



**THE TRUSTEES OF DAVIDSON COLLEGE**

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 700  
301 N. Elm Street  
Greensboro, NC 27401

## **Independent Auditors' Report**

Board of Trustees  
The Trustees of Davidson College:

We have audited the accompanying statement of financial position of The Trustees of Davidson College (Davidson College) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Davidson College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Davidson College's June 30, 2004 financial statements and, in our report dated September 17, 2004, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Davidson College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Davidson College as of June 30, 2005, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

September 16, 2005

**THE TRUSTEES OF DAVIDSON COLLEGE**  
Statement of Financial Position  
June 30, 2005  
(with comparative financial information as of June 30, 2004)

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Current assets:		
Cash and cash equivalents	\$ 4,589,420	3,454,928
Short-term investments (note 3)	32,719,935	84,290,858
Accounts and loans receivable, less allowance for doubtful accounts of \$193,534 in 2005 and \$197,784 in 2004	2,394,648	3,323,352
Contributions receivable, net (note 2)	14,426,102	16,296,779
Inventories, at average cost	471,624	431,278
Other assets	162,789	285,600
Total current assets	54,764,518	108,082,795
Noncurrent assets:		
Loans receivable	3,006,009	3,108,328
Contributions receivable, net (note 2)	30,201,967	33,964,967
Investments (note 3)	398,207,803	296,417,990
Beneficial interest in perpetual trusts	18,941,219	19,014,270
Land, buildings, and equipment, net (note 4)	163,867,022	157,908,100
Total noncurrent assets	614,224,020	510,413,655
Total assets	\$ 668,988,538	618,496,450
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	5,625,742	7,810,019
Advance payments, deferred revenues, and other liabilities	1,644,215	3,495,653
Annuities payable	1,002,033	1,078,795
Bonds payable (note 6)	2,790,347	2,540,347
Postretirement benefits other than pensions (note 8)	768,417	478,715
Total current liabilities	11,830,754	15,403,529
Noncurrent liabilities:		
Loans payable	253,801	278,305
Advance payments, deferred revenues, and other liabilities	302,822	302,135
Annuities payable	6,778,943	6,584,670
Bonds payable (note 6)	41,258,185	44,048,531
Postretirement benefits other than pensions (note 8)	9,551,114	8,169,720
U.S. government grants refundable	2,093,646	2,044,037
Total noncurrent liabilities	60,238,511	61,427,398
Total liabilities	72,069,265	76,830,927
Net assets:		
Unrestricted:		
Undesignated	198,949,843	161,536,073
Board designated:		
Quasi-endowment	28,015,510	27,993,750
Investments in plant fund	126,146,640	119,359,686
Total unrestricted	353,111,993	308,889,509
Temporarily restricted (note 10)	32,578,022	31,091,862
Permanently restricted (note 10)	211,229,258	201,684,152
Total net assets	596,919,273	541,665,523
Commitments and contingencies (notes 5, 7,8 and 12)		
Total liabilities and net assets	\$ 668,988,538	618,496,450

See accompanying notes to financial statements.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Statement of Activities

Year ended June 30, 2005

(with summarized financial information for the year ended June 30, 2004)

