,700
Life income, annuity, and similar funds	-	32,426	34,088	66,514
Endowment and similar funds	591,962	1,031,269	497,952	2,121,183
Total net assets	<u><u>\$ 937,621</u></u>	<u><u>\$ 1,204,773</u></u>	<u><u>\$ 546,826</u></u>	<u><u>\$ 2,689,220</u></u>

2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets				
Operating funds				
Undesignated	\$ 1,192	\$ -	\$ -	\$ 1,192
College designated	107,406	-	-	107,406
Donor restricted	-	17,425	-	17,425
Total operating funds	<u>\$ 108,598</u>	<u>\$ 17,425</u>	<u>\$ -</u>	<u>\$ 126,023</u>
Pledges	-	49,367	20,971	70,338
Designated for capital projects	13,698	-	-	13,698
Funding for facilities	209,815	43,327	-	253,142
Funding for student loans	7,885	22,906	5,876	36,667
Life income, annuity, and similar funds	-	27,019	33,269	60,288
Endowment and similar funds	612,069	1,094,564	479,977	2,186,610
Total net assets	<u><u>\$ 952,065</u></u>	<u><u>\$ 1,254,608</u></u>	<u><u>\$ 540,093</u></u>	<u><u>\$ 2,746,766</u></u>

J. Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$12,915,000 and \$42,070,000 at June 30, 2003 and 2002, respectively. It is expected that the resources to satisfy these commitments will be provided from gifts, pledge payments, and tax-exempt debt.

Dartmouth College
Notes to Financial Statements

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, 2003 and 2002, respectively, the College had an unfunded commitment of \$406,490,000 payable through 2008 and \$425,900,000 through 2007.

All funds expended by the College in connection with government sponsored grants and contracts are subject to audit by governmental agencies. 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 cost rates related to the years 1998 through 2003 are subject to audit. The ultimate liability, if any, from any such audits, is presently not determinable.

The College has agreed to the terms of a proposal with the Town of Hanover and the local school board to exchange certain parcels of land in the town of Hanover, NH. The College has also agreed to make a \$9,700,000 contribution to the school district payable over a period of five years after construction of a new school begins. This contribution has been reflected in the accompanying Statement of Activities as a non-operating decrease in net assets.

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.

Schedule of Expenditures of Federal Awards

Dartmouth College
Schedule of Expenditures of Federal Awards
June 30, 2003

Major programs			Total
Research and development		Pass-through number	Expenditures
U.S. Department of Health and Human Services			
Direct awards (93.)			
	National Institutes of Health		\$ 62,971,742
	National Institutes of Health Research Training		1,523,256
	Public Health Services Center		2,770,394
			<hr/>
			67,265,392
Pass-through awards			
93.283	Association of American Medical Colleges	MM-0606-03/03	75,172
93.206	Association of Teachers of Preventative Medicine	TS 272-13/16	39,562
93.206	Association of Teachers of Preventative Medicine	TS 272-13/16	21,246
93	Aurora Optics, Inc.	AURORA	13
93.395	Aurora Optics, Inc.	AURORA	163,925
93.286	Beth Israel Deaconess Medical Center	23-51804	95,581
93.286	Beth Israel Deaconess Medical Center	23-51804	25,349
93.837	Beth Israel Deaconess Medical Center	BETH ISRAEL	39,959
93.837	Beth Israel Deaconess Medical Center	22-58976	358,913
93.837	Beth Israel Deaconess Medical Center	22-58988	49,258
93	BioReliance Corporation	BRC-1108-28	8,742
93	Boston University	MC-365748-D-JW	2,354
93.234	Brain Injury Association of New Hampshire	BIANH	74,083
93.393	Brigham and Women's Hospital	BWH 755150	152,680
93.393	Brigham and Women's Hospital	707703	48,026
93.846	Brigham and Women's Hospital	716723	19,398
93.846	Brigham and Women's Hospital	716722	63,352
93.394	Brown University	1228-27192	79,507
93.398	Brown University	1042-27212	22,789
93.865	Children's Hospital Boston	PRE-AWARD	64,625
93.865	Children's Hospital Boston	PRE-AWARD	37,293
93.865	Children's Hospital Boston	PRE-AWARD	6,646
93.865	Children's Hospital Boston	PRE-AWARD	25,648
93.865	Children's Hospital Boston	PRE-AWARD	40,185
93.865	Children's Hospital Boston	F348055	(4,222)
93.865	Children's Hospital Boston	F348055	(1,029)
93.865	Children's Hospital Boston	F422511	94,510
93.865	Children's Hospital Boston	F422511	81,425
93.865	Children's Hospital Boston	F422511	91,488
93.865	Children's Hospital Boston	F422511	47,771
93.865	Children's Hospital Boston	F422511	9,555
93.865	Children's Hospital Boston	F422511	11,970
93.865	Children's Hospital Boston	F422511	103,192
93.865	Children's Hospital Boston	F422511	413,035
93.234	Community Connections	COMM CONNECTIONS	75,884
93	Creare, Inc.	28180	82,990
93	Creare, Inc.	29692	2,370
93	Creare, Inc.	29693	4,779
93.395	Duke University	ID#576	36,943
93	Emory University School of Medicine	NS37470	98,446
93.143	Harvard University	112113	12,120
93.143	Harvard University	112113	55,370
93.393	Harvard University	HARVARD UNIV	14,637
93.393	Harvard University	PRE-AWARD	64,210
93.969	Harvard University	HARVARD	8,529
93.242	Indiana University	INDIANA UNIV	55,536

