THE TRUSTEES OF DAVIDSON COLLEGE

Financial Statements

June 30, 2020
(with summarized information for 2019)

(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, which comprise the statement of financial position as of June 30, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Greensboro, North Carolina
October 16, 2020

THE TRUSTEES OF DAVIDSON COLLEGE

Statement of Financial Position

June 30, 2020
(with comparative financial information as of June 30, 2019)

Assets		2020	2019
Current assets:			
Cash and cash equivalents	$	50,334,418	51,425,176
Short-term investments (note 4)		48,283,167	21,491,735
Accounts receivable, less allowance for doubtful accounts of $14,997 in 2020 and $13,763 in 2019		3,641,930	5,403,648
Contributions receivable, net (note 3)		21,272,143	21,989,914
Other assets		3,133,793	3,585,106
Total current assets		126,665,451	103,895,579
Noncurrent assets:			
Contributions receivable, net (note 3)		36,660,829	46,121,348
Investments (note 4)		866,754,527	863,233,077
Beneficial interest in perpetual trusts		30,381,957	27,819,543
Land, buildings, and equipment, net (note 6)		286,550,815	286,929,622
Total noncurrent assets		1,220,348,128	1,224,103,590
Total assets	$	1,347,013,579	1,327,999,169
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	14,612,845	17,485,261
Notes payable (note 8)		12,662,360	12,662,360
Bonds payable (note 8)		3,534,516	879,553
Postretirement benefits other than pensions (note 10)		954,926	954,520
Total current liabilities		31,764,647	31,981,694
Noncurrent liabilities:			
Notes payable (note 8)		16,290	29,685
Advance payments, deferred revenues, and other liabilities		6,527,910	6,632,153
Bonds payable (note 8)		48,762,722	52,300,524
Postretirement benefits other than pensions (note 10)		22,558,768	19,862,256
Total noncurrent liabilities		77,865,690	78,824,618
Total liabilities		109,630,337	110,806,312
Net assets:			
Without donor restrictions:			
Undesignated		11,586,576	15,812,090
Quasi-endowment (note 16)		115,962,218	115,212,147
Investments in plant fund		223,951,804	222,117,890
		351,500,598	353,142,127
With donor restrictions (note 11)		885,882,644	864,050,730
Total net assets		1,237,383,242	1,217,192,857
Total liabilities and net assets	$	1,347,013,579	1,327,999,169

See accompanying notes to financial statements.

THE TRUSTEES OF DAVIDSON COLLEGE

Statement of Activities

Year ended June 30, 2020
(with summarized financial information for the year ended June 30, 2019)

	2020			
	Without donor restrictions	With donor restrictions	Total	2019
Operating:				
Revenues, gains, and other support:				
Net student revenue (note 12)	$ 63,702,548	—	63,702,548	66,698,714
Private gifts and grants	5,360,196	13,697,241	19,057,437	17,374,883
Governmental grants and contracts	2,871,593	—	2,871,593	2,262,123
Investment income (note 4)	2,892,838	28,545	2,921,383	2,991,583
Endowment income and gains distributed (notes 4 and 16)	28,010,788	8,604,408	36,615,196	33,831,964
Net realized and unrealized losses on investments (note 4)	(112,850)	—	(112,850)	(143,154)
Sales and services of auxiliary enterprises	7,392,171	337,120	7,729,291	9,066,011
Other income	4,119,026	86,658	4,205,684	4,521,526
Total operating revenues and gains	114,236,310	22,753,972	136,990,282	136,603,650
Net assets released from restrictions	19,489,135	(19,489,135)	—	—
Total revenues, gains, and other support	133,725,445	3,264,837	136,990,282	136,603,650
Expenses and losses (note 13):				
Instruction and departmental research	55,295,089	—	55,295,089	55,851,596
Student services	31,791,368	—	31,791,368	31,760,734
General services and administration	21,654,386	—	21,654,386	23,087,109
Auxiliary enterprises	24,080,539	—	24,080,539	25,781,068
Total expenses and losses	132,821,382	—	132,821,382	136,480,507
Change in net assets from operating activities	904,063	3,264,837	4,168,900	123,143
Nonoperating:				
Private gifts and grants	1,090,168	16,788,598	17,878,766	54,072,117
Investment (loss) income on charitable remainder trusts (note 4)	(7,352)	19,820	12,468	55,129
Endowment income and gains distributed (notes 4 and 16)	519,861	961,214	1,481,075	1,622,900
Net realized and unrealized (losses) gains and income on investments net of distributions and fees (note 4)	(347,370)	(1,517,042)	(1,864,412)	28,677,171
Net realized and unrealized gains on charitable remainder trusts (note 4)	172,608	2,832,537	3,005,145	1,265,312
Change in value of split-interest agreements (note 4)	(68,325)	(217,288)	(285,613)	406,364
Periodic postretirement benefit cost other than service cost (note 10)	(699,681)	—	(699,681)	(928,369)
Nonperiodic changes in postretirement benefits	(2,815,415)	—	(2,815,415)	1,090,416
Change in donor intent	(97,606)	97,606	—	—
Other	(292,480)	(398,368)	(690,848)	(760,025)
Change in net assets from nonoperating activities	(2,545,592)	18,567,077	16,021,485	85,501,015
Change in net assets	(1,641,529)	21,831,914	20,190,385	85,624,158
Net assets at beginning of year	353,142,127	864,050,730	1,217,192,857	1,131,568,699
Net assets at end of year	$ 351,500,598	885,882,644	1,237,383,242	1,217,192,857