	2005			Total	2004
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating:					
Revenues, gains, and other support:					
Tuition and fees	\$ 46,285,145	—	—	46,285,145	44,045,202
Less scholarships and fellowships	(16,421,262)	—	—	(16,421,262)	(15,151,861)
Tuition and fees, net	29,863,883	—	—	29,863,883	28,893,341
Private gifts and grants	5,446,854	1,339,976	—	6,786,830	5,946,427
Governmental grants and contracts	2,574,128	—	—	2,574,128	1,891,456
Investment income	2,515,855	—	—	2,515,855	2,685,814
Endowment income and gains distributed	14,951,364	3,728,155	—	18,679,519	18,104,153
Net realized and unrealized gain (loss) on investments	1,098,462	—	—	1,098,462	(115,529)
Sales and services of auxiliary enterprises	18,377,510	—	—	18,377,510	17,137,837
Other income	401,319	—	—	401,319	360,510
Total operating revenues and gains	75,229,375	5,068,131	—	80,297,506	74,904,009
Net assets released from restrictions	7,300,615	(7,300,615)	—	—	—
Total revenues, gains, and other support	82,529,990	(2,232,484)	—	80,297,506	74,904,009
Expenses and losses:					
Instruction and departmental research	34,559,685	—	—	34,559,685	30,751,296
Student services	15,278,875	—	—	15,278,875	14,951,530
General services and administration	13,845,752	—	—	13,845,752	12,659,382
Auxiliary enterprises	17,349,154	—	—	17,349,154	16,991,203
Total expenses and losses	81,033,466	—	—	81,033,466	75,353,411
Increase (decrease) in net assets from operating activities	1,496,524	(2,232,484)	—	(735,960)	(449,402)
Nonoperating:					
Private gifts and grants	5,946,671	4,152,694	9,289,745	19,389,110	24,603,989
Investment income on charitable remainder trusts	241,381	164,783	387,948	794,112	366,319
Endowment income and gains distributed	—	—	267,847	267,847	268,160
Net gains and income on endowment investments net of distributions and fees	36,766,642	—	—	36,766,642	33,550,041
Net gains on charitable remainder trusts	152,139	97,316	16,152	265,607	2,085,257
Change in value of split-interest agreements	(305,358)	(23,515)	(416,586)	(745,459)	(1,071,641)
Other sources (uses)	(748,149)	—	—	(748,149)	(267,055)
Net assets released from restrictions	672,634	(672,634)	—	—	—
Increase in net assets from nonoperating activities	42,725,960	3,718,644	9,545,106	55,989,710	59,535,070
Change in net assets	44,222,484	1,486,160	9,545,106	55,253,750	59,085,668
Net assets at beginning of year	308,889,509	31,091,862	201,684,152	541,665,523	482,579,855
Net assets at end of year	\$ 353,111,993	32,578,022	211,229,258	596,919,273	541,665,523

See accompanying notes to financial statements.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Statement of Cash Flows

Year ended June 30, 2005

(with comparative financial information for the year ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 55,253,750	59,085,668
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,859,080	5,187,031
Amortization	19,654	12,034
Change in allowance for doubtful accounts and loans receivable	(4,250)	(6,969)
Net realized and unrealized gains on investments	(38,130,711)	(35,519,769)
Private gifts and grants restricted for long-term investment	(9,289,745)	(14,156,357)
Private gifts and grants restricted for capital projects	(5,811,924)	(9,820,327)
Investment income restricted for long-term investments	(655,795)	(202,351)
Gifts in kind	(5,794,685)	(15,058,245)
Loss on disposal of assets	1,150,100	89,214
Decrease (increase) in accounts receivable	986,176	(1,088,186)
Decrease in contributions receivable	5,633,677	1,471,393
Decrease (increase) in inventories and other assets	82,465	(187,495)
(Decrease) increase in accounts payable and accrued expenses	(2,208,781)	1,835,743
Increase in postretirement benefits other than pensions	1,671,096	1,828,417
Decrease (increase) in advance payments, deferred revenues, and other liabilities	(1,850,751)	1,368,438
Receipt of agency funds – Federal Pell grants	349,920	322,178
Disbursement of agency funds – Federal Pell grants	(349,920)	(322,178)
Net cash provided by (used in) operating activities	<u>6,909,356</u>	<u>(5,161,761)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(12,968,102)	(15,197,633)
Proceeds from sales of property and equipment	—	392,224
Sales of investments	572,694,596	575,905,181
Purchases of investments	(579,004,242)	(581,893,488)
Decrease (increase) in loans receivable	49,097	(67,930)
Decrease (increase) in beneficial interest in perpetual trusts	73,051	(518,372)
Net cash used in investing activities	<u>(19,155,600)</u>	<u>(21,380,018)</u>
Cash flows from financing activities:		
Proceeds from bond issuance	—	16,431,435
Principal payments on bonds payable	(2,560,000)	(16,755,000)
Increase in annuities payable	117,511	625,537
Increase in advances from U.S. government for student loans	49,609	39,888
Proceeds from private gifts and grants restricted for long-term investments	9,289,745	14,156,357
Private gifts and grants restricted for capital projects	5,811,924	9,820,327
Investment income restricted for long-term investments	655,795	202,351
Realized and unrealized gains restricted for long-term investments	16,152	935,751
Net cash provided by financing activities	<u>13,380,736</u>	<u>25,456,646</u>
Net increase (decrease) in cash and cash equivalents	1,134,492	(1,085,133)
Cash and cash equivalents at beginning of year	3,454,928	4,540,061
Cash and cash equivalents at end of year	\$ <u>4,589,420</u>	<u>3,454,928</u>

Supplemental disclosure of cash flow information:

The College paid approximately \$1,312,000 in 2005 and \$1,065,000 in 2004 of interest.