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Dartmouth College
Schedule of Expenditures of Federal Awards
June 30, 2003

Subagreements		Pass-through number	Total Expenditures
93.393	Johns Hopkins University	8906-09172-6	\$ 168,727
93.395	Massachusetts General Hospital	MASS GENERAL	213,402
93.11	National Initiative for Children's Healthcare	NICHQ	34,251
93.866	Penn State University	1800-DC-DHHS-147	189,218
93.283	State of New Hampshire	92613	132,262
93.283	State of New Hampshire	521217-02	(2,302)
93.283	State of New Hampshire	521217-02	12,297
93.283	State of New Hampshire	92613	347,450
96.007	State of Vermont	1378	56,078
96.007	State of Vermont	4630	125,534
93.242	Thomas Jefferson University	080-29000-R57802	33,045
93.2	University of California, Los Angeles	2000 G AQ693	86,395
93.393	University of California, Los Angeles	1940 G 9B534	14
93.837	University of California, San Francisco	2462SC	208,287
93.855	University of Chicago	5-30475-8601	188,967
93.242	University of Iowa	4000090023	12,876
93.399	University of Michigan	F003961	132
93.399	University of Michigan	F007139	78,194
93.856	University of Michigan	F003005	(1,278)
96.007	University of Michigan	F008350	22,011
93	University of Minnesota	S6659027201	657
93.821	University of Minnesota	U4436095108	35,894
93.854	University of North Carolina	2975-00-0117	99,659
93.856	University of North Carolina at Chapel Hill	5-31553	173,919
93.853	University of Pennsylvania	5-37329-B	79,036
93.393	University of Southern California	H20233	12,561
93.393	University of Southern California	H25990	495,815
93.394	University of Texas	UNTX	25,328
93.837	University of Utah	9903093	1,902
93.226	University of Vermont	UVM	21,451
93.866	University of Vermont	UNIV OF VT	172
93.226	University of Washington	600497	38,624
93.226	University of Washington	424908	8,525
93.226	University of Washington	226357	(212)
93	Westat	N02-C0-01037	75,232
93.393	Westat	WESTAT I	531,201
			<u>6,379,139</u>
U.S. Department of Health and Human Services total			<u>73,644,531</u>
National Science Foundation			
Direct awards (47.)			<u>9,348,972</u>
Pass-through awards			
47.05	Boston University	GC 164759 NGA	1,691
47.05	Boston University	GC 176992 NGA	289,214
47.074	Duke University	95-SC-NSF-1012	(394)
47	Johns Hopkins University	848225	6,896
47.051	Ohio State University	RF00916268	139,685
47.051	Ohio State University	RF00916268	5,001
47.051	Ohio State University	RF848499	348
47.047	University of Utah	2003007	1,625
47.07	University of Wisconsin	640F194	98,433
			<u>542,499</u>
National Science Foundation total			<u>9,891,471</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Dartmouth College
Schedule of Expenditures of Federal Awards
June 30, 2003

