DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2020 and 2019

DENISON UNIVERSITY AND SUBSIDIARIES

CONTENTS

1111 Superior Avenue | Suite 700 | Cleveland, Ohio 44114-2540
P 216.363.0100 F 216.363.0500 W maloneynovotny.com

Maloney
Maloney + Novotny LLC

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 organization) and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, 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 9, 2020

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019 (in thousands)

		2020		2019
Assets				
Cash and cash equivalents	$	1,196	$	1,234
Accounts receivable, less allowance of $375		802		890
Inventories and prepaid expenses		1,383		1,423
Pledges receivable		46,089		35,359
Short term operating investments		70,753		50,116
Student loans receivable, less allowance of $450 and $532, respectively		4,077		4,457
Short-term investments restricted for land, buildings and equipment		21,772		52,957
Interest in charitable trusts and perpetual trusts held by others		6,249		6,839
Long-term investments		922,456		897,561
Assets held in deferred compensation plans		2,991		2,682
Assets held for others in agency funds		6,703		5,421
Land, buildings and equipment, net		326,923		298,641
Total assets	$	1,411,394	$	1,357,580
Liabilities and net assets				
Accounts payable	$	8,583	$	11,519
Accrued compensation and related taxes		11,661		10,118
Deposits		2,437		2,143
Line of credit		45,000		-
Refundable advances		2,206		2,754
Liability related to split-interest agreements		4,761		4,649
Liability for post-employment healthcare benefits		18,577		17,269
Capital lease obligations		176,570		188,797
Agency funds held for others		6,703		5,421
Total liabilities		276,498		242,670
Net assets:				
Without donor restrictions		476,796		469,921
With donor restrictions		656,991		643,901
Total net assets - University		1,133,787		1,113,822
Noncontrolling interest		1,109		1,088
Total net assets		1,134,896		1,114,910
Total liabilities and net assets	$	1,411,394	$	1,357,580

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2020 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Tuition and fees	$ 119,289		$ 119,289
Less financial aid discount	(65,690)		(65,690)
Net tuition and fees	53,599		53,599
Auxiliary services	30,042		30,042
Government grants	1,117		1,117
Private contributions and grants	6,389	$ 8,928	15,317
Investment return, net	38,851	5,122	43,973
Other revenues	1,596	43	1,639
Net assets released from restrictions	5,695	(5,695)	-
Total operating revenues	137,289	8,398	145,687
Operating expenses			
Instruction	50,992		50,992
Research	380		380
Academic support	16,010		16,010
Student services	26,145		26,145
Auxiliary services	24,676		24,676
Management and general	11,543		11,543
Fundraising	5,420		5,420
Total operating expenses	135,166		135,166
Net increase from operations	2,123	8,398	10,521
Nonoperating items:			
Contributions for endowment, quasi-endowment and capital	603	15,558	16,161
Investment return, net	(1,017)	(3,677)	(4,694)
Post-retirement related changes other than net periodic post-retirement cost	(1,923)		(1,923)
Other nonoperating activities, net	-	(43)	(43)
Changes in designation of gifts received in prior years	525	(525)	-
Net assets released from restrictions for building and equipment	6,621	(6,621)	-
Total nonoperating items	4,809	4,692	9,501
Change in net assets	6,932	13,090	20,022
Net assets at beginning of year	471,009	643,901	1,114,910
Preferred distribution - noncontrolling interest	(36)		(36)
Net assets at end of year	$ 477,905	$ 656,991	$ 1,134,896

