



**THE TRUSTEES OF DAVIDSON COLLEGE**

Financial Statements

June 30, 2017

(with summarized information for 2016)

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 400  
300 North Greene Street  
Greensboro, NC 27401

## **Independent Auditors' Report**

The Board of Trustees  
The Trustees of Davidson College:

We have audited the accompanying financial statements of The Trustees of Davidson College (the College), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Trustees of Davidson College as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### **Report on Summarized Comparative Information**

We have previously audited the Trustees of Davidson College's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*KPMG LLP*

Greensboro, North Carolina  
October 17, 2017

**THE TRUSTEES OF DAVIDSON COLLEGE**  
Statement of Financial Position  
June 30, 2017  
(with comparative financial information as of June 30, 2016)

| <b>Assets</b>  | <b>2017</b>             | <b>2016</b>          |
|--|-------------------------|----------------------|
| <b>Current assets:</b>   |                         |                      |
| Cash and cash equivalents  | \$ 36,034,272           | 37,844,487           |
| Short-term investments (note 3)  | 26,655,309              | 31,955,662           |
| Deposits with bond trustees (note 3)   | 8,008                   | 204,284              |
| Accounts and loans receivable, less allowance for doubtful accounts of \$41,463 in 2017 and \$43,004 in 2016 | 6,426,809               | 5,005,575            |
| Contributions receivable, net (note 2)   | 23,171,869              | 19,427,991           |
| Other assets   | <u>2,372,093</u>        | <u>2,115,669</u>     |
| Total current assets   | <u>94,668,360</u>       | <u>96,553,668</u>    |
| <b>Noncurrent assets:</b>  |                         |                      |
| Contributions receivable, net (note 2)   | 39,254,590              | 42,466,401           |
| Investments (note 3)   | 710,857,613             | 640,126,515          |
| Beneficial interest in perpetual trusts  | 19,854,821              | 18,738,232           |
| Land, buildings, and equipment, net (note 5)   | <u>293,476,110</u>      | <u>281,504,886</u>   |
| Total noncurrent assets  | <u>1,063,443,134</u>    | <u>982,836,034</u>   |
| Total assets   | <u>\$ 1,158,111,494</u> | <u>1,079,389,702</u> |
| <b>Liabilities and Net Assets</b>  |                         |                      |
| <b>Current liabilities:</b>  |                         |                      |
| Accounts payable and accrued expenses (notes 6 and 8)  | \$ 16,789,213           | 17,438,034           |
| Notes payable (note 7)   | 12,711,411              | 13,751,589           |
| Bonds payable (note 7)   | 375,044                 | 266,192              |
| Postretirement benefits other than pensions (note 9)   | <u>862,650</u>          | <u>796,742</u>       |
| Total current liabilities  | <u>30,738,318</u>       | <u>32,252,557</u>    |
| <b>Noncurrent liabilities:</b>   |                         |                      |
| Notes payable (note 7)   | 53,921                  | 928,184              |
| Advance payments, deferred revenues, and other liabilities (note 6)  | 7,062,246               | 5,754,296            |
| Bonds payable (note 7)   | 54,042,687              | 54,417,730           |
| Postretirement benefits other than pensions (note 9)   | <u>20,720,391</u>       | <u>21,036,322</u>    |
| Total noncurrent liabilities   | <u>81,879,245</u>       | <u>82,136,532</u>    |
| Total liabilities  | <u>112,617,563</u>      | <u>114,389,089</u>   |
| <b>Net assets:</b>   |                         |                      |
| <b>Unrestricted:</b>   |                         |                      |
| Undesignated   | 16,573,534              | 13,429,139           |
| Board designated:  |                         |                      |
| Quasi-endowment  | 102,011,179             | 91,016,147           |
| Investments in plant fund  | <u>213,460,104</u>      | <u>206,857,709</u>   |
|  | 332,044,817             | 311,302,995          |
| Temporarily restricted (note 10)   | 336,255,732             | 301,808,544          |
| Permanently restricted (note 10)   | <u>377,193,382</u>      | <u>351,889,074</u>   |
| Total net assets   | 1,045,493,931           | 965,000,613          |
| Commitments and contingencies (notes 6, 8, 9, and 12)  |                         |                      |
| Total liabilities and net assets   | <u>\$ 1,158,111,494</u> | <u>1,079,389,702</u> |

See accompanying notes to financial statements.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Statement of Activities

Year ended June 30, 2017

(with summarized financial information for the year ended June 30, 2016)

|   | <b>2017</b>           |                                   |                                   | <b>2016</b>          |
|---|-----------------------|-----------------------------------|-----------------------------------|----------------------|
|   | <b>Unrestricted</b>   | <b>Temporarily<br/>restricted</b> | <b>Permanently<br/>restricted</b> |                      |
| Operating:  |                       |                                   |                                   |                      |
| Revenues, gains, and other support:   |                       |                                   |                                   |                      |
| Tuition and fees  | \$ 89,049,006         | —                                 | —                                 | 89,049,006           |
| Room and board  | 19,085,514            | —                                 | —                                 | 19,085,514           |
| Scholarships and aid  | <u>(46,890,464)</u>   | —                                 | —                                 | <u>(46,890,464)</u>  |
| Net student revenue   | 61,244,056            | —                                 | —                                 | 61,244,056           |
| Private gifts and grants  | 6,934,912             | 10,424,587                        | —                                 | 17,359,499           |
| Governmental grants and contracts   | 4,048,319             | —                                 | —                                 | 4,048,319            |
| Investment income (note 3)  | 2,388,218             | 25,878                            | —                                 | 2,414,096            |
| Endowment income and gains distributed (notes 3 and 14)   | 23,514,693            | 7,024,523                         | —                                 | 30,539,216           |
| Net realized and unrealized losses on investments (note 3)  | (384,657)             | —                                 | —                                 | (384,657)            |
| Sales and services of auxiliary enterprises   | 8,305,633             | 98,739                            | —                                 | 8,404,372            |
| Other income  | <u>558,629</u>        | <u>309,922</u>                    | —                                 | <u>868,551</u>       |
| Total operating revenues and gains  | 106,609,803           | 17,883,649                        | —                                 | 124,493,452          |
| Net assets released from restrictions   | <u>22,026,556</u>     | <u>(22,026,556)</u>               | —                                 | —                    |
| Total revenues, gains, and other support  | <u>128,636,359</u>    | <u>(4,142,907)</u>                | —                                 | <u>124,493,452</u>   |
| Expenses and losses (note 11):  |                       |                                   |                                   |                      |
| Instruction and departmental research   | 52,168,385            | —                                 | —                                 | 52,168,385           |
| Student services  | 25,489,753            | —                                 | —                                 | 25,489,753           |
| General services and administration   | 21,143,665            | —                                 | —                                 | 21,143,665           |
| Auxiliary enterprises   | <u>24,061,071</u>     | —                                 | —                                 | <u>24,061,071</u>    |
| Total expenses and losses   | <u>122,862,874</u>    | —                                 | —                                 | <u>122,862,874</u>   |
| Change in net assets from operating activities  | <u>5,773,485</u>      | <u>(4,142,907)</u>                | —                                 | <u>1,630,578</u>     |
| Nonoperating:   |                       |                                   |                                   |                      |
| Private gifts and grants  | 6,505,730             | 124,406                           | 23,849,767                        | 30,479,903           |
| Investment (loss) income on charitable remainder trusts (note 3)  | (3,774)               | 45,962                            | 27,722                            | 69,910               |
| Endowment income and gains distributed (notes 3 and 14)   | 171,871               | —                                 | 593,367                           | 765,238              |
| Net realized and unrealized gains (losses) and income on investments net of distributions and fees (note 3) | 7,829,701             | 39,051,676                        | —                                 | 46,881,377           |
| Net realized and unrealized gains (losses) on charitable remainder trusts (note 3)                          | 654,382               | 36,040                            | 1,373,156                         | 2,063,578            |
| Change in value of split-interest agreements (note 3)   | (195,384)             | (184,680)                         | (410,766)                         | (790,830)            |
| Other   | <u>5,811</u>          | <u>(483,309)</u>                  | <u>(128,938)</u>                  | <u>(606,436)</u>     |
| Change in net assets from nonoperating activities   | <u>14,968,337</u>     | <u>38,590,095</u>                 | <u>25,304,308</u>                 | <u>78,862,740</u>    |
| Change in net assets  | 20,741,822            | 34,447,188                        | 25,304,308                        | 80,493,318           |
| Net assets at beginning of year   | <u>311,302,995</u>    | <u>301,808,544</u>                | <u>351,889,074</u>                | <u>965,000,613</u>   |
| Net assets at end of year   | <u>\$ 332,044,817</u> | <u>336,255,732</u>                | <u>377,193,382</u>                | <u>1,045,493,931</u> |