	Pass-through number	Total Expenditures
U.S. Department of Defense		
Direct Awards (12.)		<u>\$ 3,209,624</u>
Pass-through awards		
12.42 Boston University	BOSTON UNIV	7,355
12 Create, Inc.	30153	10,000
12.8 Create, Inc.	29285	10,981
12.8 Create, Inc.	29285	19,480
12.91 Geo-Centers, Inc.	PO# 41427RM	16,269
12 New Mexico Institute of Mining and Technology	NEW MEXICO	144,440
12.63 University of Vermont	UVM	12,902
		<u>221,427</u>
U.S. Department of Defense total		<u>3,431,051</u>
U.S. National Aeronautics and Space Administration		
Direct awards (43.)		<u>2,497,091</u>
Pass-through awards		
43.001 Create, Inc.	25029	34,313
43.001 Jet Propulsion Lab	1226828	112,849
43 Johns Hopkins University	848112	7,027
43.001 Johns Hopkins University	856634	53,368
43.001 National Space Biomedical Research Institute	NCC9-58-92	77,820
43.001 National Space Biomedical Research Institute	NBPF00207	140,318
43.001 Universities Space Research Association	07600-066	10,016
43.001 University of New Hampshire	03-700	13,747
43.001 University of Texas	26-1204-07-61	6,718
		<u>456,176</u>
U.S. National Aeronautics and Space Administration total		<u>2,953,267</u>
U.S. Department of Education		
Direct awards (84.)		142,323
Pass-through awards		
84.187 Thresholds	Thresholds	3,149
U.S. Department of Education total		<u>145,472</u>
U.S. Department of Agriculture		
Direct awards (10.)		756,108
Pass-through awards		
10.206 Virginia Institute of Marine Science		<u>(1,364)</u>
U.S. Department of Agriculture total		<u>754,744</u>
National Oceanic and Atmospheric Administration		
Direct awards (11.)		<u>971,457</u>
Pass-through awards		
11.417 University of New Hampshire	03-768	51,397
National Oceanic and Atmospheric Administration total		<u>1,022,854</u>
U.S. Department of Commerce		
Direct awards (11.609)		<u>5,563,099</u>
U.S. Department of Commerce total		<u>5,563,099</u>
U.S. Department of the Interior, U.S. Geological Survey		
Pass-through awards		
15.805 University of New Hampshire	02-650	18,787
U.S. Department of the Interior, U.S. Geological Survey total		<u>18,787</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Dartmouth College
Schedule of Expenditures of Federal Awards
June 30, 2003