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2019 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Tuition and fees	$ 116,047		$ 116,047
Less financial aid discount	(65,165)		(65,165)
Net tuition and fees	50,882		50,882
Auxiliary services	34,962		34,962
Government grants	776		776
Private contributions and grants	6,052	$ 1,314	7,366
Investment return, net	37,403	5,030	42,433
Other revenues	1,653	24	1,677
Net assets released from restrictions	7,012	(7,012)	-
Total operating revenues	138,740	(644)	138,096
Operating expenses			
Instruction	48,641		48,641
Research	566		566
Academic support	15,181		15,181
Student services	25,618		25,618
Auxiliary services	26,520		26,520
Management and general	11,986		11,986
Fundraising	4,960		4,960
Total operating expenses	133,472		133,472
Net increase (decrease) from operations	5,268	(644)	4,624
Nonoperating items:			
Contributions for endowment, quasi-endowment and capital	1,279	15,631	16,910
Investment return, net	11,009	17,152	28,161
Post-retirement related changes other than net periodic post-retirement cost	1,456		1,456
Other nonoperating activities, net	(536)	(507)	(1,043)
Changes in designation of gifts received in prior years	331	(331)	-
Net assets released from restrictions for building and equipment	4,478	(4,478)	-
Total nonoperating items	18,017	27,467	45,484
Change in net assets	23,285	26,823	50,108
Net assets at beginning of year	447,760	617,078	1,064,838
Preferred distribution - noncontrolling interest	(36)		(36)
Net assets at end of year	$ 471,009	$ 643,901	$ 1,114,910

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30, 2020 (in thousands)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 20,022	$ 50,108
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	12,885	11,527
Loss on disposal of property and equipment	-	536
Gain on investments	(34,798)	(63,727)
(Gain) loss on beneficial interest in perpetual trusts held by others	23	14
Contributions, net of pledges, for permanently restricted purposes	(9,371)	(9,732)
Gain restricted to long-term investment	(290)	(692)
Contributions, net of pledges, restricted for land, buildings and equipment	(5,711)	(7,525)
Actuarial adjustment of split interest agreements	43	507
Changes in assets and liabilities that provide (use) cash		
Accounts receivable	88	1
Inventories and prepaid expenses	40	74
Pledges receivable	(10,730)	1,353
Assets held for others in deferred compensation plans	(309)	(216)
Assets held for others in agency funds	(1,282)	(355)
Accounts payable	(2,936)	669
Accrued compensation and taxes	1,543	1,202
Deposits	1,576	336
Refundable advances	(548)	(19)
Liability for payment/discount under split-interest agreements	24	(314)
Liability for post-employement healthcare benefits	1,308	(1,423)
Net cash (used) by operating activities	(28,423)	(17,676)
Cash flows from investing activities		
Student loans issued	(381)	(471)
Proceeds from loan collections and cancellations	761	844
Use (acquisition) of assets restricted to investment in land, buildings and equipment	31,184	(19,089)
Net (purchases) sales of investments	(10,733)	25,661
Purchases of land, buildings and equipment	(42,494)	(38,242)
Net cash (used) by investing activities	(21,663)	(31,297)
Cash flows from financing activities		
Contributions restricted for land, buildings and equipment	5,711	7,525
Contributions for permanently restricted purposes	9,371	9,731
Interest in charitable trusts held by others	612	654
Income and gain restricted to long-term investment	290	692
Net proceeds from issuance of capital lease obligations	-	41,179
Net proceeds from draws on line of credit	45,000	-
Payment of bond issuance costs	-	(405)
Payments of capital lease obligations	(10,900)	(10,470)
Preferred distribution - noncontrolling interest	(36)	(36)
Net cash provided by financing activities	50,048	48,870
Net (decrease) in cash and cash equivalents	(38)	(103)
Cash and cash equivalents at beginning of year	1,234	1,337
Cash and cash equivalents at end of year	1,196	1,234

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

Note 1. Significant Accounting Policies

A. Organization – Denison University (the University), is a private institution of higher education, with the core mission to inspire and educate our students to become autonomous thinkers, discerning moral agents and active citizens of a democratic society.

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.

Subsequent to year end the University acquired all remaining interest of the Inn and Master Tenant.

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.

B. Basis of Presentation – 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. All significant intercompany activity has been eliminated in consolidation.

The assets and liabilities in the consolidated statements of financial position are presented in order of liquidity, with the exception of investments, which have certain components that are considered short term and others that are considered long term.

The University and subsidiaries classifies revenues earned and expenses incurred related to its core mission, and investment returns made available for current use, as operating revenues or expenses in the consolidated statements of activities. All other activities, including contributions restricted by donors for endowment (permanent restrictions), contributions restricted by donors for long-lived assets, and funds designated for longer term use by the Board of Trustees (quasi-endowment and endowment spending policy), are shown as a component of nonoperating activities.