See accompanying notes to financial statements.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Statement of Cash Flows

Year ended June 30, 2017

(with comparative financial information for the year ended June 30, 2016)

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
| Cash flows from operating activities:   |               |               |
| Change in net assets  | \$ 80,493,318 | (19,078,247)  |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |               |               |
| Depreciation  | 10,841,811    | 10,860,439    |
| Accretion of bond premium/discount  | (166,191)     | (157,500)     |
| Change in allowance for doubtful accounts and loans receivable                          | (1,541)       | (22,285)      |
| Net realized and unrealized (gains) losses on investments                               | (79,659,386)  | 6,631,984     |
| Private gifts and grants restricted for long-term investments                           | (23,849,767)  | (17,790,877)  |
| Private gifts and grants restricted for capital projects                                | (4,017,295)   | (14,054,696)  |
| Investment income restricted for long-term investments                                  | (621,089)     | (757,200)     |
| Gains restricted for long-term investments  | (229,630)     | (294,943)     |
| Gifts in kind   | (7,822,334)   | (7,816,594)   |
| Proceeds from sales of donated financial assets   | 7,719,035     | 6,853,201     |
| Loss on disposal of assets  | 111,988       | 252,682       |
| (Increase) decrease in accounts and loans receivable                                    | (1,419,693)   | 358,083       |
| (Increase) decrease in contributions receivable   | (532,067)     | 9,049,742     |
| Increase in other assets  | (256,424)     | (147,663)     |
| Increase in accounts payable and accrued expenses                                       | 325,439       | 981,463       |
| Decrease in postretirement benefits other than pensions                                 | (250,023)     | (1,166,413)   |
| Receipt of agency funds – Federal Pell grants   | 1,186,620     | 1,220,715     |
| Disbursement of agency funds – Federal Pell grants                                      | (1,186,620)   | (1,220,715)   |
| Net cash used in operating activities   | (19,333,849)  | (26,298,824)  |
| Cash flows from investing activities:   |               |               |
| Purchases of property and equipment   | (23,687,773)  | (52,172,426)  |
| Proceeds from sales and maturities of investments                                       | 107,626,399   | 185,263,398   |
| Proceeds from sales of property and equipment   | 180,000       | —             |
| Purchases of investments  | (94,411,047)  | (162,238,291) |
| Decrease in beneficial interest in perpetual trusts                                     | —             | 65,544        |
| Decrease in deposits with bond trustees   | 196,276       | 12,709,474    |
| Net cash used in investing activities   | (10,096,145)  | (16,372,301)  |
| Cash flows from financing activities:   |               |               |
| Principal payments on notes payable   | (1,914,441)   | (1,051,132)   |
| Principal payments on bonds payable   | (100,000)     | (100,000)     |
| Principal payments on capital lease obligations   | (142,821)     | —             |
| Increase in annuities payable   | 1,059,260     | 58,488        |
| Proceeds from private gifts and grants restricted for long-term investments             | 23,849,767    | 17,790,877    |
| Private gifts and grants restricted for capital projects                                | 4,017,295     | 14,054,696    |
| Investment income restricted for long-term investments                                  | 621,089       | 757,200       |
| Gains restricted for long-term investments  | 229,630       | 294,943       |
| Net cash provided by financing activities   | 27,619,779    | 31,805,072    |
| Net decrease in cash and cash equivalents   | (1,810,215)   | (10,866,053)  |
| Cash and cash equivalents at beginning of year  | 37,844,487    | 48,710,540    |
| Cash and cash equivalents at end of year  | \$ 36,034,272 | 37,844,487    |
| Supplemental disclosure of cash flow information:                                       |               |               |
| Cash paid for interest  | \$ 2,311,576  | 2,222,845     |
| Contributions of investment securities  | 7,822,334     | 7,816,594     |
| Assets acquired under capital lease   | 544,100       | —             |
| Change in accounts payable attributable to property, plant and equipment purchases      | (1,126,849)   | (3,798,977)   |

See accompanying notes to financial statements.

## THE TRUSTEES OF DAVIDSON COLLEGE

Notes to Financial Statements

June 30, 2017

(with summarized information for 2016)

### (1) Summary of Significant Accounting Policies

#### (a) Description of the College

The Trustees of Davidson College (the College), a nonprofit North Carolina corporation based in Davidson, North Carolina, was founded by Presbyterians in 1837. It is a private, four-year coeducational college of the liberal arts with an enrollment of over 1,900 students.

#### (b) Basis of Presentation

The financial statements of the College have been prepared on the accrual basis.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all of, or part of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions which reflect reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class.

## THE TRUSTEES OF DAVIDSON COLLEGE

### Notes to Financial Statements

June 30, 2017

(with summarized information for 2016)

Gains and losses on investments are generally reported as increases or decreases in temporarily restricted net assets when either time restricted or restricted by explicit external stipulations. However, when such losses result in the market value of a donor-restricted endowment fund declining below the related historic dollar value, the difference between the market and historic dollar values is reflected within unrestricted net assets. Subsequent gains in these endowment funds are reflected within unrestricted net assets until deficiencies are restored. Gains and losses on perpetual trusts held by others are reported as increases or decreases in permanently restricted net assets.

