DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2017 and 2016

DENISON UNIVERSITY AND SUBSIDIARIES

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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) and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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 13, 2017

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 60,862	$ 54,512
Accounts receivable:		
Students, less allowance of $375,000 in 2017 and 2016	114,127	143,047
Grants	23,317	196,146
Other	602,501	516,277
	739,945	855,470
Investments (Notes 1 and 2):		
Endowment and quasi-endowment funds	791,897,953	718,832,498
Annuity and life income funds	16,406,187	14,497,747
Other	52,215,977	46,411,328
	860,520,117	779,741,573
Pledges receivable (Note 3)	36,889,687	26,749,010
Interest in charitable trusts held by others	6,391,327	6,484,271
Inventories and prepaid expenses	1,454,534	1,505,954
Assets held in deferred compensation plans	2,248,047	2,063,504
Assets held for others in agency funds	4,044,517	3,884,732
Student loans receivable, less allowance of $532,000 in 2017 and $312,000 in 2016	4,933,622	5,043,318
Beneficial interests in perpetual trusts held by others	1,132,515	1,044,906
Short-term investments restricted for land, buildings and equipment	46,531,523	28,079,872
Investments restricted for bond defeasance (Note 9)	21,265,889	22,212,036
Land, buildings and equipment, net (Note 4)	259,293,363	255,875,320
Total assets	$1,245,505,948	$1,133,594,478

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
Liabilities and net assets		
Accounts payable	$ 6,805,495	$ 5,138,442
Accrued compensation and related taxes:		
Payroll	3,087,399	2,907,304
Compensated absences	2,571,231	2,385,628
Deferred compensation	2,248,047	2,063,504
Other	1,530,521	803,595
	9,437,198	8,160,031
Deposits and other	2,602,866	2,467,858
Agency funds held for others	4,044,517	3,884,732
Long-term debt	100,000	100,000
Capital lease obligations (Note 9)	192,899,047	174,275,086
Liability for payment to beneficiaries under split-interest agreements	3,665,245	3,663,187
Discount for future interest on life income agreements	1,584,747	1,184,665
Liability for post-retirement healthcare benefits (Note 8)	20,236,091	24,144,187
Refundable advances:		
Revocable charitable remainder trusts	376,844	304,821
Federal Perkins Loans to students	2,040,117	2,053,925
Schell Foundation Loans to students	346,050	346,050
	2,763,011	2,704,796
Total liabilities	244,138,217	225,722,984
Net assets (Note 5):		
Unrestricted	417,799,826	387,489,565
Temporarily restricted	358,083,909	309,336,830
Permanently restricted	225,061,735	209,705,682
Total net assets - University	1,000,945,470	906,532,077
Noncontrolling interest	422,261	1,339,417
Total net assets	1,001,367,731	907,871,494
Total liabilities and net assets	$1,245,505,948	$1,133,594,478

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 STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$101,387,464			$101,387,464
Less financial aid discount	(59,174,037)			(59,174,037)
Net tuition and fees	42,213,427			42,213,427
Auxiliary service revenues	30,657,518			30,657,518
Government grant revenue	727,122			727,122
Private contributions and grants	6,158,612	$ 2,933,936		9,092,548
Investment income and operating gains:				
Endowment, quasi-endowment and other	31,842,819	4,369,810		36,212,629
Earnings on cash and short-term investments	1,108,612	84,973		1,193,585
Other revenues	1,612,923	34,959		1,647,882
Net assets released from restrictions	5,439,182	(5,439,182)		-
Total operating revenues	119,760,215	1,984,496		121,744,711
Operating expenses				
Instruction	44,177,072			44,177,072
Research	764,867			764,867
Academic support	13,801,253			13,801,253
Student services	23,377,406			23,377,406
Auxiliary services	23,995,923			23,995,923
Management and general	11,380,131			11,380,131
Fund raising	4,314,375			4,314,375
Total operating expenses	121,811,027			121,811,027
Net (decrease) increase from operations	(2,050,812)	1,984,496		(66,316)
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	473,224		$ 10,916,397	11,389,621
Contributions restricted for building and equipment	86,125	1,804,908		1,891,033
Investment losses:				
Net losses on investments, net of amount appropriated for endowment, quasi-endowment and other	(32,082,783)	(60,823,288)	(420,640)	(93,326,711)
Unrealized losses on perpetual trusts held by others			(61,092)	(61,092)
	(32,082,783)	(60,823,288)	(481,732)	(93,387,803)
Net assets released from restrictions for building and equipment	2,347,177	(2,347,177)		-
Changes in designation of gifts received in prior years and matured split interest agreements	(46,389)	(87,804)	134,193	-
Actuarial adjustment of split-interest agreements		(160,117)	287,128	127,011
Post-retirement related changes other than net periodic post-retirement cost	2,973,263			2,973,263
Total nonoperating items	(26,249,383)	(61,613,478)	10,855,986	(77,006,875)
Change in net assets	(28,300,195)	(59,628,982)	10,855,986	(77,073,191)
Net assets at beginning of year	414,863,037	368,965,812	198,849,696	982,678,545
Capital contribution - noncontrolling interest	2,266,140			2,266,140
Net assets at end of year	$388,828,982	$309,336,830	$209,705,682	$907,871,494