C. Net Asset Classes – The accompanying consolidated financial statements present information regarding the University's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets with donor restrictions include net assets which are permanently restricted by the donor, and net assets subject to donor-imposed restrictions that will expire through the passage of time or can be fulfilled or removed by actions pursuant to those restrictions.

Note 1. Significant Accounting Policies (Continued)

C. Net Asset Classes (Continued) – The expiration of a donor-imposed restriction 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. Net assets with donor restrictions for long-lived assets are released from restrictions when the assets are placed in service.

D. 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.

E. Cash and Cash Equivalents – Investments with a maturity of three months or less when purchased are reported as cash and cash equivalents. Cash equivalents temporarily held by investment custodians to be reinvested are reported within investments in the accompanying consolidated financial statements.

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 loans receivable are fixed by the U.S. Department of Education. 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 using the equity method of accounting based on investment valuations provided by the external investment managers as of June 30.

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.

Note 1. Significant Accounting Policies (Continued)

H. 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 Net Asset 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

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.

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, buildings and equipment since that date are stated at cost or at amounts assigned to the properties if acquired by gift

The University and subsidiaries recognize depreciation on the straight-line method over the estimated useful life of 40-150 years for buildings, 10-50 years for improvements, 3-20 years for equipment, furniture and software, and 20 years for library books.

J. 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.

K. 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, 2020 and 2019, management cannot reasonably estimate a liability related to these potential asset retirement activities.

Note 1. Significant Accounting Policies (Continued)

L. Revenue and Revenue Recognition – The University recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering education services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. In addition, room is required of all students except commuters and board is required of all students except commuters and those living in apartment housing. The performance obligation of providing access to housing and meals is satisfied ratably over the academic period in which the student lives on campus and purchase a meal plan. Tuition, room and board are combined into a single portfolio. Payments are generally required prior to the beginning of the school year, or monthly throughout the semester. All amounts received prior to the commencement of the school year, including enrollment deposits, are deferred to the applicable period. All prior year deferred revenue was recognized as current year revenue. Financial aid discounts provided to students are recorded as a reduction from the posted tuition and fees at the time revenue is recognized.

The College records contributions, cash, and promises to give, when they are received unconditionally, at their fair value. Conditional contributions are recognized as revenue when the conditions on which they depend have been met. Federal and state contracts and grants are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. (Consequently, at June 30, 2020 and 2019, contributions approximating $1.391 million and $438 thousand, respectively, of which no amounts have been received in advance, have not been recognized in the accompanying financial statements because the conditions have not yet been met.)

Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values.

Donated assets are reflected as contributions at their estimated fair market value at the time of donation.

M. 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, 2020, the University and subsidiaries' income tax years from 2016 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

Note 1. Significant Accounting Policies (Continued)

N. *Adoption of New Accounting Pronouncement* – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The new guidance clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are unconditional or conditional. Effective July 1, 2019, the College adopted ASU 2014-09 using the modified retrospective method and ASU 2018-08 using the modified prospective method. Neither standard resulted in a material impact on the College's financial statements.

O. Subsequent Events - The University and subsidiaries have evaluated all subsequent events for potential recognition or disclosure through October 9, 2020, the date the consolidated financial statements were available to be issued.

Note 2. Investments

The following tables set forth by level the University and subsidiaries' financial assets (including the Denison University Research Foundation totaling $2.474 million and $2.484 million as of June 30, 2020 and 2019, respectively - Note 10) that were accounted for at fair value on a recurring basis as of June 30, 2020 and 2019:

	2020 (in thousands)				
	Level 1	Level 2	Level 3	NAV	Total
Investments:					
Cash and other assets	$ 51,753	$ -	$ -	$ -	$ 51,753
Fixed income	52,390	-	-	-	52,390
Absolute return (hedge funds)	461	-	-	-	461
Public equities	53,890	-	-	-	53,890
Limited partnerships:					
Absolute return (hedge funds)	-	-	-	399,031	399,031
Public equities	-	-	-	151,385	151,385
Private equities	-	-	-	218,221	218,221
Real assets	-	-	11	68,541	68,552
	158,494	-	11	837,178	995,683
Trust held by others	-	-	6,249	-	6,249
Assets held in deferred compensation plans	2,991	-	-	-	2,991
Short-term investments restricted for land, buildings and equipment	21,772	-	-	-	21,772
Total assets in the fair value hierarchy	$ 183,257	$ -	$ 6,260	$ 837,178	$ 1,026,695

