DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2018 and 2017

DENISON UNIVERSITY AND SUBSIDIARIES

CONTENTS

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Independent Auditors' Report

To the Board of Trustees
Denison University
Granville, Ohio

We have audited the accompanying consolidated financial statements of Denison University (the University) (a nonprofit college) and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University and subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maloney + Novotny LLC

Cleveland, Ohio
October 12, 2018

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 1,337,397	$ 60,862
Accounts receivable:		
Students, less allowance of $375,000 in 2018 and 2017	169,962	114,127
Grants	21,315	23,317
Other	699,245	602,501
	890,522	739,945
Investments (Notes 1 and 2):		
Endowment and quasi-endowment funds	846,038,304	791,897,953
Annuity and life income funds	12,998,817	16,406,187
Other	50,574,650	52,215,977
	909,611,771	860,520,117
Pledges receivable (Note 3)	36,711,926	36,889,687
Interest in charitable trusts held by others	6,308,560	6,391,327
Inventories and prepaid expenses	1,496,920	1,454,534
Assets held in deferred compensation plans	2,465,717	2,248,047
Assets held for others in agency funds	5,065,531	4,044,517
Student loans receivable, less allowance of $532,000 in 2018 and 2017	4,829,584	4,933,622
Beneficial interests in perpetual trusts held by others	1,166,045	1,132,515
Short-term investments restricted for land, buildings and equipment	33,867,805	46,531,523
Investments restricted for bond defeasance (Note 9)	-	21,265,889
Land, buildings and equipment, net (Note 4)	273,623,011	259,293,363
Total assets	$1,277,374,789	$1,245,505,948

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Liabilities and net assets		
Accounts payable	$ 10,799,502	$ 6,805,495
Accrued compensation and related taxes:		
Payroll	3,239,241	3,087,399
Compensated absences	2,402,005	2,571,231
Deferred compensation	2,465,717	2,248,047
Other	808,749	1,530,521
	8,915,712	9,437,198
Deposits and other	2,162,526	2,602,866
Agency funds held for others	5,065,531	4,044,517
Long-term debt	50,000	100,000
Capital lease obligations (Note 9)	159,654,379	192,899,047
Liability for payment to beneficiaries under split-interest agreements	3,518,548	3,665,245
Discount for future interest on life income agreements	906,064	1,584,747
Liability for post-retirement healthcare benefits (Note 8)	18,691,862	20,236,091
Refundable advances:		
Revocable charitable remainder trusts	398,739	376,844
Federal Perkins Loans to students	2,027,604	2,040,117
Schell Foundation Loans to students	346,050	346,050
	2,772,393	2,763,011
Total liabilities	212,536,517	244,138,217
Net assets (Note 5):		
Unrestricted	446,686,996	417,161,117
Temporarily restricted	379,604,693	358,083,909
Permanently restricted	237,473,214	225,061,735
Total net assets - University	1,063,764,903	1,000,306,761
Noncontrolling interest	1,073,369	1,060,970
Total net assets	1,064,838,272	1,001,367,731
Total liabilities and net assets	$1,277,374,789	$1,245,505,948

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$110,205,563			$ 110,205,563
Less financial aid discount	(65,015,073)			(65,015,073)
Net tuition and fees	45,190,490			45,190,490
Auxiliary service revenues	33,171,604			33,171,604
Government grant revenue	574,256			574,256
Private contributions and grants	5,878,071	$ 4,040,800		9,918,871
Investment income and operating gains:				
Endowment, quasi-endowment and other	33,555,254	4,651,499		38,206,753
Earnings on cash and short-term investments	633,270	101,283		734,553
Other revenues	1,887,998	8,883		1,896,881
Net assets released from restrictions	6,116,944	(6,116,944)		-
Total operating revenues	127,007,887	2,685,521		129,693,408
Operating expenses				
Instruction	45,514,230			45,514,230
Research	574,973			574,973
Academic support	14,076,108			14,076,108
Student services	24,395,001			24,395,001
Auxiliary services	25,614,284			25,614,284
Management and general	11,510,518			11,510,518
Fund raising	4,914,299			4,914,299
Total operating expenses	126,599,413			126,599,413
Net increase from operations	408,474	2,685,521		3,093,995
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	844,814	248,640	$ 10,141,814	11,235,268
Contributions restricted for building and equipment	30,000	9,026,927		9,056,927
Investment gains:				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	13,144,158	23,432,408	1,223,029	37,799,595
Unrealized gains on perpetual trusts held by others			33,530	33,530
	13,144,158	23,432,408	1,256,559	37,833,125
Net assets released from restrictions for building and equipment	12,352,791	(12,352,791)		-
Changes in designation of gifts received in prior years and matured split interest agreements	1,647,766	(1,659,732)	11,966	-
Actuarial adjustment of split-interest agreements		139,811	1,001,140	1,140,951
Post-retirement related changes other than net periodic post-retirement cost	1,146,141			1,146,141
Total nonoperating items	29,165,670	18,835,263	12,411,479	60,412,412
Change in net assets	29,574,144	21,520,784	12,411,479	63,506,407
Net assets at beginning of year	418,222,087	358,083,909	225,061,735	1,001,367,731
Preferred distribution - noncontrolling interest	(35,866)			(35,866)
Net assets at end of year	$447,760,365	$379,604,693	$237,473,214	$1,064,838,272