See accompanying notes to financial statements.

THE TRUSTEES OF DAVIDSON COLLEGE

Statement of Cash Flows

Year ended June 30, 2020
(with comparative financial information for the year ended June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 20,190,385	85,624,158
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	13,401,614	13,015,537
Accretion of bond premium/amortization of debt issuance costs	(187,839)	(182,610)
Change in allowance for doubtful accounts receivable	1,234	(995)
Net realized and unrealized gains on investments	(38,353,512)	(64,389,971)
Private gifts and grants restricted for long-term investments	(24,026,580)	(28,030,175)
Private gifts and grants restricted for capital projects	(923,166)	(1,704,004)
Investment income restricted for long-term investments	(981,034)	(1,238,614)
Gains restricted for long-term investments	(304,473)	(1,141,068)
Gifts in kind	(4,580,094)	(7,776,132)
Proceeds from sales of donated financial assets	3,286,855	7,358,017
Contribution of beneficial interest in perpetual trusts	—	(11,880,539)
Loss on disposal of assets	343,137	3,539
Decrease (increase) in accounts receivable	1,760,484	(1,179,181)
Decrease (increase) in contributions receivable	10,178,290	(11,956,980)
Decrease (increase) in other assets	451,313	(803,163)
(Decrease) increase in accounts payable and accrued expenses	(712,985)	1,493,207
Increase (decrease) in postretirement benefits other than pensions	2,696,918	(488,897)
Net cash used in operating activities	(17,759,453)	(23,277,871)
Cash flows from investing activities:		
Purchases of property and equipment	(15,343,003)	(10,555,283)
Proceeds from sales and maturities of investments	207,519,633	140,273,804
Purchases of investments	(200,758,388)	(130,235,031)
Distribution of beneficial interest in perpetual trusts	11,315	4,721,351
(Decrease) increase in deposits with bond trustees	(1,107)	10,677
Net cash (used in) provided by investing activities	(8,571,550)	4,215,518
Cash flows from financing activities:		
Principal payments on notes payable	(13,395)	(2,411,876)
Principal payments on bonds payable	(695,000)	(680,000)
Principal payments on capital lease obligations	(138,191)	(133,711)
Proceeds from issuance of notes payable	—	1,000,000
Decrease in annuities payable	(148,422)	(242,180)
Proceeds from private gifts and grants restricted for long-term investments	24,026,580	28,030,175
Private gifts and grants restricted for capital projects	923,166	1,704,004
Investment income restricted for long-term investments	981,034	1,238,614
Gains restricted for long-term investments	304,473	1,141,068
Net cash provided by financing activities	25,240,245	29,646,094
Net (decrease) increase in cash and cash equivalents	(1,090,758)	10,583,741
Cash and cash equivalents at beginning of year	51,425,176	40,841,435
Cash and cash equivalents at end of year	$ 50,334,418	51,425,176
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,268,785	2,510,925
Contributions of investment securities	3,254,269	7,488,299
Change in accounts payable attributable to property, plant and equipment purchases	(1,977,061)	1,469,358

See accompanying notes to financial statements.