Note 2. Investments (Continued)

	2019 (in thousands)				
	Level 1	Level 2	Level 3	NAV	Total
Investments:					
Cash and other assets	$ 9,756	$ -	$ -	$ -	$ 9,756
Fixed Income	74,823	-	-	-	74,823
Absolute return (hedge funds)	464	-	-	-	464
Public equities	48,703	-	-	-	48,703
Limited partnerships:					
Absolute return (hedge funds)	-	-	-	363,447	363,447
Public equities	-	-	-	167,625	167,625
Private equities	-	-	-	202,715	202,715
Real assets	-	-	11	82,618	82,629
	133,746	-	11	816,405	950,162
Interest in trusts held by others	-	-	6,838	-	6,838
Assets held in deferred compensation plans	2,682	-	-	-	2,682
Short-term investments restricted for land, buildings and equipment	52,957	-	-	-	52,957
Total assets in the fair value hierarchy	$ 189,385	$ -	$ 6,849	$ 816,405	$ 1,012,639

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 Level 1 inputs.

Investments with underlying holdings classified as Level 1 and Level 2 but legally structured with limited redemption rights (trust held by others) have been designated as Level 3 assets.

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, private equity, and real asset funds structured within limited partnerships and/or off-shore vehicles. The market values reported are based on valuations provided by external investment managers and the managers' third-party administrators. These investments have been reported under Net Asset Value as a practical expedient since they lack readily determinable fair value and are investment companies within the scope of Topic 946. The Net Asset Value reported for these funds is calculated using the University’s share of the partners’ capital or total commitment, multiplied by the reported market value. These reported fund market values are audited annually and provided to the University on a quarterly basis. Given the increase of transparency over time, these fund managers are able to work with administrators to generate a Limited Partners specific quarter end market value.

Note 2. Investments (Continued)

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. 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 trusts held by others – The valuation of interest in charitable trusts and 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 a Level 3 input.

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

	2020 (in thousands)				
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Real assets	$ 11				$ 11
Interest in trusts held by others	6,838	-	$ (661)	$ 72	6,249
	$ 6,849	$ -	$ (661)	$ 72	$ 6,260

	2019 (in thousands)				
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Real assets	$ 11				11
Interest in trusts held by others	7,475	$ -	$ (710)	$ 73	6,838
	$ 7,486	$ -	$ (710)	$ 73	$ 6,849

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, 2020 to invest additional funds in limited partnership investments (private equities and real assets) in the amount of approximately $153.197 million at the direction of the general partners. These commitments are expected to be satisfied through redistribution of invested assets.

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 may periodically consider sales of private assets in secondary markets as part of ongoing portfolio management.

Note 2. Investments (Continued)

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 6/30/2020 (in thousands)	Redemption Terms	Notice Required
Absolute return	$ 156,172	Monthly/quarterly	5 - 90 days
Absolute return	163,709	Annual/semi annual	90 days
Absolute return	79,150	>1 year	60 - 90 days
Public equities	116,269	Monthly	9 - 60 days
Public equities	35,116	Semi annual/annual/lockup	60 days
Private equities	218,221	Illiquid	N/A
Real Assets	68,541	Illiquid	N/A
	$ 837,178		

	Fair Value at 6/30/2019 (in thousands)	Redemption Terms	Notice Required
Absolute return	$ 155,169	Monthly/quarterly	5 - 90 days
Absolute return	100,963	Annual/semi annual	90 days
Absolute return	107,314	>1 year	60 - 90 days
Public equities	141,791	Monthly	9 - 60 days
Public equities	25,835	Rolling 3 year lock	60 days
Private equities	202,715	Illiquid	N/A
Real Assets	82,618	Illiquid	N/A
	$ 816,405		

The composition of investment return is as follows:

	Year Ended June 30, (in thousands)	
	2020	2019
Investment income, net	$ 4,214	$ 6,189
Net realized and unrealized gains	35,065	64,405
Total investment return	39,279	70,594
Investment return included in operations	(43,973)	(42,433)
Nonoperating investment return	$ (4,694)	$ 28,161

Note 3. Endowment Funds

The University's endowment pool includes donor-restricted endowment funds, funds designated by the University's Board of Trustees or Management to function as endowments, and the assets of Denison University Research Foundation (included in Assets held for other in agency funds in the Statement of Financial Position) (collectively referred to as "endowment'). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 3. Endowment Funds (Continued)

The Board of Trustees of the University has approved an investment policy for the endowment, which details investment objectives, asset allocation, investment guidelines, communication, reporting and governance. The basic philosophy of the investment policy is that administration and management of the endowment are to be implemented through a diversified portfolio of assets designed to maximize the long-term risk adjusted return.

The University's Board-approved endowment spending policy balances current support for students and operations with the objective of preserving the real value of the endowment, to support future generations of students. To achieve these objectives, the spending policy includes a constant growth component, which increases the endowment appropriation in line 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 a current average market value and 70% to the inflation-adjusted prior year's spending rate.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. The University has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2020 and 2019, there were no significant deficiencies of this nature.

The University has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure from a donor restricted endowment fund such amount as the Board of Trustees determines is prudent, except as otherwise provided by the donor in a gift agreement. The University considers the following factors, if relevant, in making investment and appropriation decisions for such funds:

1. The duration and preservation of the fund
2. General economic conditions
3. The possible effect of inflation or deflation
4. The expected total return from income and the appreciation of investments
5. Other resources of the University
6. The University's investment policies

The University's endowment was as follows as of June 30, 2020 and 2019:

	2020 (in thousands)		
	Without donor restrictions	With donor restrictions	Total
Quasi endowment funds	$ 235,852		$ 235,852
University capital reserve funds	71,625		71,625
University operating investments	19,877		19,877
Denison University Research Foundation	2,474		2,474
Donor-restricted endowment funds			
Historical gift value (permanently restricted)		$ 225,935	225,935
Accumulated gains		358,540	358,540
	$ 329,828	$ 584,475	$ 914,303

Note 3. Endowment Funds (Continued)

	2019 (in thousands)		
	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	$ 236,066		$ 236,066
University capital reserve funds	71,921		71,921
Denison University Research Foundation	2,484		2,484
Donor-restricted endowment funds			-
Historical gift value (permanently restricted)		$ 215,909	215,909
Accumulated gains		362,872	362,872
	$ 310,471	$ 578,781	$ 889,252

Changes in net assets of the endowment for the years ended June 30, 2020 and 2019 are presented below:

	2020 (in thousands)		
	Without donor restriction	With donor restriction	Total
Endowment net assets, beginning of year	$ 310,471	$ 578,781	$ 889,252
Investment return, net	13,152	24,389	37,541
Contributions and reinvested income	20,725	9,709	30,434
Appropriated for expenditure	(14,520)	(28,404)	(42,924)
Endowment net assets, end of year	$ 329,828	$ 584,475	$ 914,303

	2019 (in thousands)		
	Without donor restriction	With donor restriction	Total
Endowment net assets, beginning of year	$ 299,009	$ 552,688	$ 851,697
Investment return, net	24,723	43,544	68,267
Contributions and reinvested income	1,310	8,970	10,280
Appropriated for expenditure	(14,571)	(26,421)	(40,992)
Endowment net assets, end of year	$ 310,471	$ 578,781	$ 889,252

Note 4. Available Resources and Liquidity

The University and subsidiaries regularly monitors availability of resources required to meet operating needs and other contractual commitments, while also striving to maximize the investment of available funds. Resources available to fund general expenditures, such as operating expenses, interest and principal payments on capital lease obligations, and internally funded capital construction, have seasonal variations related to the timing of tuition billings, receipt of gifts and pledge payments, and transfers from the endowment. The University actively manages its resources, utilizing a combination of short, medium and long-term investment strategies, to align its cash inflows with anticipated outflows, in accordance with investment and endowment spending policies approved by the Board of Trustees.