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$105,609,254			$ 105,609,254
Less financial aid discount	(61,989,655)			(61,989,655)
Net tuition and fees	43,619,599			43,619,599
Auxiliary service revenues	31,964,298			31,964,298
Government grant revenue	575,750			575,750
Private contributions and grants	5,899,358	$ 5,048,438		10,947,796
Investment income and operating gains:				
Endowment, quasi-endowment and other	32,931,730	4,523,857		37,455,587
Earnings on cash and short-term investments	886,526	33,545		920,071
Other revenues	1,643,701	21,337		1,665,038
Net assets released from restrictions	7,372,049	(7,372,049)		-
Total operating revenues	124,893,011	2,255,128		127,148,139
Operating expenses				
Instruction	43,387,834			43,387,834
Research	749,408			749,408
Academic support	15,025,988			15,025,988
Student services	23,627,120			23,627,120
Auxiliary services	24,860,205			24,860,205
Management and general	11,595,752			11,595,752
Fund raising	4,472,539			4,472,539
Total operating expenses	123,718,846			123,718,846
Net increase from operations	1,174,165	2,255,128		3,429,293
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	1,236,178	519,454	$ 13,121,970	14,877,602
Contributions restricted for building and equipment		8,683,358		8,683,358
Investment gains:				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	19,792,507	40,831,170	1,637,296	62,260,973
Unrealized gains on perpetual trusts held by others			87,609	87,609
	19,792,507	40,831,170	1,724,905	62,348,582
Net assets released from restrictions for building and equipment	3,644,527	(3,644,527)		-
Changes in designation of gifts received in prior years and matured split interest agreements	(10,473)	1,477	8,996	-
Actuarial adjustment of split-interest agreements		101,019	500,182	601,201
Post-retirement related changes other than net periodic post-retirement cost	3,590,662			3,590,662
Total nonoperating items	28,253,401	46,491,951	15,356,053	90,101,405
Change in net assets	29,427,566	48,747,079	15,356,053	93,530,698
Net assets at beginning of year	388,828,982	309,336,830	209,705,682	907,871,494
Preferred distribution - noncontrolling interest	(34,461)			(34,461)
Net assets at end of year	$418,222,087	$358,083,909	$225,061,735	$1,001,367,731

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 63,506,407	$ 93,530,698
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	10,624,022	9,646,654
Gain on investments	(68,472,957)	(93,071,983)
Unrealized gain on perpetual trusts held by others	(33,530)	(87,609)
Contributions, net of pledges, for permanently restricted purposes	(9,172,529)	(10,300,954)
Gain restricted to long-term investment	(1,223,029)	(1,637,296)
Contributions, net of pledges, restricted for property and equipment	(8,313,515)	(2,299,378)
Actuarial adjustment of split interest agreements	(1,140,951)	(601,201)
(Increase) decrease in accounts receivable	(150,577)	115,525
Decrease (increase) in pledges receivable	177,761	(10,140,677)
(Increase) decrease in inventories and prepaid expenses	(42,386)	51,420
Increase in assets held in deferred compensation plans	(217,670)	(184,543)
Increase in assets held for others in agency funds	(1,021,014)	(159,785)
Increase in accounts payable	3,994,007	1,667,053
(Decrease) increase in accrued compensation and related taxes	(521,486)	1,277,167
Increase in deposits and agency funds held for others	580,674	294,793
(Decrease) increase in liability for payment to beneficiaries under split-interest agreements	(42,425)	452,973
Decrease in liability for post-retirement healthcare benefits	(1,544,229)	(3,908,096)
Increase in refundable advances	9,382	58,215
Net cash used in operating activities	(13,004,045)	(15,297,024)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(26,607,726)	(15,434,439)
Increase (decrease) in assets restricted to investment in land, buildings and equipment	12,663,832	(18,451,651)
Decrease in investments restricted for bond defeasance	21,265,889	946,147
Net proceeds from sales of investments	19,381,190	12,293,439
Proceeds from loan collections and cancellations	816,294	913,071
Student loans issued	(712,257)	(803,375)
Net cash provided by (used in) investing activities	26,807,222	(20,536,808)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of capital lease obligations	29,140,000	27,015,000
Payment of bond issuance costs	(288,173)	(272,540)
Premium on bond issuance	4,102,561	3,261,243
Payments of capital lease obligations and forgiveness of long term debt	(64,595,000)	(9,010,000)
Contributions, net of pledges, for permanently restricted purposes	9,172,529	10,300,954
Increase in interest in charitable trusts held by others	440,763	643,312
Loss restricted to long-term investment	1,223,029	1,637,296
Contributions, net of pledges, restricted for building and equipment	8,313,515	2,299,378
Preferred distribution - noncontrolling interest	(35,866)	(34,461)
Net cash (used in) provided by financing activities	(12,526,642)	35,840,182
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,276,535	6,350
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	60,862	54,512
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,337,397	$ 60,862

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

Note 1. Significant Accounting Policies

A. Organization – Denison University (the University), a privately endowed educational institution, derives its income from student tuition and fees, gifts and grants, investments, operation of residence and dining halls and various related activities.

Granville Inn Holdings, Inc. (Holdings) is a wholly-owned subsidiary of the University and has an 89.0% ownership interest in The Historic Granville Inn, LLC (the Inn) and a 1.0% ownership interest in Granville Inn Master Tenant, LLC (Master Tenant). Master Tenant has a 10.0% ownership in the Inn. Holdings is the managing member of both the Inn and Master Tenant.

Holdings, the Inn and Master Tenant were formed by the University to facilitate the rehabilitation of the Granville Inn, a historic building located in Granville, Ohio near the campus of the University.

The Granville Inn building was eligible for tax credits under federal and state tax laws (Federal Historic Tax Credits and State of Ohio Historic Tax Credits) for qualified expenditures incurred in a substantial renovation of the building. The rehabilitation project was completed in April 2015. In April 2015, Master Tenant entered into a master lease agreement with the Inn for leasing 100% of the building for a term of 32 years ending in 2046.

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

B. Accounting Method – The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The University and subsidiaries have reported information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, which have no donor-imposed restrictions, temporarily restricted net assets, which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets, which have donor-imposed restrictions which do not expire.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and, at that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as non-operating revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as non-operating revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the change of restrictions specified by the donors.