	Pass-through number	Total Expenditures
U.S. Department of Justice		
Direct awards (16.)		\$ 11,755,469
U.S. Department of Justice total		<u>11,755,469</u>
Veteran's Administration		
Direct awards (27.)		121,181
Veteran's Administration total		<u>121,181</u>
Environmental Protection Agency		
Direct awards (66.)		118,620
Pass-through awards		
66.5 Consortium for Plant Biotechnology Research, Inc.		11,013
Environmental Protection Agency total		<u>129,633</u>
Department of Energy		
Direct awards (81.)		821,616
Pass-through awards		
81.049 BC International Corp.	BC INTL	15,100
81.049 Mass. Institute of Technology	5710001337	10,044
81.049 National Renewable Energy Laboratory	ADZ-2-31086-01	38,921
81.049 Sandia National Laboratory	AV-6184	25,621
81.049 University of Tennessee-Battelle	4000014046	55,890
		<u>145,576</u>
Department of Energy total		<u>967,192</u>
U.S. Agency for International Development		
USAID American International Health Alliance	UEEKOS-02-PPTR-H	236,924
U.S. Agency for International Development total		<u>236,924</u>
Total research and development		<u>110,635,675</u>
Student Financial Assistance		
U.S. Department of Education		
Direct awards		
84.007 Federal Supplemental Educational Opportunity Grants		799,883
84.033 Federal Work Study Program		1,466,465
84.063 Federal Pell Grant Program		1,251,332
U.S. Department of Education total		<u>3,517,680</u>
Total Student Financial Assistance		<u>3,517,680</u>
Total major programs		<u>114,153,355</u>
Nonmajor Programs		
U.S. Department of Health and Human Services		
Direct awards		
93. U.S. Department of Health and Human Services		163,521
93.110 Maternal and Child Health Federal Consolidated Programs		540,089
93.153 Coordinated HIV Services and Access to Research for Children, Youth, Women and Families		367,154
93.172 Human Genome Research		88,250
93.173 Research Related to Deafness and Communication Disorders		52,233
93.242 Mental Health Research Grants		142,509
93.243 Substance Abuse and Mental Health Services - Projects of Regional and National Significance		257,455
93.278 Drug Abuse National Research Service Awards for Research Training		42,227
93.283 Centers for Disease Control and Prevention - Investigations and Technical Assistance		133,250

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Dartmouth College
Schedule of Expenditures of Federal Awards
June 30, 2003

	Pass-through number	Total Expenditures
93.389	Research Infrastructure	\$ 604,824
93.395	Cancer Treatment Research	91,915
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	171,468
93.821	Cell Biology and Biophysics Research	35,870
93.824	Area Health Education Centers	1,265,516
93.837	Heart and Vascular Diseases Research	43,834
93.847	Diabetes, Endocrinology and Metabolism Research	165
93.853	Clinical Research Related to Neurological Disorders	84,676
93.859	Pharmacology, Physiology, and Biological Chemistry Research	(2,263)
93.862	Genetics and Developmental Biology Research	47,799
93.884	Grants for Residency Training in General Internal Medicine and/or General Pediatrics	254,234
93.895	Grants for Faculty Development in Family Medicine	278,813
93.896	Predoctoral Training in Primary Care (Family Medicine, General Internal Medicine/ General Pediatric	281,544
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	187,670
93.984	Academic Administrative Units in Primary Care	266,945
93.989	Senior International Fellowships	10,953
		<u>5,410,651</u>
Pass-through awards		
93.393	American College of Radiology CA80098	12,500
93.395	American College of Radiology RTOG	81,904
93	Augusta Mental Health Institute 14B 1001215	729,018
93	Dana Farber Cancer Institute UNIV OF CHICAGO	130,264
93	Duke University Z10/Z11	24,624
93.838	Duke University 206	(1,000)
93	Medispectra, Inc. MEDISPECTRA	88,607
93.395	National Childhood Cancer Foundation 3081	14,619
93.399	National Surgical Adjuvant Breast and Bowel Project PFED18-DAR-01	28,257
93.399	National Surgical Adjuvant Breast and Bowel Project PRE-AWARD	3,156
93.399	Southwest Oncology Group CA37429	(1,457)
93.399	Southwest Oncology Group PCPT9312	22,727
93.003	State of New Hampshire STNH	126,032
93.003	State of New Hampshire STNH	25,558
93.667	State of New Hampshire 612494	131,404
93.667	State of New Hampshire 612494-03	558,889
93.994	State of New Hampshire 610039-03	119,072
93.994	State of Vermont 2589	22,913
93.994	State of Vermont 2951	1,631
93	University of Massachusetts PO#	22,056
93.283	University of Massachusetts SP10212	34,875
93.145	University of Massachusetts Medical Center SP10159	796
93	University of North Carolina UNIV OF NC	(15,375)
93.854	University of Texas DART-4	141,612
		<u>2,302,592</u>
U.S. Department of Health and Human Services total		<u>7,713,243</u>
U.S. Department of Education		
Direct awards		
84.17	Javits Fellowship	38,499
84.2	Graduate Assistance in Areas of National Need	192,676
		<u>231,175</u>
84.324	University of New Hampshire 01-475	41,119
U.S. Department of Education total		<u>272,294</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Dartmouth College
Schedule of Expenditures of Federal Awards
June 30, 2003