Note 4. Available Resources and Liquidity (Continued)

Existing financial assets and liquidity resources available within one year were as follows:

	June 30, (in thousands) 2020	2019
Cash and cash equivalents	$ 1,196	$ 1,234
Accounts receivable, net	802	890
Contributions for general expenditure due in one year or less	4,950	8,344
Short term investments available to be converted to cash	70,753	57,851
Operating cash invested in the Long term investment pool	19,877	-
Anticipated collections on University funded student loans	400	340
Payments from trusts held by others due in one year or less	700	710
Pay-out on donor-restricted endowments for use over the next 12 months	29,407	26,501
Pay-out on quasi endowments for use over the next 12 months	14,986	13,758
	$ 143,071	**$ 109,628**

Additionally, the University has $307.477 million of board-designated quasi-endowment and other University reserves invested as quasi-endowment, a portion of which can be liquidated within one year; however, no liquidation is anticipated.

Note 5. Pledges Receivable

As of June 30, 2020 and 2019, the University had received unconditional promises totaling $46.089 million and $35.359 million, 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, (in thousands) 2020	2019
Less than one year	$ 24,625	$ 13,527
One to five years	20,830	20,770
More than five years	634	1,062
	$ 46,089	$ 35,359

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5% on pledges received as of June 30, 2018, and 4% for pledges received thereafter. The discount is $4.769 million and $4.631 million at June 30, 2020 and 2019, respectively.

Note 6. Land, Buildings and Equipment

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

	June 30, (in thousands) 2020	2019
Land and improvements	$ 46,125	$ 44,572
Buildings and improvements	379,865	365,672
Construction in progress	26,799	4,471
Library books	14,658	14,334
Furniture, equipment and software	52,686	48,889
	520,133	477,938
Accumulated depreciation	(193,210)	(179,297)
	$ 326,923	$ 298,641

Note 6. Land, Buildings and Equipment (Continued)

Depreciation expense totaled $14.212 million and $12.687 million for the years ended June 30, 2020 and 2019, respectively. The University and subsidiaries have outstanding commitments of approximately $8.718 million remaining for the construction and renewal of facilities and equipment at June 30, 2020.

Note 7. Available Line of Credit

Under an unsecured line of credit arrangement with a bank, the University may borrow up to $45 million at a variable interest rate based on an independent index which is the Prime Rate as reported in the Wall Street Journal (1% at June 30, 2020). As of June 30, 2020, there was $45 million outstanding on this line of credit. Interest expense incurred and paid on the line of credit for the year ended June 30, 2020 was $106 thousand. The line of credit arrangement matures on November 22, 2021. Subsequent to June 30, 2020 the University paid back the $45 million line in full.

Note 8. Net Assets

Net assets without donor restrictions include board designated quasi-endowments to support general operations and other funds designated as quasi-endowment for capital projects and university operations. Net assets with donor restrictions at June 30, 2020 includes $260.140 million permanently restricted by donor designation and $396.851 million, temporarily restricted by board spending policy on the endowment, and by the timing of spending the funds. Comparable net assets for June 30, 2019 are $246.385 million and $397.516 million, respectively.

	June 30, (in thousands)	
	2020	2019
Without donor restrictions		
Board designated quasi-endowments	$ 215,791	$ 217,292
Other quasi-endowments	73,268	73,570
Other net assets without donor restrictions	22,160	21,942
Investment in land, buildings and equipment, net of debt	166,686	158,205
Total without donor restrictions	477,905	471,009
With donor restrictions		
Permanently restricted by donor designation	260,140	246,385
Temporarily restricted by university spending policy/donor designation:		
Scholarships and student employment	157,753	156,618
Academic programs and professorships	125,311	125,617
General university operations	71,813	72,558
Other programs	26,838	28,880
Donor restricted for buildings and equipment	6,030	10,633
Private grants for specific purposes	9,106	3,210
Total with donor restrictions	656,991	643,901
	$ 1,134,896	$ 1,114,910

Note 9. Expenses

Expenses are presented in the Statements of Activity by functional classification in accordance with the overall service mission of the University and subsidiaries. Certain expenses are attributable to more than one function and have been allocated across these classifications. Depreciation expense has been allocated based on square footage occupancy. Interest expense and amortization is allocated to the functional categories that have benefitted from the proceeds of the related debt. Facilities operation and maintenance represents space and grounds related costs which are allocated to the functional categories directly, on a square footage basis and/or based on total operating expenses.