Note 1. Significant Accounting Policies (Continued)

B. Accounting Method (Continued)

These consolidated financial statements include the accounts of the University, Granville Inn Holdings, Inc., The Historic Granville Inn, LLC, the Granville Inn Master Tenant, LLC, Middleton House, Ltd. and Denison Golf, LLC. All significant intercompany activity was eliminated in consolidation.

The University and subsidiaries have evaluated all subsequent events through October 12, 2018, which is the date the consolidated financial statements were available to be issued.

Certain reclassifications have been made to the 2017 information to conform to the 2018 presentation.

C. Use of Estimates – The preparation of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

D. Statements of Financial Position Presentation – Assets and liabilities presented in the consolidated statements of financial position are recorded in order of liquidity or nearness to conversion to cash.

E. Cash Equivalents – The University and subsidiaries consider investments with a maturity of three months or less when purchased to be cash equivalents. Ready assets and cash held temporarily to be reinvested are recorded as investments. Operating funds representing bank checking account deposits are secured by a repurchase agreement, wherein the bank grants a security interest in U.S. Treasury Securities and U.S. Agency Securities acquired and held in the bank's customer's securities account at an independent third-party safekeeper.

F. Student Loans Receivable – Student loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans. Periodic evaluation of the adequacy of the allowance is based on past loan loss experience and current economic conditions. The interest rates charged on certain notes receivable are fixed by the U.S. Department of Education. Interest income is recorded as monthly payments are received. Loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time late charges are charged. Interest on past due loans is not accrued and is recognized only to the extent cash payments are received.

G. Investments – The carrying value of the University and subsidiaries' investments approximates fair value in accordance with accounting principles generally accepted in the United States of America. Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value based on quoted market prices. The University and subsidiaries hold investment securities which are exposed to various risks including interest rate, 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 University and subsidiaries' investment account balances and the amounts reported in the consolidated statements of financial position. The University and subsidiaries account for certain investments that do not have a readily determinable fair value (alternative investments) using the equity method of accounting based on investment valuations provided by the external investment managers as of June 30.

Note 1. Significant Accounting Policies (Continued)

G. Investments (Continued)

Alternative investments include certain interests in absolute return (hedge funds), public equities, private equity, fixed income or real assets depending on the legal structure and investment strategy of the underlying manager. The University and subsidiaries invest in limited partnerships and commingled vehicles, some of which employ traditional strategies (long only) in readily marketable securities (liquid equities or bonds traded on exchanges) and others which employ less traditional strategies that may hold concentrated positions in smaller and/or less liquid securities and may use options, futures and other derivative instruments. Nearly all of the valuations reported by the absolute return investment managers rely upon third-party administrators to objectively value positions and calculate Net Asset Value. Private asset managers internally calculate values according to agreed upon procedures and provide audited financial statements at calendar year end. Because most alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material in the short-term.

Investments are classified into five major asset classes by the University and subsidiaries as described below:

<u>Absolute Return (Hedge Funds)</u>
Hedge funds seek to generate long-term real returns and reduce volatility by exploiting market inefficiencies. Returns are achieved using various strategies including long/short equity, long/short fixed income, event driven, macro, relative value and arbitrage strategies.

<u>Public Equities</u>
The University and subsidiaries invest in public equity securities in various geographical areas including the U.S., non-U.S. developed and emerging markets. Securities are owned either directly by the University and subsidiaries or indirectly through investments in limited partnerships and commingled vehicles which invest primarily in public equity securities.

<u>Private Equities</u>
Private equity investments include venture capital, growth equity, leveraged buyouts and distressed debt. The University and subsidiaries diversify these investments by geography and sectors.

<u>Fixed Income</u>
Fixed income investments include investments in government securities, bank loans and corporate bonds via separate accounts, limited partnerships and commingled vehicles.

<u>Real Assets</u>
Real assets include real estate, energy, timber, treasury inflation-protected securities (TIPS) and Real Estate Investment Trusts (REITs). Real asset investments are made both via liquid public markets (TIPS and REITs) and via illiquid private equity structured funds (real estate, energy and timber).

Investments received by gift are recorded at fair value at the date of gift. Investment return includes interest, dividends and both realized and unrealized gains and losses.

Note 1. Significant Accounting Policies (Continued)

G. Investments (Continued)

The University endowment and quasi-endowment consist of assets which are invested to provide income to support education and related activities, either as a result of donor imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return.

Short-term investments restricted for land, building and equipment represent bond improvement funds and gifts restricted for capital improvements.

H. Inventories – Inventories are primarily bookstore and facility supplies which are determined principally by physical count and are priced at approximate cost, first-in, first-out method, which is not in excess of market prices.

I. Land, Buildings and Equipment – Records of the University and subsidiaries do not reflect the basis on which carrying amounts for certain buildings were established prior to 1930. Acquisitions of land and land improvements, buildings and equipment since that date are stated at cost or at amounts assigned to the properties if acquired by gift. It is the policy of the University and subsidiaries to capitalize additions and, for replacements, to capitalize the incremental increase in cost of plant and equipment items.

The University and subsidiaries recognize depreciation on the straight-line method over the estimated useful life for each major category of assets. These estimated useful lives are summarized in the following table:

Land improvements	10-50 years
Buildings and building improvements	30-150 years
Equipment and furniture	7-20 years
Library books	20 years
Computer equipment and software	3-5 years

J. Nonoperating Activities – The University has defined nonoperating activity to include the following:

<u>Contributions restricted for endowment, quasi-endowment and similar funds</u>: Contributions to the endowment, quasi-endowment and similar funds of the University and subsidiaries are not available to be spent and are, therefore, classified as non-operating items in the consolidated statements of activities.

<u>Contributions restricted for building and equipment</u>: Contributions restricted for capital purchases are not available to be spent for operations and are, therefore, classified as non-operating items in the consolidated statements of activities.