(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:

- Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenses are reported as decreases in net assets without donor restrictions.
- Net assets with donor restrictions are subject to donor-imposed restrictions that will be met either by actions of the College or the passage of time. These net assets include donor restricted endowments, unconditional pledges, split interest agreements, and interests in perpetual trusts held by others. Generally, the donors' imposed restrictions of these assets permit the College to use all or part of the income earned on related investments only for certain general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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 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 are reported as revenues in net assets without donor restrictions.

Gains and losses on investments restricted by explicit external stipulations are reported as increases or decreases in net assets with donor restrictions. Gains and losses on investments where donor-imposed restrictions are met in the same year are reported as increases or decreases in net assets without donor restrictions. Gains and losses on perpetual trusts held by others are reported as increases or decreases in net assets with donor restrictions.

The College has defined nonoperating activities to include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to annuity and unitrust agreements, 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, fair 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. 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.

Cash and cash equivalents treated as investments are not considered cash for purposes of the Statement of Cash Flows.

(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 6. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings.

(f) Collections

The College has various works of art, literary works, historical treasures, paintings, and other items. In accordance with accounting for contributions, an entity need not recognize such items in its financial statements if the items are added to collections held for public exhibition, education, or research in furtherance of public service rather than financial gain. If purchased, the collection items are expensed, if donated, they are not reflected in the financial statements. The works of art and historical treasures are subject to a policy that requires proceeds from their sales to be used to acquire other items of works of art or historical treasures. Proceeds from insurance recoveries are reflected as increases in the appropriate net asset class. There were no proceeds from sale of collection items or proceeds from insurance recoveries of collection items in fiscal year 2020 or 2019.

(g) 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 net assets with donor restrictions and the net realized and unrealized gains of beneficial interest in perpetual trusts is recorded in the net asset class as designated by the donors.

(h) 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, 2019, from which the summarized information was derived.

(i) 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.

(j) Fair Value of Financial Instruments

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.

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.

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.

(k) Governmental grants and contracts

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 and conditions under the agreement are met. Such amounts received, but not yet earned, are reported as deferred revenues. The College has elected the simultaneous release policy, which allows a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restriction if the restriction is met in the same period that the revenue is recognized. Further, the College recognizes that a contribution is conditional if the agreement includes both (a) a barrier or barriers that must be overcome for the recipient to be entitled to the assets transferred and (b) a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. Revenue from exchange grants and contracts is recognized as the College substantially meets the performance obligations contained in the agreement of the sponsor.

(l) Revenue from Contracts with Customers

Student tuition and fees (student revenue) are recorded as revenue during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Scholarships and aid provided by the College for tuition and fees is reflected as a reduction of gross tuition and fee revenue.

Sales and services of auxiliary enterprises include the college store, WDAV-FM radio station and certain college housing. Fees are received and recognized when the performance obligations are met and typically occur in the same fiscal year.

Other income includes revenues generated by the College under contractual arrangements deemed to be exchange transactions. Major revenue streams include athletics ticket sales and sponsorships, media rights, licensing and other contracts which are received and recognized when the goods and services are rendered, and typically occur in the same fiscal year.

(m) 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, 2020 and 2019, management has determined there were no material uncertain tax positions.

(n) Notes Payable

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

(o) 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.

(p) Recently Issued Accounting Standards

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, as amended, 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. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which allows a limited deferral of the effective date of ASU 2016-02. Accordingly, the provisions of ASU 2016-02 are effective for the College as of July 1, 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. ASU 2016-18 requires that the statement of cash flows includes changes in restricted cash during the periods presented. It also requires additional disclosure of the nature of restrictions on cash and cash equivalents. ASU 2016-18 was effective for fiscal 2020 with no significant impact to total cash and cash equivalents presented in the statement of cash flows.

(2) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30 are as follows:

Cash and cash equivalents	$	42,228,748
Investments		21,437,805
Accounts receivable		3,641,930
Contributions receivable		8,869,642
Total	$	76,178,125

The College's endowment funds consist of donor-restricted endowments and quasi-endowments. Income from the donor-restricted endowments is restricted for specific purposes and, therefore is not included above as available for general expenditure. However, the specific purposes are aligned with the operations of the College. The total endowment earnings to be appropriated for expenditure within one year of June 30, 2020 are approximately $38 million.