The College has defined nonoperating activity to include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to annuity and unitrust agreements, student loan activity, and endowment income and gains and losses, net of amounts distributed to support operations in accordance with the spending policy.

#### **(c) Cash and Cash Equivalents**

Cash and cash equivalents include interest bearing checking and money market accounts and short-term investments with an original maturity of three months or less. At various times throughout the year, the College may have cash balances in financial institutions which exceed the amounts that are federally insured.

Cash and cash equivalents that are part of the College's investment portfolio are included within investments as these funds are not generally used for short-term operating purposes.

#### **(d) Investments**

Investments are recorded at estimated fair value. In the case of certain less marketable investments, principally real estate, venture capital and private investments, value is established based on either external events which substantiate a change in fair value or a reasonable methodology that exists to capture and quantify changes in fair value. When applicable, the college has applied a practical expedient and concluded that the net asset value (NAV) reported by the underlying fund approximates the fair value of investments. In some instances, those changes in fair value may require use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for the investments existed. The estimated values, provided primarily by investment managers, are reviewed and evaluated by College personnel.

The College's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the College's financial statements.

Endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Under this policy, a portion of realized gains accumulated, in addition to accumulated earnings, could be used for the purpose of the endowed funds. Such gains are allocated to funds and are utilized in accordance with the same restrictions, if any, imposed by donors on the use of income earned by the endowment and similar funds.

## THE TRUSTEES OF DAVIDSON COLLEGE

Notes to Financial Statements

June 30, 2017

(with summarized information for 2016)

### **(e) Land, Buildings, and Equipment**

Land, buildings, and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is calculated on the straight-line method over the estimated useful lives of each class of asset as described in note 5. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings.

### **(f) Beneficial Interest in Perpetual Trusts**

The College is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the College. The College has legally enforceable rights or claims to such assets, including the right to income therefrom. The fair value of these interests is recorded in the permanently restricted net asset class and the net realized and unrealized gains (losses) of beneficial interest in perpetual trusts is recorded in the permanently restricted net asset class as designated by the donors.

### **(g) Comparative Data**

The statement of activities includes 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

### **(h) Use of Estimates**

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **(i) Fair Value of Financial Instruments**

Fair value methods, assumptions, and estimates of the financial instruments for the College are set forth below:

- Cash equivalents, accounts and loans receivable, accounts payable and accrued expenses: the carrying amounts approximate fair value because of the relatively short maturity of these financial instruments.
- Contributions receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach. These inputs represent Level 3 inputs in the fair value hierarchy.
- Investments and beneficial interest in perpetual trusts: carried at fair value.

## THE TRUSTEES OF DAVIDSON COLLEGE

Notes to Financial Statements

June 30, 2017

(with summarized information for 2016)

### **(j) Grant Revenues**

Funds are granted periodically from private and public sources for specific purposes. These funds are deemed to be earned and reported as revenues when the College has incurred expenditures in compliance with the grant agreement. Such amounts received, but not yet earned, are reported as deferred revenues.

### **(k) Income Taxes**

The College is exempt from income tax under Section 501(a) of the Internal Revenue Code of 1986 (the Code) as an organization described in Section 501(c)(3). As such, the College is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the financial statements. As of June 30, 2017 and 2016, management has determined there were no material uncertain tax positions.

### **(l) Notes Payable**

Notes payable consist of debt related to land purchases and the taxable commercial paper notes.

### **(m) Investment Risk**

Liquidity risk represents the possibility that the College may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the College were forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

The College may hold investments denominated in currencies other than the U.S. dollar, and therefore, there may be exposure to currency risk since the value of those investments may fluctuate due to changes in currency exchange rates. This can have an adverse effect on the reported value of assets and liabilities denominated in currencies other than the U.S. dollar.

The College's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolios are also subject to risk of the issuer of a security not being able to pay interest or repay principal when it is due.

The value of securities held by the College may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include, but are not limited to, economic changes, market fluctuations, regulatory changes, global and political instability, currency, interest rate, and commodity price fluctuations. The College attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions.

## THE TRUSTEES OF DAVIDSON COLLEGE

Notes to Financial Statements

June 30, 2017

(with summarized information for 2016)

### **(n) Recently Issued Accounting Standards**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the College for annual periods in fiscal years beginning after December 15, 2017 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The College plans to implement the provisions of ASU 2014-09 as of July 1, 2018. The College has not yet determined the effect of the new standard on its current policies for revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the College for annual periods in fiscal years beginning after December 15, 2018, permits early adoption, and mandates a modified retrospective transition method. The College plans to implement the provisions of ASU 2016-02 as of July 1, 2019. The College has not yet determined the effect of the new standard on its financial statements.

In August 2016, the FASB issued ASU 2016-04, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. ASU 2016-04 is effective for the College for annual periods in fiscal years beginning after December 15, 2017, permits early adoption, and is applied retrospectively in the year of adoption. The College plans to implement the provisions of ASU 2016-04 as of July 1, 2018 and has not yet determined the effect of the new standard on its financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires companies to present the service cost component of net benefit cost in the statement of activity line items where they report compensation cost. Companies will present all other components of net benefit cost outside operating income, if this subtotal is presented. ASU 2017-07 is effective for the college for annual periods in fiscal years beginning after December 15, 2018. The College plans to implement the provisions of ASU 2017-07 as of July 1, 2019. The College has not yet determined the effect of the new standard on its financial statements.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2017

(with summarized information for 2016)

**(2) Contributions Receivable**

Contributions receivable, net, are summarized as follows at June 30, 2017 and 2016:

|   | <b>2017</b>   | <b>2016</b>  |
|---|---------------|--------------|
| Unconditional promises expected to be collected in:                     |               |              |
| Less than one year  | \$ 25,015,316 | 21,260,344   |
| One year to five years  | 34,642,001    | 35,588,918   |
| Over five years   | 20,637,474    | 23,062,036   |
|   | 80,294,791    | 79,911,298   |
| Less allowance for uncollectible contributions receivable               | (2,028,386)   | (1,855,954)  |
|   | 78,266,405    | 78,055,344   |
| Less unamortized discount (discount rates ranging from 3.50% and 8.07%) | (15,839,946)  | (16,160,952) |
|   | 62,426,459    | 61,894,392   |
| Less current portion  | (23,171,869)  | (19,427,991) |
| Noncurrent portion  | \$ 39,254,590 | 42,466,401   |

At June 30, 2017 and 2016, the ten (10) largest outstanding donor pledge balances represented 72% and 72%, respectively, of the College's gross contributions receivable.