<u>Endowment and quasi-endowment and other income and gains (losses) in excess of the spending policy</u>: The endowment spending policy is designed to maintain the real value (after inflation) of the annual amount which can be spent. Income and gains and losses in excess of this policy are not available for current operations and are, therefore, classified as nonoperating items in the consolidated statements of activities.

Note 1. Significant Accounting Policies (Continued)

J. Nonoperating Activities (Continued)

Net assets released from restrictions for building and equipment: These expenditures do not represent an operating expense of the University and subsidiaries, but rather a reclassification of net assets from temporarily restricted to unrestricted.

Changes in donor designations of net assets: Changes in designations of net assets represent donor reclassifications of gifts received in prior years and, therefore, do not represent operating activity in the consolidated statements of activities.

Actuarial adjustment of split-interest agreements: Adjustments to split-interest liabilities and the discount for future interest on life income agreements result from changes in the discount rate as determined by market conditions and are, therefore, classified as non-operating activities along with the gains on the related assets.

Post-retirement related changes other than net periodic post-retirement cost: Represents the net gain or loss and net prior service cost which are not components of net periodic post-retirement cost.

K. Fair Value of Financial Instruments – The University has disclosed fair value information about financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other evaluation techniques as provided by the external investment managers. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Due to the short-term nature, the carrying values of cash and equivalents, receivables, accounts payable and accrued expenses reported in the accompanying consolidated statements of financial position approximate their fair value. The fair value of the University and subsidiaries' long-term debt and capital leases is based on the University and subsidiaries' current incremental borrowing rates which approximate market rate for similar types of borrowing arrangements.

The University estimates the fair value of financial instruments using available market information and other generally accepted valuation methodologies. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs in which little or no market data exists

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

The asset's or liability's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement.

The University has adopted Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under ASC 820. The University has retrospectively presented the 2017 disclosures.

The following tables set forth by level the University and subsidiaries' financial assets (including the Denison University Research Foundation totaling $2,407,066 and $2,359,171 as of June 30, 2018 and 2017, respectively - Note 7) that were accounted for at a fair value on a recurring basis as of June 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	$ 17,536,650	$ -	$ 80,411,236	$ 97,947,886
Public equities	41,974,367	67,035,868	28,585,082	137,595,317
Private equities	-	-	175,639,317	175,639,317
Fixed income	72,153,469	-	-	72,153,469
Real assets	-	100,000	77,565,885	77,665,885
Cash and other investments	58,187,598	-	100,000	58,287,598
Total investments in the fair value hierarchy	$189,852,084	$ 67,135,868	$362,301,520	619,289,472
Investments measured at NAV				292,729,365
Total investments				$912,018,837
Interest in charitable trusts held by others	$ -	$ -	$ 6,308,560	$ 6,308,560
Assets held in deferred compensation plans	2,465,717	-	-	2,465,717
Beneficial interests in perpetual trusts held by others	-	-	1,166,045	1,166,045
Short-term investments restricted for land, buildings and equipment	33,867,805	-	-	33,867,805
Total assets in the fair value hierarchy				$955,826,964

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	$ 27,350,532	$ -	$ 68,607,265	$ 95,957,797
Public equities	41,753,298	63,906,208	30,359,997	136,019,503
Private equities	-	-	175,796,652	175,796,652
Fixed income	52,524,348	10,525,843	-	63,050,191
Real assets	-	100,000	81,078,616	81,178,616
Cash and other investments	93,732,093	-	100,000	93,832,093
Total investments in the fair value hierarchy	$215,360,271	$ 74,532,051	$355,942,530	645,834,852
Investments measured at NAV				217,044,436
Total investments				$862,879,288
Interest in charitable trusts held by others	$ -	$ -	$ 6,391,327	$ 6,391,327
Assets held in deferred compensation plans	2,248,047	-	-	2,248,047
Beneficial interests in perpetual trusts held by others	-	-	1,132,515	1,132,515
Short-term investments restricted for land, buildings and equipment	46,531,523	-	-	46,531,523
Investments restricted for bond defeasance	21,265,889	-	-	21,265,889
Total assets in the fair value hierarchy				$940,448,589

Investments – The University and subsidiaries invest in cash and equivalents, fixed income, public equities and other securities with quoted prices in active markets that are considered to be Level 1 inputs.

Investments with underlying holdings classified as Level 1 and Level 2 but legally structured with limited redemption rights (most limited partnerships and master trusts) have been designated as Level 2 or Level 3 assets.

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

A portion of the University's investments are measured at net asset value as a practical expedient for fair value. These investments include hedge funds and public equities structured within limited partnerships and/or off-shore funds which are based on valuations provided by external investment managers and the managers' third party administrators. The fair values of the investments have been estimated using the net asset value of the University's ownership in the capital. The redemption terms vary based on the investment funds. These entities may also have the ability to impose gates, lockups and other restrictions on an investor's ability to readily redeem out of their investment interest in the funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. There have been no changes in the methodologies used from 2017 to 2018. Furthermore, while the University and subsidiaries believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Interest in charitable trusts held by others and beneficial interests in perpetual trusts – The valuation of interest in charitable trusts held by others and beneficial interests in perpetual trusts held by others is based on inputs that are derived principally from observable market data which is used to estimate the future cash flows of the trust. This type of asset has no readily determinable exit price due to legal constraints and, therefore, is considered to be a Level 3 input.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	2018				
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Absolute return (hedge funds)	$ 68,607,265	$ 22,196,151	$ (14,445,633)	$ 4,053,453	$ 80,411,236
Public equities	30,359,997	-	(5,000,000)	3,225,085	28,585,082
Private equities	175,796,652	37,530,835	(54,379,157)	16,690,987	175,639,317
Fixed income	-	-	-	-	-
Real assets	81,078,616	18,304,685	(22,828,163)	1,010,747	77,565,885
Cash and other investments	100,000	-	-	-	100,000
Interest in charitable trusts held by others	6,391,327	-	(686,524)	603,757	6,308,560
Beneficial interests in perpetual trusts held by others	1,132,515	-	-	33,530	1,166,045
	$ 363,466,372	$ 78,031,671	$ (97,339,477)	$ 25,617,559	$ 369,776,125