The University and Subsidiaries reports natural classification expense categories of compensation (wages and benefits), occupancy (including depreciation expense and interest expense on capital lease obligations), supplies and services and other.

The natural classification of expenses across these functions for the years ended June 30, 2020 and 2019 is as follows:

	2020 (in thousands)				
	Compensation	Occupancy	Supplies and Services	Other	Total
Program Services:					
Instruction	$ 38,358	$ 8,870	$ 2,017	$ 1,747	$ 50,992
Research	190	14	20	156	380
Academic support	9,598	2,502	1,903	2,007	16,010
Student services	13,920	4,914	2,333	4,978	26,145
Auxiliary services	7,013	7,988	6,546	3,129	24,676
Management and general	7,534	1,005	1,128	1,876	11,543
Fundraising	4,120	256	517	527	5,420
	$ 80,733	$ 25,549	$ 14,464	$ 14,420	$ 135,166

	2019 (in thousands)				
	Compensation	Occupancy	Supplies and Services	Other	Total
Program Services:					
Instruction	$ 36,713	$ 7,323	$ 2,398	$ 2,207	$ 48,641
Research	272	18	37	239	566
Academic support	8,714	2,316	1,946	2,205	15,181
Student services	13,152	4,827	2,129	5,510	25,618
Auxiliary services	7,207	8,077	7,611	3,625	26,520
Management and general	7,294	1,085	1,457	2,150	11,986
Fundraising	3,586	220	379	775	4,960
	$ 76,938	$ 23,866	$ 15,957	$ 16,711	$ 133,472

Note 10. 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 to the designated beneficiaries. The assets of the Foundation, including cash and assets invested with the Endowment of the University, are included in the consolidated financial statements as a component of assets held for others in agency funds. As of June 30, 2020 and 2019, the assets of the Foundation held by the University and subsidiaries were $2.499 million and $2.508 million, respectively.

Note 11. Capital Lease Obligations

The University has entered into lease agreements with the Ohio Higher Educational Facility Commission (the Commission) to finance various building and improvement projects. The leases serve as security for the Commission's Higher Education Facility Revenue Bonds.

The revenue bonds are collateralized by a security interest in the buildings and improvements comprising the Projects. Interest is payable November 1 and May 1, and principal payments are due November 1.

The 2012, 2013, 2015 and 2017 Series B issuances included an advance refunding component. The proceeds from the advance refunding portion of these bonds were used to retire the associated advance refunded bonds.

Amounts due under the lease agreements as of June 30, 2020 and 2019 are as follows:

Denison University	Issue		Interest	Final	Balance (in thousands)	
Project:	**Date**	**Amount**	**Rates**	**Maturity**	**2020**	**2019**
2012 Project	May-12	31,105,000	2%-5%	Nov-32	$ 18,950	$ 20,655
2013 Project	Apr-13	18,145,000	.375%-3.709%	Nov-29	8,570	10,395
2015 Project	Jul-15	59,080,000	2%-5%	Nov-34	49,535	52,300
2017 Series A Project	Apr-17	27,015,000	2%-5%	Nov-46	21,610	23,460
2017 Series B Project	Aug-17	29,140,000	5%	Nov-26	23,765	26,520
2019 Project	Mar-19	35,000,000	5%	Nov-44	35,000	35,000
					157,430	**168,330**
Unamortized bond costs, discount and premium					19,140	20,467
					$ 176,570	**$ 188,797**

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 $1.327 million and $1.160 million for the years ended June 30, 2020 and 2019, respectively.