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**(3) Investments**

Fair value of investments is summarized as follows:

|  | Fair value as of June 30          |               | Unfunded<br>commitments | June 30, 2017   |  |
|--|-----------------------------------|---------------|-------------------------|---|--|
|  | 2017                              | 2016          |                         | Redemption<br>frequency<br>(if currently<br>eligible) | Redemption<br>notice period<br>(in days) |
|  | Money market funds <sup>(a)</sup> | \$ 16,779,971 |                         | 25,245,265  | —  |
| Fixed income <sup>(b)</sup>  | 33,040,376                        | 42,789,076    | —                       | Daily   | 1 day                                    |
| Domestic equity <sup>(c)</sup>   | 52,805,912                        | 55,136,006    | —                       | Daily – Quarterly                                     | 1–30 days                                |
| International equity and<br>emerging market funds <sup>(c)</sup>                                   | 96,424,275                        | 76,582,900    | —                       | Daily – Quarterly                                     | 1–90 days <sup>(1)</sup>                 |
| Hedge funds <sup>(d)</sup>   | 307,187,516                       | 260,524,288   | 11,719,140              | Monthly – Annually                                    | 1–36 months                              |
| Real estate investments <sup>(e)</sup>   | 49,934,884                        | 44,802,946    | 19,833,736              | N/A   | N/A                                      |
| Venture capital, private<br>equity, private energy, and<br>private debt investments <sup>(f)</sup> | 180,422,682                       | 157,010,834   | 69,657,437              | N/A   | N/A                                      |
| Commodities <sup>(g)</sup>   | 39,613                            | 8,935,963     | —                       | N/A   | 5 days                                   |
| Other investments <sup>(h)</sup>   | 885,701                           | 1,259,183     | —                       | N/A   | N/A                                      |
|  | \$ 737,520,930                    | 672,286,461   | 101,210,313             |   |  |

<sup>(1)</sup> One fund within this major category, in the amount of \$19.8 million at June 30, 2017, has a redemption notice period of up to 120 days

- a) This category includes assets that are cash or readily convertible to cash, such as money market funds and certificates of deposit.
- b) This category includes investments in funds that take long positions in publicly traded fixed income securities. Almost all of the investments are in U.S. focused companies. The public nature of the securities makes this category immediately available for liquidation.
- c) This category includes investments in funds that take long positions in publicly traded equity securities. A range of styles, market caps, and geographic focuses is included. The public nature of the securities makes this category available for liquidation within 1-90 days.
- d) This category includes investments in hedge funds that take long and short positions in largely equity securities, credit securities and event driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility in each of these areas. The funds also vary in net long/short positioning, with most equity funds generally maintaining a low net long position (20%-50%) and little or no leverage and most credit funds generally maintaining a moderate net long position (50%-100%) and little or no leverage. Eleven percent of the assets in this category cannot be redeemed because they are still in an initial lockup period or in illiquid securities. The lockup periods expire in the next 12 months.

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- e) This category includes investments in private equity funds that take ownership of real estate properties ranging from office, retail, multifamily, land, and hotel. These are private investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4-10 years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at net asset value (NAV) as estimated by the manager.
- f) This category includes investments in private equity funds that provide growth equity or take full ownership of the companies they invest in and private equity funds that take significant ownership positions in start up or early stage companies largely in the technology or healthcare spaces. These are private investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4-8 years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.
- g) The majority of this category is an investment in a single fund that invests in various commodities. The investments are generally made using futures contracts on the various commodities. The manager places emphasis on the liquidity of the commodities when selecting investments so this position allows for monthly liquidity.
- h) This category contains the cash surrender value of life insurance policies for which the College is the sole beneficiary. The insurance companies manage the investments and the College will receive no distributions until the death of the insured. Therefore, the nature of this investment is illiquid.

The College places a substantial portion of the net assets of its endowment into a pool on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of each quarter within which the transaction takes place. At June 30, 2017, a total of 1,306,478 units existed in the pool and the fair value per unit was \$558.92. At June 30, 2016, a total of 1,266,640 units existed in the pool and the fair value per unit was \$522.44. The annual earnings per unit, exclusive of the net increase (decline) in the fair value of investments, amounted to \$1.22 for the fiscal year ended June 30, 2017 and \$1.97 for the fiscal year ended June 30, 2016.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on equity-based investments to achieve its long-term return objective at an appropriate level of risk and liquidity. Within each asset class, the College achieves diversification through allocations to several investment strategies and market capitalizations.

The College does not issue or trade derivative financial instruments. However, College financial assets are invested on its behalf with various fund managers, some of whom are authorized to employ derivative instruments, including swaps, futures, forwards, and options. These derivatives are generally used for managing interest rate or foreign currency risk or to attain or hedge a specific financial market position. Not including derivative instruments held by various alternative investment funds, the College had no financial assets invested in derivative instruments as of June 30, 2017 and 2016.

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At June 30, 2017, the College's projected capital calls for the next five fiscal years and thereafter for the remaining outstanding commitments to venture capital, private equity, private energy, private debt and real estate funds are summarized in the table below:

|              | <u>Projected<br/>capital calls</u> |
|--------------|------------------------------------|
| Fiscal year: |                                    |
| 2018         | \$ 22,655,001                      |
| 2019         | 17,288,752                         |
| 2020         | 11,948,623                         |
| 2021         | 5,508,741                          |
| 2022         | 1,426,794                          |
| Thereafter   | <u>42,382,402</u>                  |
| Total        | \$ <u><u>101,210,313</u></u>       |

Investment income and gain (loss) is summarized as follows for the years ended June 30:

|  | <u>2017</u>                 | <u>2016</u>               |
|--|-----------------------------|---------------------------|
| Dividend and interest income                 | \$ 3,695,694                | 3,545,971                 |
| Net realized and unrealized gains (losses)   | 79,659,386                  | (6,631,984)               |
| Investment management fees                   | (1,006,322)                 | (3,332,801)               |
| Change in value of split-interest agreements | <u>(790,830)</u>            | <u>(544,304)</u>          |
|  | \$ <u><u>81,557,928</u></u> | <u><u>(6,963,118)</u></u> |

Investment income and gain (loss) is classified in the statements of activities as follows for the years ended June 30:

|   | <u>2017</u>              | <u>2016</u>              |
|---|--------------------------|--------------------------|
| Operating:  |                          |                          |
| Investment income                                 | \$ 2,414,096             | 2,161,670                |
| Endowment income and gains distributed            | 30,539,216               | 28,526,744               |
| Net realized and unrealized losses on investments | <u>(384,657)</u>         | <u>(128,514)</u>         |
| Total operating                                   | <u><u>32,568,655</u></u> | <u><u>30,559,900</u></u> |

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|  | <b>2017</b>   | <b>2016</b>  |
|--|---------------|--------------|
| Nonoperating:  |               |              |
| Investment income on charitable remainder trusts                                     | \$ 69,910     | 172,613      |
| Endowment income and gains distributed   | 765,238       | 845,834      |
| Net realized and unrealized gains and income on investments net of distribution fees | 46,881,377    | (37,493,937) |
| Net realized and unrealized gains (losses) on charitable remainder trusts            | 2,063,578     | (503,224)    |
| Change in value of split-interest agreements   | (790,830)     | (544,304)    |
| Total nonoperating   | 48,989,273    | (37,523,018) |
| Total  | \$ 81,557,928 | (6,963,118)  |

**(4) Fair Value**

The College determines fair value in accordance with Accounting Standards Codification (ASC) Topic 820 *Fair Value Measurement*. ASC Topic 820 establishes a framework for measuring fair value, a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs, and disclosure requirements for fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of fair value inputs that may be used to measure fair value under the hierarchy established by the standard are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Investments measured at NAV – The College has applied a practical expedient and concluded that the net asset value (NAV) reported by the underlying fund approximates the fair value of investments, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. The College has no plans to sell these investments in the secondary market at amounts substantially different from NAV.