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2017					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Transfer to NAV	Ending Balance
Absolute return (hedge funds)	$ 115,443,124	$ 570,449	$ (10,825,249)	$ 2,752,558	$ (39,333,617)	$ 68,607,265
Public equities	37,821,902	-	(13,793,612)	6,331,707	-	30,359,997
Private equities	175,797,904	22,911,152	(38,206,667)	15,294,263	-	175,796,652
Fixed income	10,840	-	(10,840)	-	-	-
Real assets	72,899,743	19,512,701	(16,714,182)	5,380,354	-	81,078,616
Cash and other investments	100,000	-	-	-	-	100,000
Interest in charitable trusts held by others	6,484,271	-	(643,311)	550,367	-	6,391,327
Beneficial interests in perpetual trusts held by others	1,044,906	-	-	87,609	-	1,132,515
	$ 409,602,690	$ 42,994,302	$ (80,193,861)	$ 30,396,858	$ (39,333,617)	$ 363,466,372

Investment funds in the private equity and private real assets classes are typically organized as limited partnerships. A unique characteristic of these funds is that the investment manager requests (or calls) capital commitments from the investors as investment opportunities arise and distributes capital as investments are liquidated. Capital calls are typically made by the investment manager during years 1-5 of a fund's life while the majority of capital distributions do not occur until years 8-10 of a fund's life.

The University and subsidiaries were obligated at June 30, 2018 to invest additional funds in limited partnership investments in the amount of approximately $150 million at the direction of the general partners. These commitments are expected to be satisfied through redistribution of invested assets.

Due to the nature of alternative investments and the use of some limited partnerships and commingled vehicles in traditional asset classes (public equities and fixed income), the University contractually agrees to liquidity restrictions. The University and subsidiaries, in response to this risk, closely monitor the liquidity of the portfolio. As of June 30, 2018, the following liquidity characteristics applied to the University and subsidiaries' endowment and quasi-endowment funds:

Liquid within:	% of Endowment
1 year	65%
4 years	6%
Illiquid*	29%

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

*Illiquid investments represent those invested in private real assets and private equity limited partnerships. Sales of these funds can only be made through secondary markets, which are not as liquid or efficient as a public equity market. The University and subsidiaries are not actively trying to sell any of their illiquid investments at this time.

The University is required to disclose the nature and risks of the investments recorded at NAV. The following tables summarize the nature and risk of these investments:

	Fair Value at 6/30/2018	Redemption Terms	Notice Required
Absolute return	$174,361,159	Monthly/quarterly	5 - 90 days
Absolute return	16,364,683	Annual/semi annual	90 days
Absolute return	60,241,540	>1 year	60 - 90 days
Public equities	28,179,593	Monthly	7 - 60 days
Public equities	13,582,390	Rolling 3 year lock	60 days
	$292,729,365		

	Fair Value at 6/30/2017	Redemption Terms	Notice Required
Absolute return	$139,245,945	Monthly/quarterly	5 - 90 days
Absolute return	14,501,838	Annual/semi annual	90 days
Absolute return	35,552,219	>1 year	Liquidating
Public equities	17,444,242	Monthly/quarterly	7 days
Public equities	10,300,192	Rolling 3 year lock	60 days
	$217,044,436		

L. Art Collection – The University's museum and library house numerous works of art, historical treasures, literary works and artifacts. These collections are protected and preserved for public exhibition, education and research. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recorded for financial statement purposes.

M. Asset Retirement Obligations – The University is required to recognize a liability for conditional asset retirement obligations. Management has considered its legal obligations to perform asset retirement activities, such as asbestos removal, on its existing properties. Management of the University and subsidiaries believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the University and subsidiaries may settle the obligations is unknown and cannot be estimated. As a result, as of June 30, 2018 and 2017, management cannot reasonably estimate a liability related to these potential asset retirement activities.

Note 1. Significant Accounting Policies (Continued)

N. Federal Income Tax – The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The University and subsidiaries recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the University and subsidiaries, the continued tax-exempt status of bonds issued by the University and subsidiaries and various positions related to potential sources of unrelated taxable income. The University and subsidiaries believe that they have appropriate support for any tax positions taken and, as such, do not have any uncertain tax positions that are material to the consolidated financial statements.

The Inn and Master Tenant are organized as limited liability companies and are taxed as partnerships for federal income tax purposes. Accordingly, all profits and losses of the companies are recognized by each member on their respective tax returns. Holdings (the parent of the Inn and Master Tenant) was organized as a C Corporation pursuant to the provisions of the Internal Revenue Code.