Note 11. Capital Lease Obligations (Continued)

At June 30, 2020 future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2021	$	18,762
2022		18,761
2023		14,831
2024		14,829
2025		14,819
Remaining amount due		149,822
		231,824
Less: amounts representing interest		(74,394)
	$	157,430

Interest expense on capital lease obligations totaled $6.828 million and $5.937 million for the years ended June 30, 2020 and 2019, respectively. An additional $.963 million and $1.114 million was capitalized for the years ended June 30, 2020 and 2019, respectively. Cash paid for interest totaled $7.866 million and $6.747 million for the years ended June 30, 2020 and 2019, respectively.

Note 12. 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 $4.952 million and $4.652 million for the years ended June 30, 2020 and 2019, 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.

Components of net periodic post-retirement benefit cost for the years ended June 30, 2020 and 2019 as calculated by Aon, the University and subsidiaries' actuary, are as follows:

	June 30, (in thousands)			
	2020		2019	
Net Periodic Post-Retirement Benefit Cost				
Service cost	$	66	$	68
Interest cost		608		776
Total net periodic post-retirement benefit cost	$	674	$	844

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.

Note 12. Pensions and Other Post-Retirement Obligations (Continued)

Included in unrestricted net assets at June 30, 2020 and 2019 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial gain (loss) of ($1.267 million) and $.656 million, respectively. There is no unrecognized net prior service cost. The actuarial loss cost expected to be recognized during the year ended June 30, 2021 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, 2020 and 2019:

	June 30, (in thousands)	
	2020	2019
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 17,269	$ 18,692
Service cost	67	68
Interest cost	608	776
Actuarial gain (loss)	1,923	(1,456)
Benefits paid	(1,290)	(811)
Benefit obligation at end of year	18,577	17,269
Plan assets	-	-
Funded status/net recorded liability	$ 18,577	$ 17,269

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

The weighted-average assumptions used to determine net periodic pension costs and benefit obligation for the years ended June 30, 2020 and 2019 are as follows:

	June 30,	
	2020	2019
Weighted average discount rate:		
Expense	3.59%	4.30%
Benefit obligation (at year end)	2.84%	3.59%
Medical trend:		
For next year - pre 65 and post 65	7.28%/18.23%	7.76%/8.54%
Ultimate trend rate	4.50%/4.50%	4.5%/4.5%
Year reached	2025/2029	2025/2025

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

	June 30, (in thousands)	
	2020	2019
Effect of an increase		
Accumulated post-retirement benefit obligation	$ 2,386	$ 2,239
Service cost and interest cost	85	106
Effect of a decrease		
Accumulated post-retirement benefit obligation	(2,000)	(1,879)
Service cost and interest cost	(70)	(88)

Note 12. Pensions and Other Post-Retirement Obligations (Continued)

Estimated future benefit payments as of June 30, 2020 are as follows:

2021	$ 1,072
2022	1,038
2023	1,054
2024	1,009
2025	1,044
2026-2030	5,096

Note 13. 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, 2018	$ 1,063,765	$ 1,073	$ 1,064,838
Preferred distribution		(36)	(36)
Increase in net assets attributable to:			
University	50,057		50,057
Noncontrolling interests	-	51	51
Net assets balance at June 30, 2019	1,113,822	1,088	1,114,910
Preferred distribution		(36)	(36)
Increase in net assets attributable to:			
University	19,965		19,965
Noncontrolling interests	-	57	57
Net assets balance at June 30, 2020	$ 1,133,787	$ 1,109	$ 1,134,896

Note 14. 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.

Note 15. COVID-19 Global Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 ("COVID-19") a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report.

Note 15. COVID-19 Global Pandemic (Continued)

The College's operations are heavily dependent on tuition and private and public donations from individuals, foundations, and corporations. The pandemic may cause financial strain on students and families causing withdrawals and transfers that lead to a decline in enrollment. Access to donations and grants may decrease or may not be available depending on appropriations from other organizations. Accordingly, the pandemic is expected to affect the financial condition, results of operations, and cash flows of the College during fiscal year 2021.

Note 16. CARES Act

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act, among other things, created the Higher Education Emergency Relief Fund (HEERF). In July 2020, the College applied for HEERF funds to cover expenses related to the disruption of campus operations due to COVID-19. In addition in August, the College applied for Ohio CARES Act funds to cover expenses related to the disruption of campus operations due to COVID-19.