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Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial assets and liabilities, including estimates of timing and amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to the independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and may not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

While the College's investment in certain funds is classified as Level 2 or 3, the underlying investments of the fund may be classified as Level 1 in the fund itself. Investments are valued by applying various techniques that are assumptions which market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates, and other factors.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include real estate and insurance policies. Inputs used may include the original transaction price or recent transactions in the same or similar market. When observable prices are not available, these investments are valued using one or more valuation techniques described below.

- **Market Approach:** This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **Cost Approach:** This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset.

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The following is a summary of the levels within the fair value hierarchy for the College's financial instruments that are measured at fair value on a recurring or nonrecurring basis as of June 30, 2017 and 2016:

|  | Fair value as of June 30, 2017 |         |            |  |                     |
|--|--------------------------------|---------|------------|--|---------------------|
|  | Level 1                        | Level 2 | Level 3    | Investments<br>measured at<br>NAV <sup>(1)</sup> | Total<br>fair value |
| <b>Assets:</b>   |                                |         |            |  |                     |
| Cash and cash equivalents  | \$ 36,034,272                  | —       | —          | —  | 36,034,272          |
| <b>Investments:</b>  |                                |         |            |  |                     |
| Money market funds   | 16,779,971                     | —       | —          | —  | 16,779,971          |
| Fixed income   | 33,040,376                     | —       | —          | —  | 33,040,376          |
| Domestic equity  | 41,366,155                     | —       | —          | 11,439,757                                       | 52,805,912          |
| International equity and<br>emerging market funds                      | 1,631,982                      | —       | —          | 94,792,293                                       | 96,424,275          |
| Hedge funds  | —                              | —       | —          | 307,187,516                                      | 307,187,516         |
| Real estate investments  | —                              | —       | 9,284,138  | 40,650,746                                       | 49,934,884          |
| Venture capital, private<br>equity, private energy<br>and private debt | —                              | —       | —          | 180,422,682                                      | 180,422,682         |
| Commodities  | —                              | —       | —          | 39,613   | 39,613              |
| Other investments  | —                              | —       | 885,701    | —  | 885,701             |
| Investments  | 92,818,484                     | —       | 10,169,839 | 634,532,607                                      | 737,520,930         |
| Beneficial interest in perpetual<br>trusts                             | —                              | —       | 19,854,821 | —  | 19,854,821          |
| Total  | \$ 128,852,756                 | —       | 30,024,660 | 634,532,607                                      | 793,410,023         |

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|  | Fair value as of June 30, 2016 |         |            |  |                  |
|--|--------------------------------|---------|------------|--|------------------|
|  | Level 1                        | Level 2 | Level 3    | Investments measured at NAV <sup>(1)</sup> | Total fair value |
| Assets:  |                                |         |            |  |                  |
| Cash and cash equivalents  | \$ 37,844,487                  | —       | —          | —  | 37,844,487       |
| Investments:   |                                |         |            |  |                  |
| Money market funds   | 25,245,265                     | —       | —          | —  | 25,245,265       |
| Fixed income   | 42,789,076                     | —       | —          | —  | 42,789,076       |
| Domestic equity  | 43,638,423                     | —       | —          | 11,497,583                                 | 55,136,006       |
| International equity and emerging market funds                   | 8,152,741                      | —       | —          | 68,430,159                                 | 76,582,900       |
| Hedge funds  | —                              | —       | —          | 260,524,288                                | 260,524,288      |
| Real estate investments  | —                              | —       | 6,447,692  | 38,355,254                                 | 44,802,946       |
| Venture capital, private equity, private energy and private debt | —                              | —       | —          | 157,010,834                                | 157,010,834      |
| Commodities  | —                              | —       | —          | 8,935,963                                  | 8,935,963        |
| Other investments  | —                              | —       | 1,259,183  | —  | 1,259,183        |
| Investments  | 119,825,505                    | —       | 7,706,875  | 544,754,081                                | 672,286,461      |
| Beneficial interest in perpetual trusts                          | —                              | —       | 18,738,232 | —  | 18,738,232       |
| Total  | \$ 157,669,992                 | —       | 26,445,107 | 544,754,081                                | 728,869,180      |

<sup>(1)</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

*Short-term investments* – The fair value of short-term investments, consisting primarily of a money market fund and short-term U.S. Treasury securities, is classified as Level 1 based on the nature and liquidity of such instruments.

*Fixed Income Securities* – Investments in fixed income securities are comprised of U.S. Treasury and other government notes and bonds, mortgage backed securities, municipal bonds and corporate bonds and notes. Corporate bonds and U.S. Treasury notes and bonds are classified as Level 1 if they are included in a bond fund or if they are traded with sufficient frequency and volume to enable the College to obtain pricing information from active markets.

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*Equity Securities* – Investments in marketable equity securities are measured at fair value using quoted market prices. They are classified as Level 1 when they are traded in an active market for which closing stock prices are readily available.

*Alternative Investments* – Investments in hedge funds, real estate investments, commodities, venture capital, private equity, private energy and private debt funds are generally reported at the NAV reported by the fund managers.

*Beneficial Interest in Perpetual Trusts* – The College’s beneficial interest in perpetual trusts administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant Level 3 unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trust’s assets, the fair value of the College’s beneficial interest is estimated to approximate the fair value of the trusts’ assets.

The following tables present a reconciliation of Level 3 financial instruments measured at fair value on a recurring basis for the years ended June 30, 2017 and 2016:

|   | <b>Balance at<br/>June 30, 2016</b> | <b>Net realized<br/>and<br/>unrealized<br/>gains<br/>(losses)</b> | <b>Purchases/<br/>contributions</b> | <b>Sales/<br/>distributions</b> | <b>Balance at<br/>June 30, 2017</b> |
|---|-------------------------------------|---|-------------------------------------|---------------------------------|-------------------------------------|
| Real estate investments                 | \$ 6,447,692                        | (109,546)   | 6,579,429                           | (3,633,437)                     | 9,284,138                           |
| Other investments                       | 1,259,183                           | (373,482)   | —                                   | —                               | 885,701                             |
| Beneficial interest in perpetual trusts | 18,738,232                          | 1,116,589   | —                                   | —                               | 19,854,821                          |
| Total                                   | <u>\$ 26,445,107</u>                | <u>633,561</u>  | <u>6,579,429</u>                    | <u>(3,633,437)</u>              | <u>30,024,660</u>                   |

|   | <b>Balance at<br/>June 30, 2015</b> | <b>Net realized<br/>and<br/>unrealized<br/>gains<br/>(losses)</b> | <b>Purchases/<br/>contributions</b> | <b>Sales/<br/>distributions</b> | <b>Balance at<br/>June 30, 2016</b> |
|---|-------------------------------------|---|-------------------------------------|---------------------------------|-------------------------------------|
| Real estate investments                 | \$ 5,050,569                        | 24,404  | 3,709,997                           | (2,337,278)                     | 6,447,692                           |
| Other investments                       | 1,254,707                           | 4,476   | —                                   | —                               | 1,259,183                           |
| Beneficial interest in perpetual trusts | 19,343,263                          | (539,486)   | 160,227                             | (225,772)                       | 18,738,232                          |
| Total                                   | <u>\$ 25,648,539</u>                | <u>(510,606)</u>  | <u>3,870,224</u>                    | <u>(2,563,050)</u>              | <u>26,445,107</u>                   |