	Pass-through number	Total Expenditures
U.S. Department of Energy		
Subagreements		
81.087	Plant Biotech Research	OR22072-11
		\$ 9,617
U.S. Department of Energy total		<u>9,617</u>
National Science Foundation		
Direct awards		
47.041	Engineering Grants	14,626
47.049	Mathematical and Physical Sciences	9,941
47.070	Computer and Information Science and Engineering	16
47.075	Social, Behavioral, and Economic Sciences	3,585
47.076	Education and Human Resources	166,428
National Science Foundation total		<u>194,596</u>
U.S. National Aeronautics and Space Administration		
Direct awards		
43.001	Aerospace Education Services Program	43,076
Subagreements		
43.001	University of New Hampshire	92-05
43.002	University of New Hampshire	01-534
		(2,374)
		250,599
		<u>248,225</u>
U.S. National Aeronautics and Space Administration total		<u>291,301</u>
Veterans Affairs Administration		
Direct awards		
27.011	Intergovernmental Personnel Act (IPA) Mobility Program	224,307
Veterans Affairs Administration total		<u>224,307</u>
U.S. Department of Defense		
Direct awards		
12.3	Basic and Applied Scientific Research	310,650
12.420	Military Medical Research and Development	165,412
12.63	Basis, Applied and Advanced Research in Science and Engineering	51,276
12.8	Air Force Defense Research Sciences Program	628
U.S. Department of Defense total		<u>527,966</u>
Other Federal Agencies		
Direct awards		
19.	U.S. Department of State	15,325
59.007	Management and Technical Assistance for Socially and Economically Disadvantaged Businesses	480,000
45.164	Promotion of the Humanities: Public Programs	64,413
45.024	Promotion of the Arts Grants to Organizations and Individuals	16,000
45.011	Performing Arts	6,379
89.003	National Historical Publications and Records Grants	68,549
Other Federal Agencies total		<u>650,666</u>
Total nonmajor programs		<u>9,883,990</u>
Total major and nonmajor programs		<u>\$ 124,037,345</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Dartmouth College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2003

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, 2003. 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. The awards are classified into major program and nonmajor program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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 associated with research and development pursuant to arrangements negotiated with the Department of Health and Human Services (DHHS). The College's negotiated facility and administrative cost arrangement calls for a rate applicable to on-campus research of 58.5% of modified total direct costs for fiscal year 2003.

The College submitted a facilities and administrative costs proposal in early 2003 for negotiated F&A rates that became effective July 1, 2003. The College's facilities and administrative costs rates for fiscal year 2004 through 2007 are 58%, 59.48%, 59.98%, and 59.9%, respectively.

For the year ended June 30, 2003, the College claimed approximately \$310,756 in administrative cost allowances related to its student financial assistance programs.

Dartmouth College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2003

4. Federal Student Loan Programs

Loans made to eligible students and parents under federal student loan programs during the year ended June 30, 2003 are summarized as follows:

Title IV Program	
Federal Perkins Loan Program (Perkins)	\$ 4,526,189
Federal Family Education Loan Programs (FFELP)	
Stafford	14,283,235
Parent Loans for Undergraduate Students (PLUS)	6,394,737

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 general purpose financial statements. The balances outstanding on these loans at June 30, 2003 are as follows:

Perkins	\$ 20,318,594
HPSL	315,405
HEAL	4,235,710

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 general purpose financial statements.