The College manages its financial assets to be available when operating expenditures, liabilities and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. Additionally, the College has $115,962,218 of quasi-endowments. Although the College does not intend to spend from its quasi-endowment funds, other than amounts appropriated for general expenditure as part of its annual budget approval process, amounts from its quasi-endowment funds could be made available if necessary.

(3) Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30, 2020 and 2019:

		2020	2019
Unconditional promises expected to be collected in:			
Less than one year	$	23,136,675	23,421,852
One year to five years		33,314,905	44,097,164
Over five years		20,578,000	21,375,695
		77,029,580	88,894,711
Less allowance for uncollectible contributions receivable		(1,913,717)	(1,514,034)
		75,115,863	87,380,677
Less unamortized discount (discount rates ranging from 3.5% to 6.56%)		(17,182,891)	(19,269,415)
		57,932,972	68,111,262
Less current portion		(21,272,143)	(21,989,914)
Noncurrent portion	$	36,660,829	46,121,348

At June 30, 2020 and 2019, the ten (10) largest outstanding donor pledge balances represented 76% and 75%, respectively, of the College’s gross contributions receivable.

(4) Investments

Fair value of investments is summarized as follows:

	Fair value as of June 30 2020	Fair value as of June 30 2019	June 30, 2020 Unfunded commitments	June 30, 2020 Redemption frequency (if currently eligible)	June 30, 2020 Redemption notice period (in days)
Money market funds [a]	$ 43,142,366	16,313,909	—	Daily	1 day
Fixed income [b]	18,043,492	27,841,831	—	Daily	1 day
Domestic equity [c]	14,750,221	32,600,591	—	Daily – quarter	1–60 days
International equity and emerging market funds [c]	116,488,210	119,899,530	—	Daily – annually	1–180 days
Hedge funds [d]	337,140,023	349,131,793	2,226,644	Monthly – annually	1–6 months
Real estate investments [e]	45,869,521	48,252,051	19,027,744	N/A	N/A
Venture capital, private equity, private energy, and private debt investments [f]	338,779,705	289,877,550	96,537,862	N/A	N/A
Other investments [g]	824,156	807,557	—	N/A	N/A
	$ 915,037,694	884,724,812	117,792,250		

(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. government and U.S. 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 1-180 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. Twelve 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 1–3 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.

(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 NAV as estimated by the manager. Certain investments in this category represent a direct investment in real estate held for sale.

(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) 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, 2020, a total of 1,461,283 units existed in the pool and the fair value per unit was $619.78. At June 30, 2019, a total of 1,417,558 units existed in the pool and the fair value per unit was $621.69. The annual earnings per unit, exclusive of the net increase in the fair value of investments, amounted to $1.49 for the fiscal year ended June 30, 2020 and $1.67 for the fiscal year ended June 30, 2019.

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, 2020 and 2019.

At June 30, 2020, 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:

		Projected capital calls
Fiscal year:		
2021	$	34,567,024
2022		23,151,940
2023		16,570,419
2024		9,720,830
2025		4,299,810
Thereafter		29,482,227
Total	$	117,792,250

(5) Fair Value Measurements

The following is a summary of the levels within the fair value hierarchy for the College's financial assets that are measured at fair value on a recurring basis as of June 30, 2020 and 2019:

		Fair value as of June 30, 2020				
		Level 1	Level 2	Level 3	Investments measured at NAV(1)	Total fair value
Assets:						
Cash and cash equivalents	$	50,334,418	—	—	—	50,334,418
Investments:						
Money market funds		43,142,366	—	—	—	43,142,366
Fixed income		18,043,492	—	—	—	18,043,492
Domestic equity		14,629,029	—	—	121,192	14,750,221
International equity and emerging market funds		1,675,549	—	—	114,812,661	116,488,210
Hedge funds		—	—	—	337,140,023	337,140,023
Real estate investments		—	—	3,362,221	42,507,300	45,869,521
Venture capital, private equity, private energy and private debt		—	—	—	338,779,705	338,779,705
Other investments		—	—	824,156	—	824,156
Investments		77,490,436	—	4,186,377	833,360,881	915,037,694
Beneficial interest in perpetual trusts		—	—	30,381,957	—	30,381,957
Total	$	127,824,854	—	34,568,334	833,360,881	995,754,069

THE TRUSTEES OF DAVIDSON COLLEGE

Notes to Financial Statements

June 30, 2020
(with summarized information for 2019)