As of June 30, 2018, the University and subsidiaries' income tax years from 2014 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

Note 2. Investments

Investments at June 30, 2018 consist of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	$347,932,372	$347,932,373
Public equities	178,867,878	30,754,378
Private equities	175,143,740	175,143,740
Fixed income	72,087,741	-
Real assets	77,447,059	77,336,845
Cash and other assets	58,132,981	-
	$909,611,771	$631,167,336

Investments at June 30, 2017 consisted of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	$294,712,355	$294,712,355
Public equities	153,039,637	20,394,059
Private equities	175,291,550	175,291,550
Fixed income	63,008,073	10,518,811
Real assets	80,945,691	80,835,482
Cash and other assets	93,522,811	-
	$860,520,117	$581,752,257

Note 2. Investments (Continued)

The composition of investment return is as follows:

	Year Ended June 30 2018	Year Ended June 30 2017
Investment income (interest and dividends)	$ 7,044,915	$ 5,927,352
Net realized and unrealized gains	69,729,516	94,796,888
Total investment return	76,774,431	100,724,240
Investment return included in operations	(38,941,306)	(38,375,658)
Nonoperating investment return	$ 37,833,125	$ 62,348,582

Note 3. Pledges Receivable

As of June 30, 2018 and 2017, the University had received unconditional promises totaling $36,711,926 and $36,889,687, respectively, on which management has determined that no allowance for uncollectible promises is necessary. Unconditional promises are generally restricted and are due as follows:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 292,108	$ 6,559,523	$ 4,794,213	$ 11,645,844
One to five years	-	7,974,841	14,742,340	22,717,181
More than five years	-	1,118,408	1,230,493	2,348,901
	$ 292,108	$ 15,652,772	$ 20,767,046	$ 36,711,926

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 292,934	$ 7,842,574	$ 5,309,088	$ 13,444,596
One to five years	-	7,307,037	13,706,767	21,013,804
More than five years	-	1,649,382	781,905	2,431,287
	$ 292,934	$ 16,798,993	$ 19,797,760	$ 36,889,687

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5%. The discount is $4,135,244 and $6,780,449 at June 30, 2018 and 2017, respectively.

Note 4. Land, Buildings and Equipment

The following is a summary of land, buildings and equipment:

	June 30, 2018	June 30, 2017
Land	$ 2,461,349	$ 2,461,349
Improvements other than buildings	39,852,844	38,077,190
Buildings	207,881,402	206,658,915
Building improvements	111,075,643	105,722,823
Construction in progress	21,208,910	5,329,159
Library books	13,910,098	13,486,950
Computer equipment and software	44,942,675	59,469,672
	441,332,921	431,206,058
Accumulated depreciation	(167,709,910)	(171,912,695)
	$ 273,623,011	$ 259,293,363

Depreciation expense totaled $12,278,078 and $12,016,396 for the years ended June 30, 2018 and 2017, respectively. The University and subsidiaries have outstanding commitments of approximately $19.7 million remaining for the construction and renewal of facilities and equipment at June 30, 2018.

Note 5. Net Assets

Net assets of the University and subsidiaries, and the nature of any restrictions, are summarized below:

	June 30, 2018	June 30, 2017
Unrestricted net assets:		
University reserves	$ 15,130,512	$ 13,296,401
Quasi endowment	278,046,253	260,916,407
Student loans	666,497	628,051
Invested in land, buildings and equipment	153,917,103	143,381,228
	$ 447,760,365	$ 418,222,087

Note 5. Net Assets (Continued)

	June 30, 2018		June 30, 2017	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarships, prizes and awards	$145,464,177	$ 84,984,533	$135,570,675	$ 79,899,698
Faculty support and academic programs	119,094,818	83,607,800	111,626,113	73,352,695
General university operations	69,953,342	18,477,456	66,165,219	17,757,618
Annuity, life income and unitrust funds	4,343,961	10,080,656	4,105,576	13,057,288
Gifts pending donor designation	1,623,404	7,869,826	235,000	10,866,223
Student loans	-	5,830,172	-	5,545,842
Physical plant maintenance	8,984,645	5,339,162	8,340,320	5,186,578
Student employment	4,087,353	962,579	3,867,296	962,579
Library acquisitions	4,876,118	1,116,749	4,614,851	1,116,749
Beneficial interest in perpetual trusts	-	1,166,045	-	1,132,515
Gifts restricted for capital assets	7,818,049	-	11,018,814	-
Private grants	4,567,883	-	5,209,520	-
Other purposes	8,790,943	18,038,236	7,330,525	16,183,950
	$379,604,693	$237,473,214	$358,083,909	$225,061,735

Net assets released from restriction for operations relate to the following:

	June 30, 2018	June 30, 2017
Instructional	$ 3,795,773	$ 4,139,129
Research	391,081	505,999
Academic support	918,294	1,478,482
Student services	954,484	1,094,249
Management and general	-	5,675
Other purposes	57,312	148,515
	$ 6,116,944	$ 7,372,049

Note 6. Endowment Funds

The Board of Trustees of the University has approved an investment policy detailing the long-term goals, asset allocation, measurable objectives, investment guidelines, on-going communication, review and oversight. The basic philosophy of the investment policy is that administration and management of the endowment are to be implemented through diversified investment pools designed to recognize income needs for ongoing operations, as well as committed spending and capital-growth needs to meet expansion goals and costs increased by future inflation.

Permanently restricted endowment funds represent funds which are restricted as to use in perpetuity. The University and subsidiaries record permanent endowment gifts at historic dollar value. Distributions from endowment funds are spent in compliance with the donor's restrictions applicable to the funds being distributed. The endowment spending policy balances current support for students and operating budgets, with the objective of preserving the real value of the endowment and its long term purchasing power, to support future generations of students. To achieve these objectives, the spending policy includes a constant growth component, which increases the endowment appropriation with inflation, and a market value component, which aligns appropriation with changes in the market value of the endowment. The formula is weighted 30% to current market value and 70% to the inflation-adjusted historical market value.

According to the University's spending policy, $38,759,204 and $38,080,506 were distributed for operations during the years ended June 30, 2018 and 2017, respectively.