5. Pass-through Awards

For the year ended June 30, 2003, the College received awards directly from federal agencies which were passed through to subrecipients. The amounts passed through are as follows:

Research and development	\$ 12,717,612
Nonmajor	1,454,761
Total	<u>\$ 14,172,373</u>

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

Part II

Reports on Internal Control and Compliance

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

To the Board of Trustees of Dartmouth College

We have audited the financial statements of Dartmouth College (the "College") as of and for the year ended June 30, 2003, and have issued our report thereon, dated September 12, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Dartmouth College in a separate letter dated November 13, 2003.

This report is intended solely for the information and use of the audit committee, management 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.

Dickens & Associates LLP

September 12, 2003

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

To the Board of Trustees of Dartmouth College

Compliance

We have audited the compliance of Dartmouth College (the "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 each of its major federal programs for the year ended June 30, 2003. The College's major federal programs are 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 each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the 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 the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a 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 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 operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit subcommittee, management 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.

Richard A. Cooper LLP

October 29, 2003

Part III

Reports on Findings and Questioned Costs

Dartmouth College
Part III - Audit Findings and Questioned Costs
June 30, 2003

I. Summary of Auditor's Results

Type of audit report issued on the financial statements	Unqualified
Internal control over financial reporting	
Material weaknesses identified	No
Reportable conditions identified, not deemed to be material weaknesses	None Reported
Noncompliance which is material to the financial statements	No
Internal control over major programs	
Material weaknesses identified	No
Reportable conditions identified, not deemed to be material weaknesses	None Reported
Type of report issued on compliance for major programs	Unqualified
Audit findings required to be reported under OMB Circular A-133 Revised, paragraph .510a	No
Identification of major programs	
<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	• Research and development cluster
Various	• Student financial aid cluster
Dollar threshold for Type A and Type B programs	\$3,000,000
Auditee qualifies as a low-risk auditee?	Yes

II. Findings Related to the Financial Statements Which Are Required to be Reported in Accordance with Generally Accepted Auditing Standards

No matters were reported

Dartmouth College
Part III - Audit Findings and Questioned Costs
June 30, 2003

III. Federal Awards Findings and Questioned Costs

No Findings noted

Dartmouth College

Part III - Status of Previously Reported Findings

III. Federal Awards Findings and Questioned Costs

02-1 Period of Availability

The College charged \$12,353 of expenses to CFDA number 12.8 after the close out period expired for one of the five grants selected for testing. OMB Circular A-110 Section .28 states where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. OMB Circular A-110 Sections .71(a) and (b) state that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. The Federal awarding agency may approve extensions when requested by the recipient and unless the Federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.

Status

The College's internal control policy of performing an internal close-out audit when a grant has ended is designed to detect this type of circumstance. The College's current controls also include closing the grant account to any charges or adjustments 90 days after the grant end date. Management has added to the close-out audit procedures a specific review by the Office of Sponsored Projects Grant Manager of the charges and adjustments to the grant account made during this 90-day period verifying that these transactions are appropriate to the grant budget period. This procedure is working well; therefore, management will continue the additional step. The College will continue its training efforts to improve compliance with this policy.

02-2 Return of Title IV Funds

Regulation 668.22 regarding the treatment of Title IV Funds when a student withdraws require that an institution must return the amount of title IV funds for which it is responsible as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew. For one out of five student withdrawals tested during the fiscal year, it was noted that one individual withdrew from the program in January 2002; however, the Title IV Funds were not returned to the lender until April 2002.

Status

In order to ensure that Title IV loan funds are returned to the appropriate lender within mandated timeframes, the following actions have been taken at Dartmouth College. New procedures for the graduate schools have been put in place and reviewed with schools so that the return of all Federal Stafford and Alternative loan monies will be processed through the Loan Coordinator. In addition, a Withdrawn Students report is run weekly from Discoverer to identify potential discrepancies between graduate enrollment and loan disbursements. Additional reconciliation reports are run routinely to identify loan discrepancies – Loans Certified but not Guaranteed, Loans not Paid, Potential Overawards by Fund and Aid Year, Loan Disbursement Exception Report, Disbursement Error Report, Aging Report, and the Loan Summary Report.