During fiscal 2017 and 2016, there were no transfers between the fair value hierarchy levels. The change in net unrealized gains (losses) related to Level 3 assets still held at June 30, 2017 and 2016 was approximately \$0.7 million and \$(0.7) million, respectively. As of June 30, 2017 and June 30, 2016, the change was recorded in net realized and unrealized gains on charitable remainder trusts on the statement of activities.

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**(5) Land, Buildings, and Equipment**

The cost and estimated useful lives of land, buildings, and equipment are as follows at June 30, 2017 and 2016:

|                               | <b>2017</b>    | <b>2016</b>   | <b>Estimated<br/>useful lives</b> |
|-------------------------------|----------------|---------------|-----------------------------------|
| Land and improvements         | \$ 39,627,122  | 37,557,218    | 10 years                          |
| Buildings and improvements    | 276,515,781    | 272,564,166   | 20–50 years                       |
| Equipment                     | 30,298,672     | 34,139,073    | 5–20 years                        |
| Equipment under capital lease | 544,100        | —             | 7 years                           |
| Construction in progress      | 79,346,811     | 65,950,659    | —                                 |
|                               | 426,332,486    | 410,211,116   |                                   |
| Less accumulated depreciation | (132,856,376)  | (128,706,230) |                                   |
|                               | \$ 293,476,110 | 281,504,886   |                                   |

**(6) Leases**

The College has several noncancelable operating leases, primarily for office equipment, that expire over the next five years. These leases require the College to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ended June 30, 2017 and 2016 was \$565,807 and \$436,975, respectively.

During fiscal 2017, the College entered into a capital lease on equipment used for athletic purposes.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and the capital lease as of June 30, 2017 are as follows:

|                      | <b>Operating</b> | <b>Capital</b> |
|----------------------|------------------|----------------|
| Year ending June 30: |                  |                |
| 2018                 | \$ 351,099       | 129,377        |
| 2019                 | 265,207          | 133,711        |
| 2020                 | 210,063          | 138,191        |
| 2021                 | 38,176           | —              |
| 2022                 | 12,451           | —              |
| Thereafter           | —                | —              |
| Total                | \$ 876,996       | 401,279        |

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**(7) Bonds and Notes Payable**

Bonds payable at June 30, 2017 and 2016 consist of the following:

|   | <b>2017</b>   | <b>2016</b> |
|---|---------------|-------------|
| Serial bonds (Series 2012), 2% to 5%, maturing annually through March 1, 2042                       | \$ 19,600,000 | 19,700,000  |
| Serial bonds (Series 2014), 3.25% to 5%, maturing annually from March 1, 2018 through March 1, 2045 | 31,035,000    | 31,035,000  |
|   | 50,635,000    | 50,735,000  |
| Premium on bonds  | 4,252,468     | 4,447,025   |
| Debt issuance costs   | (469,737)     | (498,103)   |
|   | 54,417,731    | 54,683,922  |
| Less current portion  | (375,044)     | (266,192)   |
| Noncurrent portion  | \$ 54,042,687 | 54,417,730  |

The College's obligations under the bonds payable are unsecured, unconditional obligations.

A summary of repayments for the redemption of the bonds payable and related interest follows:

|                  | <b>Principal,<br/>including<br/>premium/<br/>discount/<br/>debt issue</b> | <b>Interest</b> | <b>Total</b> |
|------------------|---|-----------------|--------------|
| 2018             | \$ 375,044  | 2,279,500       | 2,654,544    |
| 2019             | 862,610   | 2,272,500       | 3,135,110    |
| 2020             | 882,840   | 2,243,300       | 3,126,140    |
| 2021             | 3,534,517   | 2,213,500       | 5,748,017    |
| 2022             | 1,376,210   | 2,051,150       | 3,427,360    |
| Subsequent years | 47,386,510  | 26,994,138      | 74,380,648   |
|                  | \$ 54,417,731   | 38,054,088      | 92,471,819   |

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Notes payable at June 30, 2017 and 2016 consist of the following:

|  | <b>2017</b>   | <b>2016</b>  |
|--|---------------|--------------|
| \$30,000,000, unsecured Taxable Commercial Paper Notes, variable rate (1.7% at June 30, 2017 and 0.80% to 0.15% at June 30, 2016), maturing no later than 270 days after the date of issuance of each note | \$ 12,700,000 | 12,700,000   |
| \$8,522,221 notes payable, due in annual installments through July 2017, non interest bearing  | —             | 1,903,480    |
| \$190,000 note payable, due in monthly installments plus interest at 4% through September 2022   | 65,332        | 76,293       |
|  | 12,765,332    | 14,679,773   |
| Less current portion   | (12,711,411)  | (13,751,589) |
| Noncurrent portion   | \$ 53,921     | 928,184      |

A summary of repayments for the redemption of the notes payable follows:

| Year ending June 30: |               |
|----------------------|---------------|
| 2018                 | \$ 12,711,411 |
| 2019                 | 11,876        |
| 2020                 | 12,360        |
| 2021                 | 12,863        |
| 2022                 | 16,822        |
| Total                | \$ 12,765,332 |

**(8) Benefit Plans**

Eligible college employees participate in the defined contribution retirement plan after one year of employment in which they complete at least 1,000 hours of service. The College contributes 8.5% of eligible compensation up to the Social Security earnings base, and 12.5% of any eligible compensation above the Social Security earnings base, up to the applicable limits of the Internal Revenue Code. In addition, the College will contribute an additional 1% for any employee who makes voluntary contributions to the plan of at least 1% of their eligible compensation. Employees are 100% vested after 3 years of service. Total employer contributions for the years ended June 30, 2017 and 2016 were \$5,079,354 and \$5,037,168, respectively.

The College also has a tax deferred annuity plan available to all employees. Participants are allowed to defer a portion of their compensation, within the applicable limits of the Internal Revenue Code, on a tax-deferred basis. Contributions are made by the employee to the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) or to Fidelity Investments for the purchase of retirement annuities which are owned by the employee.