	Fair value as of June 30, 2019				
	Level 1	Level 2	Level 3	Investments measured at NAV[(1)]	Total fair value
Assets:					
Cash and cash equivalents	$ 51,425,176	—	—	—	51,425,176
Investments:					
Money market funds	16,313,909	—	—	—	16,313,909
Fixed income	27,841,831	—	—	—	27,841,831
Domestic equity	25,423,830	—	—	7,176,761	32,600,591
International equity and emerging market funds	1,678,432	—	—	118,221,098	119,899,530
Hedge funds	—	—	—	349,131,793	349,131,793
Real estate investments	—	—	5,967,777	42,284,274	48,252,051
Venture capital, private equity, private energy and private debt	—	—	—	289,877,550	289,877,550
Other investments	—	—	807,557	—	807,557
Investments	71,258,002	—	6,775,334	806,691,476	884,724,812
Beneficial interest in perpetual trusts	—	—	27,819,543	—	27,819,543
Total	$ 122,683,178	—	34,594,877	806,691,476	963,969,531

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a 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:

Money market funds – Investments in money market funds are 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.

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.

Real estate investments – Investments in real estate held for sale for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs.

Beneficial interest in perpetual trusts – The College's beneficial interest in perpetual trusts administered by a third party is 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, 2020 and 2019:

	Balance at June 30, 2019	Net realized and unrealized gains	Purchases/ contributions	Sales/ distributions	Balance at June 30, 2020
Real estate investments	$ 5,967,777	—	2,443,227	(5,048,783)	3,362,221
Other investments	807,557	35,019	—	(18,420)	824,156
Beneficial interest in perpetual trusts	27,819,543	2,574,810	—	(12,396)	30,381,957
Total	$ 34,594,877	2,609,829	2,443,227	(5,079,599)	34,568,334

	Balance at June 30, 2018	Net realized and unrealized gains	Purchases/ contributions	Sales/ distributions	Balance at June 30, 2019
Real estate investments	$ 7,508,195	273,400	3,748,339	(5,562,157)	5,967,777
Other investments	933,517	21,138	—	(147,098)	807,557
Beneficial interest in perpetual trusts	20,281,920	378,435	11,880,539	(4,721,351)	27,819,543
Total	$ 28,723,632	672,973	15,628,878	(10,430,606)	34,594,877

During fiscal 2020 and 2019, there were no transfers between the fair value hierarchy levels. The change in net unrealized gains related to Level 3 assets still held at June 30, 2020 and 2019 was approximately $2.6 million and $0.6 million, respectively. As of June 30, 2020 and June 30, 2019, the change was recorded in net realized and unrealized gains on charitable remainder trusts on the statement of activities.

(6) Land, Buildings, and Equipment

The cost and estimated useful lives of land, buildings, and equipment are as follows at June 30, 2020 and 2019:

		2020	2019	Estimated useful lives
Land and improvements	$	44,812,792	43,430,652	10–20 years
Buildings and improvements		370,071,916	356,541,978	20–50 years
Equipment		36,995,097	34,973,681	5–20 years
Equipment under capital lease		—	544,100	7 years
Construction in progress		2,356,851	6,540,026	—
		454,236,656	442,030,437	
Less accumulated depreciation		(167,685,841)	(155,100,815)	
	$	286,550,815	286,929,622	

(7) 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, 2020 and 2019 was $528,102 and $505,387, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2020 are as follows:

		Operating
Year ending June 30:		
2021	$	463,878
2022		394,160
2023		339,011
2024		283,831
2025		184,567
Thereafter		156,666
Total	$	1,822,113

(8) Bonds and Notes Payable

Bonds payable at June 30, 2020 and 2019 consist of the following:

		2020	2019
Serial bonds (Series 2012), 2% to 5%, maturing annually through March 1, 2042	$	18,525,000	19,020,000
Serial bonds (Series 2014), 3.25% to 5%, maturing annually from March 1, 2018 through March 1, 2045		30,535,000	30,735,000
		49,060,000	49,755,000
Premium on bonds		3,622,396	3,838,268
Debt issuance costs		(385,158)	(413,191)
		52,297,238	53,180,077
Less current portion		(3,534,516)	(879,553)
Noncurrent portion	$	48,762,722	52,300,524