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 93,530,698	$ (77,073,191)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	9,646,654	10,512,758
Loss on disposal of building and equipment	-	50,371
(Gain) loss on investments	(93,071,983)	56,862,117
Unrealized (gain) loss on perpetual trusts held by others	(87,609)	61,092
Contributions, net of pledges, for permanently restricted purposes	(10,300,954)	(5,671,359)
(Gain) loss restricted to long-term investment	(1,637,296)	420,640
Contributions, net of pledges, restricted for property and equipment	(2,299,378)	(7,584,475)
Actuarial adjustment of split interest agreements	(601,201)	(127,011)
Decrease in accounts receivable	115,525	18,089
(Increase) decrease in pledges receivable	(10,140,677)	1,402,423
Decrease (increase) in inventories and prepaid expenses	51,420	(391,946)
Increase in assets held in deferred compensation plans	(184,543)	(46,776)
Increase in assets held for others in agency funds	(159,785)	(38,121)
Increase in accounts payable	1,667,053	462,332
Increase in accrued compensation and related taxes	1,277,167	97,108
Increase in deposits and agency funds held for others	294,793	361,844
Increase (decrease) in liability for payment to beneficiaries under split-interest agreements	452,973	(538,359)
Decrease in liability for post-retirement healthcare benefits	(3,908,096)	(1,215,980)
Increase (decrease) in refundable advances	58,215	(21,526)
Net cash used in operating activities	(15,297,024)	(22,459,970)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(15,434,439)	(12,104,724)
Increase in assets restricted to investment in land, buildings and equipment	(18,451,651)	(18,989,728)
Decrease (increase) in investments restricted for bond defeasance	946,147	(22,212,036)
Net proceeds from sales of investments	12,293,439	21,666,382
Proceeds from loan collections and cancellations	913,071	668,669
Student loans issued	(803,375)	(1,249,798)
Net cash used in investing activities	(20,536,808)	(32,221,235)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of long term debt and capital lease obligations	27,015,000	59,080,000
Payment of bond issuance costs	(272,540)	(474,202)
Premium on bond issuance	3,261,243	8,416,854
Payments of capital lease obligations	(9,010,000)	(28,070,000)
Contributions, net of pledges, for permanently restricted purposes	10,300,954	5,671,359
Increase in interest in charitable trusts held by others	643,312	655,387
Loss (gain) restricted to long-term investment	1,637,296	(420,640)
Contributions, net of pledges, restricted for building and equipment	2,299,378	7,584,475
Net capital (distributions) contributions from noncontrolling investors	(34,461)	2,266,140
Net cash provided by financing activities	35,840,182	54,709,373
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,350	28,168
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	54,512	26,344
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 60,862	$ 54,512

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 is 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 13, 2017, which is the date the consolidated financial statements were available to be issued.

Certain reclassifications have been made to the 2016 information to conform to the 2017 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:

Absolute Return (Hedge Funds)
Hedge funds seek to generate high 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.

Public Equities
The University and subsidiaries invest in public equity securities in various geographical areas including U.S. equities, non-U.S. equities ("developed markets") and emerging markets equities. Public equity 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.

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

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

Real Assets
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).

Note 1. Significant Accounting Policies (Continued)

G. Investments (Continued)

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.

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, 2017, the following liquidity characteristics applied to the University and subsidiaries' endowment and quasi-endowment funds:

Liquid within:	% of Endowment
1 year	65%
4 years	4%
Illiquid*	31%

*Illiquid investments represent those invested in private real assets and private equity limited partnerships. There is a very limited secondary market for these interests and selling them would require considerable time. The University and subsidiaries are not actively trying to sell any of their illiquid investments at this time.

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.

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.

Note 1. Significant Accounting Policies (Continued)

I. Land, Buildings and Equipment (Continued)

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:

Contributions restricted for endowment, quasi-endowment and similar funds: 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.

Contributions restricted for building and equipment: 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.

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

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.

Note 1. Significant Accounting Policies (Continued)

J. Nonoperating Activities (Continued)

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

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.