The College received contributions of investment securities of \$5,794,685 and \$15,058,245 in 2005 and 2004, respectively.

See accompanying notes to financial statements.

# THE TRUSTEES OF DAVIDSON COLLEGE

Notes to Financial Statements

June 30, 2005 and 2004

## (1) Summary of Significant Accounting Policies

### (a) *Description of the College*

The Trustees of Davidson College (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 approximately 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 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, 2005 and 2004

Income and realized and unrealized gains on investments of endowment are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

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, activity in the student loan fund 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.

**(d) *Investments***

Investments are generally recorded at fair value. In the case of certain less marketable investments, principally real estate and private equity investments, value is established based on either external events which substantiate a change in value or reasonable methodology that exists to capture and quantify changes in value. Otherwise, such investments are carried at cost. In some instances, those changes in 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 College's investments include various types of investment securities. 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 the investment securities will occur in the near term and that such changes could materially affect the amounts reported in the College's consolidated 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 to support operations. 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.

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

## THE TRUSTEES OF DAVIDSON COLLEGE

### Notes to Financial Statements

June 30, 2005 and 2004

**(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 market 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 or temporarily restricted net asset class as designated by the donor.

**(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 accounting principles generally acceptable in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

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

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America 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 and cash equivalents, accounts receivable, accounts payable, accrued expenses, advance payments, deferred revenues and other liabilities: the carrying amounts approximate fair value because of the short maturity of these financial instruments.
- Contributions receivable and annuities payable: carried at net present value which approximates fair value.
- Loans receivable: a reasonable estimate of the fair value of the amounts receivable from students under government loan programs could not be made because the loans receivable are not saleable and can only be assigned to the U.S. government or its designees. The fair value of loan funds receivable from students under College loan programs approximates carrying value.
- Investments and beneficial interest in perpetual trusts: investments and beneficial interest in perpetual trusts are carried at fair value.
- Bonds payable and loans payable: fair value is estimated based on discounting future cash flows of each instrument at current interest rates for similar instruments of comparable maturities and credit quality. The fair value of bonds payable and loans payable as of June 30, 2005 and 2004 approximates the stated value.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2005 and 2004

**(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) Reclassifications**

Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 presentation. Such reclassifications had no effect on net assets or change in net assets as previously reported.

**(2) Contributions Receivable**

Contributions receivable, net, are summarized as follows at June 30, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 15,304,573	17,054,526
One year to five years	30,231,390	30,363,347
Over five years	5,125,542	10,208,876
	50,661,505	57,626,749
Less unamortized discount (discount rate of 6%)	(4,670,017)	(5,972,355)
	45,991,488	51,654,394
Less allowance for uncollectible contributions receivable	(1,363,419)	(1,392,648)
	\$ 44,628,069	50,261,746

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2005 and 2004

**(3) Investments**

At June 30, 2005, fair value and cost of investments are summarized as follows:

	<u>Fair value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 14,027,101	12,994,728
Bonds:		
Government agency	27,239,587	27,208,780
Corporate bonds	69,034,089	68,581,229
Mortgage backed securities	13,646,083	13,560,041
Common stocks	180,214,171	143,029,022
International equity investments	51,977,767	25,820,641
Oil and gas investments	20,100,663	5,575,479
Real estate investments	15,197,845	12,956,304
Venture capital investments	38,901,965	56,522,671
Other investments	588,467	453,443
	<u>\$ 430,927,738</u>	<u>366,702,338</u>

At June 30, 2004, fair value and cost of investments are summarized as follows:

	<u>Fair value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 68,835,465	69,096,156
Bonds:		
Government agency	7,542,792	7,582,566
Corporate bonds	21,430,126	21,447,493
Mortgage backed securities	4,608,014	4,591,820
Common stocks	154,430,313	124,420,798
International equity investments	48,634,686	21,042,673
Oil and gas investments	26,792,897	12,272,274
Real estate investments	14,295,836	12,868,444
Venture capital investments	34,033,503	50,311,161
Other investments	105,216	453,443
	<u>\$ 380,708,848</u>	<u>324,086,828</u>

The College places a substantial portion of the net assets of endowment and similar funds 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, 2005, a total of 898,189 units existed in the pool and the fair value per unit was \$425.27. At June 30, 2004, a total of 865,997 units existed in the pool and the fair value per unit was \$384.16. The annual earnings per unit, exclusive of the net appreciation in the fair value of investments, amounted to \$5.42 for the fiscal year ended June 30, 2005 and \$7.21 for the fiscal year ended June 30, 2004.