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

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

		Principal, including premium/ debt issue
2021	$	3,534,516
2022		1,376,210
2023		1,426,383
2024		1,492,328
2025		1,542,838
Subsequent years		42,924,963
	$	52,297,238

Notes payable at June 30, 2020 and 2019 consist of the following:

		2020	2019
$30,000,000, unsecured Taxable Commercial Paper Notes, variable rate (0.42% at June 30, 2020 and 2.5% at June 30, 2019), maturing no later than 270 days after the date of issuance of each note	$	12,650,000	12,650,000
$190,000 note payable, due in monthly installments plus interest at 4% through September 2022		28,650	42,045
		12,678,650	12,692,045
Less current portion		(12,662,360)	(12,662,360)
Noncurrent portion	$	16,290	29,685

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

Year ending June 30:		
2021	$	12,662,360
2022		12,357
2023		3,933
Total	$	12,678,650

(9) 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, 2020 and 2019 were $5,423,233 and $5,241,618, 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.

The College also has supplemental retirement plans for certain current and former employees. At June 30, 2020 and 2019, the related liability included in accounts payable and accrued expenses in the statement of financial position was $1,270,791 and $827,268 respectively, and the supplemental annual compensation to the former employee was approximately $20,000 in 2020 and in 2019. The liability and supplemental annual compensation are projected to increase over the vesting period.

(10) Postretirement Benefits Other than Pensions

The College also provides healthcare benefits to retired employees who were hired prior to October 1, 2016, and who meet the eligibility requirements of the Plan. The following table provides a reconciliation of the changes in the Plan's projected benefit obligations and fair value of assets:

		2020	2019
Benefit obligation at beginning of year	$	20,816,776	21,305,673
Service cost		534,116	601,730
Interest cost		699,681	869,495
Participant contributions		444,608	425,211
Benefit paid		(1,796,902)	(1,353,791)
Actuarial loss (gain)		2,815,415	(1,031,542)
Benefit obligation at end of year		23,513,694	20,816,776
Fair value of plan assets		—	—
Funded status		(23,513,694)	(20,816,776)
Less current portion		(954,926)	(954,520)
Noncurrent portion	$	(22,558,768)	(19,862,256)

Net periodic postretirement benefit cost for 2020 and 2019 includes the following components:

		2020	2019
Interest cost	$	699,681	869,495
Loss amortization		—	58,875
Periodic postretirement benefit cost other than service cost		699,681	928,370
Service cost		534,116	601,730
Net periodic postretirement benefit cost	$	1,233,797	1,530,100

The measurement date for the plan is June 30th. For measurement purposes, a 5.6% and 5.8% annual rate of increase in the per capita cost of covered benefits (i.e., healthcare cost trend rate) was assumed for 2020 and 2019, 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 June 30, 2020 and 2019 by $818,085 and $837,298, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years ended June 30, 2020 and 2019 by $73,505 and $75,231, respectively.

As of the June 30, 2020 measurement date, the College adopted the headcount weighted HRP2014 mortality tables and projected generational mortality improvement with MSS-2019 released by the Society of Actuaries regarding observed mortality improvement.

The benefits expected to be paid in each year from 2021-2025 are $954,926, $1,028,973, $1,025,078, $1,070,733 and $1,121,717 respectively. The aggregate benefits expected to be paid in the five years from 2026-2030 are $6,234,207. The expected benefits to be paid are based on the same assumptions used to measure the College’s benefit obligation at June 30, 2020.

The College did not contribute to the plan in 2019 or 2020 and does not expect to contribute to the plan in 2021 as benefits are paid through operations. Net losses recognized as changes in net assets without donor restrictions arising from the plan but not yet included in net periodic benefit cost were $4,648,321 and $1,832,906 as of June 30, 2020 and 2019, respectively. The amount of net loss that is expected to be recognized as a component of periodic postretirement benefit cost in 2020 is $0.