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The College also has supplemental retirement plans for certain current and former employees. At June 30, 2017 and 2016, the related liability included in accounts payable and accrued expenses in the statement of financial position was \$478,162 and \$324,261 respectively, and the supplemental annual compensation to the former employee was approximately \$20,000 and \$23,000 in 2017 and in 2016, respectively. The liability and supplemental annual compensation are projected to increase over the vesting period.

**(9) Postretirement Benefits Other than Pensions**

The College also provides healthcare benefits to its retired employees. The following table provides a reconciliation of the changes in the Plan's projected benefit obligations and fair value of assets:

|   | <u>2017</u>            | <u>2016</u>         |
|---|------------------------|---------------------|
| Benefit obligation at beginning of year | \$ 21,833,064          | 22,999,477          |
| Service cost                            | 713,137                | 906,240             |
| interest cost                           | 775,936                | 998,098             |
| participant contributions               | 379,103                | 342,446             |
| Benefit paid                            | (1,157,352)            | (1,185,291)         |
| Actuarial gain                          | <u>(960,847)</u>       | <u>(2,227,906)</u>  |
| Benefit obligation at end of year       | 21,583,041             | 21,833,064          |
| Fair value of plan assets               | <u>—</u>               | <u>—</u>            |
| Funded status                           | (21,583,041)           | (21,833,064)        |
| Less current portion                    | <u>(862,650)</u>       | <u>(796,742)</u>    |
| noncurrent portion                      | <u>\$ (20,720,391)</u> | <u>(21,036,322)</u> |

Net periodic postretirement benefit cost for 2017 and 2016 includes the following components:

|  | <u>2017</u>         | <u>2016</u>      |
|--|---------------------|------------------|
| Service cost                             | \$ 713,137          | 906,240          |
| Interest cost                            | 775,936             | 998,098          |
| Prior service credit                     | (587,112)           | (710,318)        |
| Losses                                   | <u>203,072</u>      | <u>346,513</u>   |
| Net periodic postretirement benefit cost | <u>\$ 1,105,033</u> | <u>1,540,533</u> |

The measurement date for the plan is June 30, 2017. For measurement purposes, a 6.3% and 6.6% annual rate of increase in the per capita cost of covered benefits (i.e., healthcare cost trend rate) was assumed for 2017 and 2016, respectively, and the rate was assumed to decrease gradually to 4.5% by the year 2036 and remain at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of

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June 30, 2017 and 2016 by \$840,693 and \$968,655, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years ended June 30, 2017 and 2016 by \$85,028 and \$105,424, respectively. Total benefit payments made by the College for the years ended June 30, 2017 and 2016 were \$1,157,352 and \$1,185,291, respectively.

In October 2016, the Society of Actuaries released new data regarding observed mortality improvement (the RP-2014 Mortality Tables and the MSS-2016 Mortality Improvement Scale). The updated tables were considered by the College, and adopted, as of the June 30, 2017 measurement date.

The benefits expected to be paid in each year from 2018-2022 are \$862,650, \$912,607, \$960,700, \$1,002,132 and \$1,069,455 respectively. The aggregate benefits expected to be paid in the five years from 2023-2027 are \$5,913,235. The expected benefits to be paid are based on the same assumptions used to measure the College's benefit obligation at June 30.

The College did not contribute to the plan in 2016 or 2017 and does not expect to contribute to the plan in 2018. Unrecognized net losses were \$3,797,419 and \$4,961,338 and unrecognized prior service credits were \$0 and \$587,112 as of June 30, 2017 and 2016, respectively. The amount of net loss that is expected to be recognized as a component of expense in 2018 is \$119,382.

The discount rates used in determining the accumulated postretirement benefit obligation at June 30, 2017 and 2016, respectively, were as follows:

|  | 2017       |        | 2016       |        |
|--|------------|--------|------------|--------|
|  | Obligation | Cost   | Obligation | Cost   |
| Assumptions as of the measurement date – discount rate | 3.87 %     | 3.62 % | 3.62 %     | 4.42 % |

**(10) Restrictions and Limitations on Net Asset Balances**

At June 30, 2017 and 2016, temporarily restricted net assets consist of gifts and other unexpended revenues and gains available for the following purposes:

|   | 2017                  | 2016               |
|---|-----------------------|--------------------|
| Instruction and operational support                               | \$ 50,147,533         | \$ 54,783,500      |
| Endowment funds, income to be used for student financial aid      | 140,400,125           | 116,691,557        |
| Endowment funds, income to be used for professorships             | 53,955,527            | 47,716,729         |
| Endowment funds, income to be used for operations                 | 90,075,089            | 80,836,621         |
| Annuity, life income, and similar funds to be used for operations | 1,677,458             | 1,780,137          |
|   | <u>\$ 336,255,732</u> | <u>301,808,544</u> |

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At June 30, 2017 and 2016, permanently restricted net assets consist of the following:

|   | <b>2017</b>    | <b>2016</b> |
|---|----------------|-------------|
| Endowment funds and contributions receivable, income to be used for student financial aid | \$ 240,215,111 | 233,674,409 |
| Endowment funds and contributions receivable, income to be used for professorships        | 56,517,664     | 42,719,758  |
| Endowment funds and contributions receivable, income to be used for operations            | 78,184,292     | 73,228,263  |
| Annuity and life income funds held in perpetuity, income to be used for operations        | 2,276,315      | 2,266,644   |
|   | \$ 377,193,382 | 351,889,074 |

**(11) Expense Classification**

Expenses are reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. The College's primary program services are instruction and departmental research. Expenses reported as student services, general services and administration, and auxiliary enterprises are incurred in support of these primary program services. General services and administration includes fund raising expenses of \$6,204,696 in 2017 and \$7,072,160 in 2016.

Natural expenses for each of the years ended June 30, 2017 and 2016 were as follows:

|  | <b>2017</b>    | <b>2016</b> |
|--|----------------|-------------|
| Salaries and benefits  | \$ 78,844,963  | 77,639,131  |
| Depreciation expense   | 10,841,811     | 10,860,439  |
| Utilities  | 5,013,469      | 4,764,693   |
| Travel, including team travel                                  | 4,125,512      | 3,346,269   |
| Contracted/professional services                               | 3,655,771      | 3,411,103   |
| Technology, hardware and software                              | 2,523,810      | 3,160,178   |
| Cost of merchandise, auxiliaries                               | 2,711,880      | 2,935,954   |
| Educational and research publications and electronic resources | 2,596,453      | 2,445,055   |
| Interest expense   | 2,311,576      | 2,222,845   |
| Insurance and risk management services                         | 1,085,663      | 1,022,619   |
| Postretirement benefit plan                                    | (250,023)      | (1,166,413) |
| Other  | 9,401,989      | 9,046,166   |
|  | \$ 122,862,874 | 119,688,039 |

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### (12) Commitments and Contingencies

At June 30, 2017 and 2016, open contracts for the construction of physical properties amounted to \$3,699,474 and \$13,159,278, respectively.