For the fiscal years ended June 30, 2005 and 2004, the College paid \$1,351,351 and \$1,454,133, respectively, in investment fees.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2005 and 2004

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

A summary of cost and estimated useful lives of land, buildings, and equipment are as follows at June 30, 2005 and 2004:

	<b>2005</b>	<b>2004</b>	<b>Estimated useful lives</b>
Land and improvements	\$ 11,468,154	7,235,705	10 years (on improvements)
Buildings and improvements	179,443,060	141,145,384	25 – 50 years
Equipment	17,397,518	16,081,306	5 – 7 years
Construction-in-progress	7,225,668	39,672,658	—
	215,534,400	204,135,053	
Less accumulated depreciation	(51,667,378)	(46,226,953)	
	\$ 163,867,022	157,908,100	

**(5) Leases**

The College has several noncancelable operating leases, primarily for office equipment, that expire over the next five years. These leases generally contain renewal options for periods ranging from three to five years and require the College to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ended June 30, 2005 and 2004 was \$859,365 and \$1,025,773, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2005 are:

Year ending June 30:	
2006	\$ 542,629
2007	317,613
2008	128,450
2009	6,788
Total minimum lease payments	\$ 995,480

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2005 and 2004

**(6) Bonds Payable**

Bonds payable at June 30, 2005 and 2004 consist of the following:

	<b>2005</b>	<b>2004</b>
Serial bonds (Series 2000A), 4.5% to 5.1%, maturing annually through December 1, 2012	10,350,000	11,350,000
Serial bonds (Series 2000B), variable rate, maturing annually from December 1, 2013 through December 1, 2020	19,000,000	19,000,000
Serial bonds (Series 2003), 2.0% to 3.6%, maturing annually through December 1, 2012	14,940,000	16,500,000
	44,290,000	46,850,000
Less unamortized discount on bonds	(241,468)	(261,122)
	\$ 44,048,532	46,588,878

The College's obligation under the bonds payable is an unsecured, unconditional obligation.

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

	<b>Principal, net of discount</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 2,790,347	1,333,816	4,124,163
2007	2,825,347	1,244,816	4,070,163
2008	2,965,347	1,143,091	4,108,438
2009	3,115,347	1,030,879	4,146,226
2010	3,160,347	917,091	4,077,438
Subsequent years	29,191,797	3,777,813	32,969,610
	\$ 44,048,532	9,447,506	53,496,038

The College has issued bonds, the proceeds of which, in part, were used to advance refund certain bond issues. As a result, such refunded bonds are considered to be defeased, and the liability for those bonds has been excluded from the accompanying financial statements. A summary of the balances outstanding of the defeased bonds as of June 30, 2005 and 2004 follows:

	<b>2005</b>	<b>2004</b>
Capital appreciation bonds (Series 1987)	270,000	270,000
Term bonds (Series 1987)	7,705,000	7,705,000
	\$ 7,975,000	7,975,000

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2005 and 2004

**(7) Benefit Plans**

The College's employees are eligible to participate in a defined contribution retirement plan after attaining age 21 and completing one year of service. The College contributes 8.5% of the portion of compensation within the Social Security earnings base, and 12.5% of any compensation exceeding this base. Employees are 100% vested after 3 years of service. Total employer contributions for the years ended June 30, 2005 and 2004 were \$2,600,642 and \$2,484,344, 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) for the purchase of retirement annuities which are owned by the employee.