The discount rates used in determining the projected postretirement benefit obligation at June 30, 2020 and 2019, respectively, and cost for 2020 and 2019 were as follows:

	2020		2019	
	Obligation	**Cost**	**Obligation**	**Cost**
Assumptions as of the measurement date – discount rate	2.58 %	3.44 %	3.44 %	4.17 %

(11) Restrictions and Limitations on Net Asset Balances

At June 30, 2020, net assets consist of gifts and other unexpended revenues and gains available for the following purposes:

	Without donor restriction	With donor restriction	Total
Instruction and operational support	$ 90,253,342	205,739,274	295,992,616
Student scholarships and aid	33,740,126	507,805,278	541,545,404
Professorships	1,136,673	132,924,195	134,060,868
Investment in plant, contributions receivable	223,951,804	5,788,853	229,740,657
Annuity, life income, and similar funds, income to be used for operations	2,418,653	33,625,044	36,043,697
	$ 351,500,598	885,882,644	1,237,383,242

At June 30, 2019, net assets consist of gifts and other unexpended revenues and gains available for the following purposes:

	Without donor restriction	With donor restriction	Total
Instruction and operational support	$ 96,382,843	196,726,016	293,108,859
Student scholarships and aid	31,134,551	493,845,904	524,980,455
Professorships	1,140,175	132,938,865	134,079,040
Investment in plant, contributions receivable	222,117,890	9,414,002	231,531,892
Annuity, life income, and similar funds, income to be used for operations	2,366,668	31,125,943	33,492,611
	$ 353,142,127	864,050,730	1,217,192,857

(12) Student Revenues

Student services revenue consists of charges for tuition and fees, housing and dining. Such revenue is presented at transaction prices, which are determined based on standard published rates for the services provided less scholarships and aid awarded by the College to qualifying students.

For the years ended June 30, 2020 and 2019, revenue from student services were as follows:

		2020	2019
Tuition and fees at published rates	$	100,409,628	96,879,905
Housing and dining at published rates		16,609,084	21,171,725
Scholarships and aid		(53,316,164)	(51,352,916)
Net student revenue	$	63,702,548	66,698,714

In March 2020, due to the COVID-19 pandemic, the College made the decision to send students home and issue pro-rata credits for housing and meal plans totaling $5,385,500. This decision resulted in a negative impact on the College's net student revenue as compared with the same period for the year ended June 30, 2019.

(13) 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. Expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques. Expenses such as depreciation, interest, and operation and maintenance of plant, are allocated on a square-footage basis. Technology and innovation are allocated equally to instruction and research and administrative expenses. Total operation and maintenance of plant and technology and innovation costs allocated are $8,165,152 and $6,672,406, respectively in 2020 and $8,998,593 and $6,536,550, respectively, in 2019. General services and administration includes fund raising expenses of $8,354,561 and $7,700,939, and operation and maintenance of plant of $432,753 and $476,925 in 2020 and 2019, respectively.

Natural expenses for the years ended June 30, 2020 and 2019 were as follows:

	2020					
	Instruction and departmental research	Student services	General services and administration	Auxiliary enterprises	Total	2019
Salaries and benefits	$ 40,862,298	18,176,128	15,436,530	9,819,484	84,294,440	82,330,197
Depreciation expense	4,190,685	3,610,395	710,285	4,890,249	13,401,614	13,015,537
Utilities	428,406	365,206	100,582	2,031,687	2,925,881	3,209,879
Travel, including team travel	952,796	1,983,746	292,769	16,247	3,245,558	4,886,008
Contracted/professional services	765,866	1,504,942	1,323,515	1,808,540	5,402,863	6,621,260
Technology, hardware and software	1,164,977	149,225	1,350,727	38,204	2,703,133	2,473,700
Cost of merchandise, auxiliaries	—	—	—	2,435,088	2,435,088	3,383,583
Interest expense	709,443	611,205	120,245	827,872	2,268,765	2,510,925
Student grants and awards	924,586	1,097,341	25,550	25,598	2,073,075	2,359,211
Educational and research publications and electronic resources	1,760,360	32,435	65,062	8,094	1,865,951	2,067,282
Insurance and risk management services	731	199,861	883,130	902	1,084,624	951,119
Postretirement benefit plan service cost (benefit)	(396,617)	(176,421)	(149,830)	(95,310)	(818,178)	601,730
Other	3,931,558	4,237,305	1,495,821	2,273,884	11,938,568	12,070,076
	$ 55,295,089	31,791,368	21,654,386	24,080,539	132,821,382	136,480,507

(14) Commitments and Contingencies

At June 30, 2020 and 2019, open contracts for the construction of properties amounted to $1,935,400 and $3,773,309, respectively.

The U.S. Department of Education 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.