Federally funded financial aid and other programs are routinely subject to audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the College, are required to be submitted to both the College and the U.S. Department of Education. Such agency has the authority to determine liabilities as well as to limit, suspend, or terminate Federal aid programs. While the ultimate liabilities, if any, cannot be determined at this time, management is of the opinion that such amounts, if any, will not have a material adverse effect on the College's financial position.

### (13) Related-Party Transaction

During the years ended June 30, 2017 and 2016, the College received pledges and gifts from board of trustee members and their affiliated organizations totaling \$6,338,877 and \$10,202,240, respectively. Of those amounts, \$2,840,921 in 2017 and \$1,642,387 in 2016 were for payment on pledges made in prior years.

During the years ended June 30, 2017 and 2016, the College entered into construction transactions totaling \$11,698,211 and \$37,389,361, respectively, with a business whose president is a member of the board of trustees. Management believes the terms of these transactions with the related party were consistent with those which could have been negotiated with unrelated parties. As of June 30, 2017 and 2016, the College owed \$2,544,861 and \$3,653,740, respectively, to this business.

### (14) Endowment

The College's endowment consists of approximately 1,200 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

#### (a) Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as providing, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the College to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility allows an expenditure that lowers the value of the corpus of an endowment fund below its book value. The College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment which are not expendable on a current basis, (b) the original value of subsequent gifts to the permanent endowment which are not expendable on a current basis and (c) accumulations to the permanent endowment, which are not expendable on a current basis, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the College and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the College
- (7) The investment policies of the College

At June 30, 2017, the endowment fund net asset composition was as follows:

|                                  | <u>Unrestricted</u>   | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
|----------------------------------|-----------------------|-----------------------------------|-----------------------------------|--------------------|
| Donor-restricted endowment funds | \$ (5,114)            | 284,430,741                       | 329,766,217                       | 614,191,844        |
| Board-designated endowment funds | <u>102,011,179</u>    | <u>—</u>                          | <u>—</u>                          | <u>102,011,179</u> |
| Total endowed net assets         | \$ <u>102,006,065</u> | <u>284,430,741</u>                | <u>329,766,217</u>                | <u>716,203,023</u> |

At June 30, 2016, the endowment fund net asset composition was as follows:

|                                  | <u>Unrestricted</u>  | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
|----------------------------------|----------------------|-----------------------------------|-----------------------------------|--------------------|
| Donor-restricted endowment funds | \$ (369,359)         | 245,244,907                       | 312,026,545                       | 556,902,093        |
| Board-designated endowment funds | <u>91,754,866</u>    | <u>—</u>                          | <u>—</u>                          | <u>91,754,866</u>  |
| Total endowed net assets         | \$ <u>91,385,507</u> | <u>245,244,907</u>                | <u>312,026,545</u>                | <u>648,656,959</u> |

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In addition to the endowment fund net assets noted above, there were \$14,195,707 and \$13,269,181 at June 30, 2017 and 2016, respectively, which management designated for longer term use and invested with the endowment net assets.

Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

|  | <u>Unrestricted</u>   | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
|--|-----------------------|-----------------------------------|-----------------------------------|--------------------|
| Endowment net assets,<br>June 30, 2016                         | \$ 91,385,507         | 245,244,907                       | 312,026,545                       | 648,656,959        |
| Investment return:   |                       |                                   |                                   |                    |
| Investment income  | —                     | 1,594,008                         | —                                 | 1,594,008          |
| Recovery of losses on<br>perpetual funds with a<br>deficiency  | 364,245               | (364,245)                         | —                                 | —                  |
| Net realized and unrealized<br>losses                          | <u>6,538,931</u>      | <u>69,128,119</u>                 | <u>—</u>                          | <u>75,667,050</u>  |
| Total investment<br>loss                                       | 6,903,176             | 70,357,882                        | —                                 | 77,261,058         |
| Contributions and reinvested<br>income                         | 3,310,708             | 134,158                           | 17,739,672                        | 21,184,538         |
| Appropriation of endowment<br>assets for expenditure           | —                     | (31,306,206)                      | —                                 | (31,306,206)       |
| Transfers to create board<br>designated funds                  | 628,608               | —                                 | —                                 | 628,608            |
| Appropriation of quasi-<br>endowment assets for<br>expenditure | <u>(221,934)</u>      | <u>—</u>                          | <u>—</u>                          | <u>(221,934)</u>   |
| Endowment net assets,<br>June 30, 2017                         | \$ <u>102,006,065</u> | <u>284,430,741</u>                | <u>329,766,217</u>                | <u>716,203,023</u> |

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Changes in endowment net assets for the fiscal year ended June 30, 2016 is as follows:

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
|--|----------------------|-----------------------------------|-----------------------------------|--------------------|
| Endowment net assets,<br>June 30, 2015                         | \$ 95,654,819        | 276,581,652                       | 296,369,973                       | 668,606,444        |
| Investment return:   |                      |                                   |                                   |                    |
| Investment income  | —                    | 2,493,768                         | —                                 | 2,493,768          |
| Recovery of losses on<br>perpetual funds with a<br>deficiency  | (142,018)            | 142,018                           | —                                 | —                  |
| Net realized and unrealized<br>losses                          | <u>(5,226,383)</u>   | <u>(4,623,655)</u>                | <u>—</u>                          | <u>(9,850,038)</u> |
| Total investment<br>loss                                       | (5,368,401)          | (1,987,869)                       | —                                 | (7,356,270)        |
| Contributions and reinvested<br>income                         | 505,001              | 23,703                            | 15,656,572                        | 16,185,276         |
| Appropriation of endowment<br>assets for expenditure           | —                    | (29,372,579)                      | —                                 | (29,372,579)       |
| Transfers to create board<br>designated funds                  | 981,970              | —                                 | —                                 | 981,970            |
| Appropriation of quasi-<br>endowment assets for<br>expenditure | <u>(387,882)</u>     | <u>—</u>                          | <u>—</u>                          | <u>(387,882)</u>   |
| Endowment net assets,<br>June 30, 2016                         | <u>\$ 91,385,507</u> | <u>245,244,907</u>                | <u>312,026,545</u>                | <u>648,656,959</u> |

**(b) Endowment Spending Policy**

The College's spending policy is to appropriate 5% of the average of the December 31 year-end market values for the immediately preceding five years for annual College operations. In establishing the policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate at least equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

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### **(c) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the College to retain as a fund of perpetual duration. Deficiencies of this nature were \$5,114 and \$369,359 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

### **(d) Return Objectives and Risk Parameters**

The endowment fund exists to provide a consistent and growing stream of financial support to the College's annual budget in perpetuity while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Given this need to preserve long-term purchasing power, the investment objective for the endowed assets is to attain a real total return of at least 5% over long time horizons. Actual returns in any given year may vary from this amount.

### **(15) Subsequent Events**

The College has performed an evaluation of subsequent events through October 17, 2017, which is the date the financial statements were available to be issued, and determined that there are no additional items to disclose.