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

In addition to providing pension benefits, the College provides healthcare benefits to its retired employees. The following table presents the plan's benefit obligations, fair value of plan assets, and funded status reconciled with amounts recognized in the College's statements of financial position at June 30, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Accumulated postretirement benefit obligation:		
Retirees	\$ 7,289,041	7,209,351
Fully eligible active plan participants	1,571,717	1,703,771
Other active plan participants	4,949,679	8,258,699
	13,810,437	17,171,821
Fair value of plan assets	—	—
Funded status	13,810,437	17,171,821
Unrecognized net losses	(12,312,202)	(8,523,386)
Unrecognized prior service credit	8,821,296	—
Accrued postretirement benefit obligation	\$ 10,319,531	8,648,435

Net period postretirement benefit cost for 2005 and 2004 includes the following components:

	<b>2005</b>	<b>2004</b>
Service cost	\$ 909,821	853,223
Interest cost	1,053,507	949,621
Amortization of loss	420,915	474,228
Net periodic postretirement benefit cost	\$ 2,384,243	2,277,072

## THE TRUSTEES OF DAVIDSON COLLEGE

### Notes to Financial Statements

June 30, 2005 and 2004

The measurement date for the plan is June 30, 2005. For measurement purposes, a 8.5% and 9.25% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2005 and 2004, respectively, and the rate was assumed to decrease gradually to 5% by the year 2010 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 2005 by \$163,032 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended June 30, 2005 by \$390,208. Total benefit payments made by the College for the years ended June 30, 2005 and 2004 were \$918,840 and \$633,794, respectively.

The benefits expected to be paid in each year from 2006-2010 are \$736,914, \$649,771, \$693,469, \$753,081 and \$816,742, respectively. The aggregate benefits expected to be paid in the five years from 2011-2015 are \$4,731,419. The expected benefits to be paid are based on the same assumptions used to measure the College's benefit obligation at June 30.

Davidson College did not contribute to the plan in 2004 and 2005 and does not expect to contribute to the plan in 2006.

The discount rate used in determining the accumulated postretirement benefit obligation was 5.25% and 6.25% at June 30, 2005 and 2004, respectively.

Reflected in these results are changes to the plan arising from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) that was signed into law in December 2003. The Act introduces a voluntary prescription drug benefit under Medicare Part D as well as a nontaxable federal subsidy to sponsors of retiree health care plans that provide at least an actuarially equivalent benefit. The College adopted FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003" during fiscal year 2004. This resulted in a reduction of approximately \$3 million in the College's accumulated postretirement benefit obligation.

The College also has a supplemental retirement plan for a member of senior management. At June 30, 2005 and 2004, the related liability was \$317,991 and \$210,754, respectively, and the supplemental annual compensation to the employee was approximately \$24,000 in both years. The liability and supplemental annual compensation are projected to increase over the vesting period.

#### **(9) Income Taxes**

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and 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.

**THE TRUSTEES OF DAVIDSON COLLEGE**

Notes to Financial Statements

June 30, 2005 and 2004

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

At June 30, 2005 and 2004, temporarily restricted net assets consist of gifts and other unexpended revenues and gains available for:

	<b>2005</b>	<b>2004</b>
Instruction and operational support	\$ 30,814,337	29,002,794
Annuity, life income, and similar funds to be used for operations	1,763,685	2,089,068
	\$ 32,578,022	31,091,862

At June 30, 2005 and 2004, permanently restricted net assets consist of:

	<b>2005</b>	<b>2004</b>
Endowment funds, income to be used for student financial aid	\$ 102,352,902	97,132,611
Endowment funds, income to be used for professorships	27,350,038	25,533,769
Other endowment funds held in perpetuity, income to be used for operations	76,562,290	74,293,922
Annuity and life income funds held in perpetuity, income to be used for operations	4,964,028	4,723,850
	\$ 211,229,258	201,684,152

**(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 \$3,547,500 in 2005 and \$3,529,788 in 2004.

**(12) Commitments and Contingencies**

At June 30, 2005, open contracts for the construction of physical properties amounted to \$1,617,296.

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 effect on the College's financial position.

# THE TRUSTEES OF DAVIDSON COLLEGE

## Notes to Financial Statements

June 30, 2005 and 2004

### **(13) Related Party Transactions**

During the years ended June 30, 2005 and 2004, the College received pledges and gifts from board of trustee members totaling \$4,983,267 and \$13,530,095, respectively.

During the years ended June 30, 2005 and 2004, the College entered into construction transactions totaling \$5,189,791 and \$8,086,189, 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, 2005 and 2004, the College owed \$1,113,027 and \$2,955,615, respectively, to this business.