(15) Related-Party Transaction

During the years ended June 30, 2020 and 2019, the College received pledges and gifts from board of trustee members and their affiliated organizations totaling $9,488,844 and $11,012,054, respectively. Of those amounts, $1,643,504 in 2020 and $6,437,191 in 2019 were for payment on pledges made in prior years.

During the years ended June 30, 2020 and 2019, the College entered into construction transactions totaling $132,006 and $2,301,160, 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, 2020 and 2019, the College owed $0 and $404,258, respectively, to this business.

As of June 30, 2020 and 2019, the College had investments totaling $7,004,265 and $6,742,655, respectively, in a fund which has a partner whose spouse is a current trustee.

(16) 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 net assets with donor restrictions (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.

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, 2020, the endowment fund net asset composition was as follows:

	Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds:			
Historical value	$ —	421,029,334	421,029,334
Appreciation	—	352,570,423	352,570,423
Total donor-restricted endowment funds	—	773,599,757	773,599,757
Board-designated endowment funds	115,962,218	—	115,962,218
Total endowed net assets	$ 115,962,218	773,599,757	889,561,975

At June 30, 2019, the endowment fund net asset composition was as follows:

	Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds:			
Historical value	$ —	395,811,552	395,811,552
Appreciation	—	354,095,195	354,095,195
Total donor-restricted endowment funds	—	749,906,747	749,906,747
Board-designated endowment funds	115,212,147	—	115,212,147
Total endowed net assets	$ 115,212,147	749,906,747	865,118,894

In addition to the endowment fund net assets noted above, there were $16,295,971 and $16,346,178 at June 30, 2020 and 2019, respectively, which management designated for longer term use and invested with the endowment net assets.

(Continued)

Changes in endowment net assets for the fiscal year ended June 30, 2020 is as follows:

	Without donor restriction	With donor restriction	Total
Endowment net assets, June 30, 2019	$ 115,212,147	749,906,747	865,118,894
Investment return, net	7,223,626	29,058,440	36,282,066
Contributions and reinvested income	679,785	25,210,052	25,889,837
Appropriation of endowment assets for expenditure	(7,520,789)	(30,575,482)	(38,096,271)
Transfers to create board designated funds	367,449	—	367,449
Endowment net assets, June 30, 2020	$ 115,962,218	773,599,757	889,561,975

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	Without donor restriction	With donor restriction	Total
Endowment net assets, June 30, 2018	$ 110,845,985	695,103,272	805,949,257
Investment return, net	10,280,018	53,332,171	63,612,189
Contributions and reinvested income	351,333	30,361,158	30,712,491
Appropriation of endowment assets for expenditure	(6,565,010)	(28,889,854)	(35,454,864)
Transfers to create board designated funds	299,821	—	299,821
Endowment net assets, June 30, 2019	$ 115,212,147	749,906,747	865,118,894

(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.

(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 $3,204 and $3,176 as of June 30, 2020 and 2019, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor 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.

(17) Subsequent Events

On August 18, 2020, Davidson issued private placement debt totaling $95,510,000, bearing interest at 2.46%, due March 1, 2050. Funding from the bonds will be used to advance refund existing bonds, repay outstanding commercial paper and provide additional working capital funds.

In March 2020, the COVID-19 virus was declared a global pandemic and has had significant impact on businesses around the globe, including the college. As a result of the continuing spread of the virus, the College developed plans to safeguard the health of students and employees, including, but not limited to, remote learning options, staggered move in for students, allowing more students to live off campus, isolation and quarantine housing, deferred tuition payment, weekly COVID-19 testing of all students and student-facing employees, and enhanced frequency and methods of deep cleaning. Increased costs and lost revenues for FY21 are expected to exceed $9M as of the date these financial statements. To mitigate the negative impacts to revenue and cash flow, the College has taken the following actions:

- Eliminated merit pay increases for the 2021 year
- Furloughed 12% employees for the majority of the summer
- Deferred some capital projects planned for summer, 2020
- Secured private placement funding in the amount of $50M to be used for working capital needs, if necessary. Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the College may experience further negative results. The College will continue to follow the various government policies and advice in order to fulfill our mission in the safest way possible without jeopardizing the health of our students and employees.

For the purposes of determining the effects of other subsequent events, the College has performed an evaluation of subsequent events through October 16, 2020, which is the date the financial statements were available to be issued, and determined that there are no adjustments or additional items to disclose.