The University's endowment pool, which includes true endowment, quasi-endowment, gift annuities and Denison University Research Foundation, was as follows as of June 30, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$283,330,266	$322,946,791	$193,143,341	$799,420,398
Investment return:				
Investment income	1,772,637	3,132,382	54,041	4,959,060
Net appreciation (realized and unrealized)	25,262,877	44,601,571	1,038,275	70,902,723
Total investment return	27,035,514	47,733,953	1,092,316	75,861,783
Cash contributions and transfers	2,526,394	(148,024)	12,795,877	15,174,247
Appropriation of endowment assets for expenditure and debt service	(13,882,761)	(24,327,190)	(549,253)	(38,759,204)
Endowment assets, end of of year	$299,009,413	$346,205,530	$206,482,281	$851,697,224

Note 6. Endowment Funds (Continued)

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$262,401,229	$282,256,779	$181,171,558	$725,829,566
Investment return:				
Investment income	1,567,342	2,707,175	61,591	4,336,108
Net appreciation (realized and unrealized)	31,854,460	61,735,192	1,434,146	95,023,798
Total investment return	33,421,802	64,442,367	1,495,737	99,359,906
Cash contributions and transfers	1,274,479	(41,333)	11,078,286	12,311,432
Appropriation of endowment assets for expenditure and debt service	(13,767,244)	(23,711,022)	(602,240)	(38,080,506)
Endowment assets, end of of year	$283,330,266	$322,946,791	$193,143,341	$799,420,398

Note 7. Special Research Funding

The University is an indirect beneficiary of Denison University Research Foundation (the Foundation), the income from which is generally restricted for purposes of research grants to University faculty and students. A portion of such income is received by the University and subsidiaries and disbursed by them to the designated beneficiaries. The assets of the Foundation are invested with the Endowment of Denison University, and included in the consolidated financial statements of the University as a component of assets held for others in agency funds. As of June 30, 2018 and 2017, the assets of the Foundation held by the University and subsidiaries were $2,407,066 and $2,359,171, respectively.

Note 8. Pensions and Other Post-Retirement Obligations

The University has noncontributory defined contribution pension plans for academic, professional and supportive operating employees. The plans have no unfunded vested benefits or past service costs. Pension costs totaled $4,393,760 and $4,266,991 for the years ended June 30, 2018 and 2017, respectively. The University and subsidiaries pay pension costs concurrently with the salaries to which they apply.

In addition to providing pension benefits, the University and subsidiaries have a defined benefit post-retirement plan which provides certain health care benefits for employees who began employment with the University and subsidiaries prior to July 1, 1993. The health care plan is contributory, with retiree contributions being adjusted annually. The University and subsidiaries make contributions to this plan equal to benefits paid.

Note 8. Pensions and Other Post-Retirement Obligations (Continued)

Components of net periodic post-retirement benefit cost for the years ended June 30, 2018 and 2017 as calculated by Aon, the University and subsidiaries' actuary, are as follows:

	June 30, 2018	June 30, 2017
Net Periodic Post-Retirement Benefit Cost		
Service cost	$ 110,564	$ 114,003
Interest cost	770,054	755,963
Amortization of unrecognized loss	-	-
Total net periodic post-retirement benefit cost	$ 880,618	$ 869,966

The University recognizes in its consolidated statements of financial position the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Employers must recognize the change in the funded status of the plan in the year in which the change occurs through unrestricted net assets.

Included in unrestricted net assets at June 30, 2018 and 2017 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $800,363 and $1,946,504, respectively. There is no unrecognized net prior service cost. The actuarial loss cost expected to be recognized during the year ended June 30, 2019 is $-0-.

The following sets forth the change in the benefit obligation of the University's defined benefit post-retirement plan as of June 30, 2018 and 2017:

	June 30, 2018	June 30, 2017
Change in Benefit Obligation		
Benefit obligation at beginning of year	$20,236,091	$24,144,187
Service cost	110,564	114,003
Interest cost	770,054	755,963
Actuarial gain	(1,146,141)	(3,590,662)
Benefits paid	(1,278,706)	(1,187,400)
Benefit obligation at end of year	18,691,862	20,236,091
Plan assets	-	-
Funded status/net recorded liability	$18,691,862	$20,236,091

The above net recorded liability is included in the accompanying consolidated statements of financial position as a liability for post-retirement healthcare benefits.

Note 8. Pensions and Other Post-Retirement Obligations (Continued)

The weighted-average assumptions used to determine net periodic pension costs and benefit obligation for the years ended June 30, 2018 and 2017 are as follows:

	June 30, 2018	June 30, 2017
Weighted average discount rate:		
Expense	3.92%	3.89%
Benefit obligation (at year end)	4.30%	3.92%
Medical trend:		
For next year - pre 65 and post 65	8.2%/9.02%	6.8%/8.5%
Ultimate trend rate	4.5%/4.5%	4.5%/4.5%
Year reached	2025/2025	2024/2024

The effects of a one percent change in the assumed health care cost trend rate in each year are summarized as follows:

	June 30, 2018	June 30, 2017
Effect of an increase		
Accumulated post-retirement benefit obligation	$ 2,386,747	$ 2,724,761
Service cost and interest cost	122,634	132,704
Effect of a decrease		
Accumulated post-retirement benefit obligation	(2,002,895)	(2,271,079)
Service cost and interest cost	(101,246)	(109,362)

Estimated future benefit payments as of June 30, 2018 are as follows:

2019	$1,115,000
2020	1,083,000
2021	1,112,000
2022	1,162,000
2023	1,213,000
2024-2028	6,093,000

Note 9. Capital Lease Obligations

In February 2007, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission (the Commission) to finance various building and improvement projects, and to advance refund the Denison University 2001 Project Bonds (2014-2026 maturities). The University's lease serves as security for the Commission's $81,200,000 Higher Educational Facility Revenue Bonds (Denison University 2007 Project). Interest was payable November 1 and May 1 at rates ranging from 4.0% to 5.0%. Principal payments began November 1, 2008. The bonds were paid off in November 2017 as discussed below.

Note 9. Capital Lease Obligations (Continued)

In July 2015, in connection with the Commission's issuance of $59,080,000 Higher Educational Facility Revenue Bonds (Denison University 2015 Project) discussed below, cash was deposited for the 2007 bonds that was used to purchase laddered U.S. Government securities and certificates of deposit which are permissible securities under the defeasance agreement. The securities' resulting cash flow is sufficient to pay the portion of the 2007 bonds (2018-2032 maturities totaling $20,850,000), on each May 1 and November 1 from November 1, 2018 to and including November 1, 2032. These securities, along with a portion of the 2017 bond proceeds described below, were used to retire the 2007 bonds. The investments held for defeasance of the bonds amounted to $-0- and $21,265,889 at June 30, 2018 and 2017, respectively.

In May 2012, the University entered into a lease agreement with the Commission to finance various building and improvement projects, and to advance refund a portion of the 2001 bonds and to advance refund a portion of 2004 bonds. The University's lease serves as security for the Commission's $31,105,000 Higher Education Facility Revenue Bonds (Denison University 2012 Project). Interest is payable November 1 and May 1 at rates ranging from 2.00% to 5.00%. Principal payments began November 1, 2012 and continue through November 1, 2032.

In April 2013, the University entered into a lease agreement with the Commission to advance refund a portion of 2004 bonds. The University's lease serves as security for the Commission's $18,145,000 Higher Education Facility Revenue Bonds (Denison University 2013 Project). Interest is payable November 1 and May 1 at rates ranging from .375% to 3.709%. Principal payments began November 1, 2013 and continue through November 1, 2029.

In July 2015, the University entered into a lease agreement with the Commission to finance various building and improvement projects and to advance refund a portion of the 2007 and 2010 bonds. The University's lease serves as security for the Commission's $59,080,000 Higher Education Facility Revenue Bonds (Denison University 2015 Project). Interest is payable November 1 and May 1 at rates ranging from 2.00% to 5.00%. Principal payments began November 1, 2015 and continue through November 1, 2034.

In April 2017, the University entered into a lease agreement with the Commission to finance various building and improvement projects. The University's lease serves as security for the Commission's $27,015,000 Higher Education Facility Revenue Bonds (Denison University 2017 Series A Project). Interest is payable November 1 and May 1 at rates ranging from 2.00% to 5.00%. Principal payments began November 1, 2017 and continue through November 1, 2037 with additional payments November 1, 2042 and November 1, 2046.

In August 2017, the University entered into a lease agreement with the Commission to finance various building and improvement projects and to refund a portion of the 2007 bonds. The University's lease serves as security for the Commission's $29,140,000 Higher Education Facility Revenue Bonds (Denison University 2017 Series B Project). Interest is payable November 1 and May 1 at 5.00%. Principal payments begin November 1, 2018 and continue through November 1, 2026.

Note 9. Capital Lease Obligations (Continued)

Amounts due under the lease agreements as of June 30, 2018 and 2017 are as follows:

	2018	2017
2007 Project	$ -	$ 57,770,000
2012 Project	22,280,000	23,835,000
2013 Project	12,190,000	13,965,000
2015 Project	54,940,000	56,620,000
2017A Project	25,250,000	27,015,000
2017B Project	29,140,000	-
	143,800,000	179,205,000
Unamortized discount, premium and bond issuance costs	15,854,379	13,694,047
	$159,654,379	$192,899,047

Capital lease obligations of $192,899,047, reduced by bond defeasance funds of $21,265,889, totaled $171,633,158 at June 30, 2017. The revenue bonds are collateralized by a security interest in the buildings and improvements comprising the Projects. Rental payments under the leases are equal to the principal and interest on the bonds. Bond issue costs are being amortized over the life of the leases. Amortization, including net bond premium, totaled $1,654,056 and $2,369,743 for the years ended June 30, 2018 and 2017, respectively.

At June 30, 2018 future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2019	$ 17,012,698
2020	17,016,479
2021	17,012,196
2022	17,010,618
2023	13,080,768
Remaining amount due	119,454,376
	200,587,135
Less: amounts representing interest	(56,787,135)
Unamortized discount, premium and bond issuance costs, net	15,854,379
Balance outstanding	$159,654,379

Interest expense on long-term debt and capital lease obligations totaled $7,172,064 and $6,960,980 for the years ended June 30, 2018 and 2017, respectively. An additional $655,144 and $110,882 was capitalized for the years ended June 30, 2018 and 2017, respectively. Cash paid for interest totaled $7,805,743 and $7,289,550 for the years ended June 30, 2018 and 2017, respectively.

Note 10. Operating Lease Agreements

The University and subsidiaries lease buildings, office equipment and vehicles under the terms of several operating lease agreements expiring at various dates through August 2022. The future minimum lease payments, exclusive of renewal options, as of June 30, 2018 are as follows:

2019	$ 346,723
2020	281,799
2021	163,783
2022	97,926
2023	16,321
	$ 906,552

Lease payments charged to operations for the years ended June 30, 2018 and 2017 were $494,567 and $575,992, respectively.

Note 11. Noncontrolling Interest

The following is a reconciliation of net assets relating to the University and to the noncontrolling interests of the Inn and Master Tenant:

	University	Noncontrolling Interest	Total
Net assets balance at June 30, 2016	$ 906,532,077	$ 1,339,417	$ 907,871,494
Preferred distribution	-	(34,461)	(34,461)
Increase (decrease) in net assets attributable to:			
University	93,774,684		93,774,684
Noncontrolling interests	-	(243,986)	(243,986)
Net assets balance at June 30, 2017	1,000,306,761	1,060,970	1,001,367,731
Preferred distribution	-	(35,866)	(35,866)
Increase in net assets attributable to:			
University	63,458,141	-	63,458,141
Noncontrolling interests	-	48,265	48,265
Net assets balance at June 30, 2018	$1,063,764,902	$ 1,073,369	$1,064,838,271

Note 12. Contingencies

The University is involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the University's operations or financial position.