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

The following tables set forth by level the University and subsidiaries' financial assets (including the Denison University Research Foundation totaling $2,296,908 and $2,137,158 as of June 30, 2017 and 2016, respectively - Note 7) that were accounted for at a fair value on a recurring basis as of June 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	$ 27,350,532	$117,411,870	$150,795,588	$295,557,990
Public equities	41,753,298	81,350,451	30,359,996	153,463,745
Private equities	-	-	175,796,652	175,796,652
Fixed income	52,524,348	10,525,843	-	63,050,191
Real assets	-	100,000	81,078,617	81,178,617
Cash and other investments	93,732,093	-	100,000	93,832,093
Total investments	215,360,271	209,388,164	438,130,853	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	$285,405,730	$209,388,164	$445,654,695	$940,448,589

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	$ 16,548,226	$ 85,820,412	$188,509,133	$290,877,771
Public equities	44,356,781	66,783,905	37,821,902	148,962,588
Private equities	-	-	175,797,904	175,797,904
Fixed income	40,622,328	14,752,827	10,840	55,385,995
Real assets	-	100,000	72,899,743	72,999,743
Cash and other investments	37,811,831	-	100,000	37,911,831
Total investments	139,339,166	167,457,144	475,139,522	781,935,832
Interest in charitable trusts held by others	-	-	6,484,271	6,484,271
Assets held in deferred compensation plans	2,063,504	-	-	2,063,504
Beneficial interests in perpetual trusts held by others	-	-	1,044,906	1,044,906
Short-term investments restricted for land, buildings and equipment	28,079,872	-	-	28,079,872
Investments restricted for bond defeasance	22,212,036	-	-	22,212,036
Total	$191,694,578	$167,457,144	$482,668,699	$841,820,421

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.

The University has a percentage of its investments that are valued at Level 2 and Level 3. The underlying investments include hedge funds, public equities, private equities, real assets and fixed income 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. Because the fund manager values the fund, the University and subsidiaries are not required to disclose the quantitative information of the valuation inputs. The University and subsidiaries review the fund manager's valuation. Investments were transferred between Level 2 and Level 3 due to change in the underlying assets by the fund.

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (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. There have been no changes in the methodologies used from 2016 to 2017. 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:

	2017					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Transfer From Level 3	Ending Balance
Absolute return (hedge funds)	$ 188,509,133	$ 570,449	$ (17,193,048)	$ 18,242,671	$ (39,333,617)	$ 150,795,588
Public equities	37,821,902	-	(13,793,613)	6,331,707	-	30,359,996
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	(16,714,181)	5,380,354	-	81,078,617
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
	$ 482,668,699	$ 42,994,302	$ (86,561,660)	$ 45,886,971	$ (39,333,617)	$ 445,654,695

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2016					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Transfer From Level 3	Ending Balance
Absolute return (hedge funds)	$ 287,626,673	$ 11,543,637	$ (29,582,540)	$ (17,426,504)	$ (63,652,133)	$ 188,509,133
Public equities	47,013,233	8,000,000	(10,000,000)	(7,191,331)	-	37,821,902
Private equities	195,429,831	23,733,047	(33,557,659)	(9,807,315)	-	175,797,904
Fixed income	11,764	-	-	(924)	-	10,840
Real assets	75,456,909	20,936,229	(17,012,506)	(6,480,889)	-	72,899,743
Cash and other investments	100,000	-	-	-	-	100,000
Interest in charitable trusts held by others	6,723,713	-	(655,388)	415,946	-	6,484,271
Beneficial interests in perpetual trusts held by others	1,105,998	-	-	(61,092)	-	1,044,906
	$ 613,468,121	$ 64,212,913	$ (90,808,093)	$ (40,552,109)	$ (63,652,133)	$ 482,668,699

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, 2017 and 2016, management cannot reasonably estimate a liability related to these potential asset retirement activities.

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.

Note 1. Significant Accounting Policies (Continued)

N. Federal Income Tax (Continued)

As of June 30, 2017, the University and subsidiaries' income tax years from 2013 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, 2017 consist 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

Investments at June 30, 2016 consisted of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	$290,023,556	$290,023,556
Public equities	148,539,733	88,554,783
Private equities	175,280,279	175,280,279
Fixed income	55,344,161	14,752,515
Real assets	72,785,125	72,674,924
Cash and other assets	37,768,719	-
	$779,741,573	$641,286,057

The University and subsidiaries were obligated at June 30, 2017 to invest additional funds in limited partnership investments in the amount of $127.9 million at the direction of the general partners. These commitments are to be satisfied through redistribution of invested assets.

The composition of investment return is as follows:

	Year Ended June 30	
	2017	2016
Investment income (interest and dividends)	$ 5,971,917	$ 1,675,717
Net realized and unrealized gains (losses)	94,752,323	(57,657,306)
Total investment return	100,724,240	(55,981,589)
Investment return included in operations	(38,375,658)	(37,406,214)
Nonoperating investment return	$ 62,348,582	$ (93,387,803)

Note 3. Pledges Receivable

As of June 30, 2017 and 2016, the University had received unconditional promises totaling $36,889,687 and $26,749,010, 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, 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

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 110,076	$ 4,244,080	$ 3,348,227	$ 7,702,383
One to five years	-	4,537,611	12,057,632	16,595,243
More than five years	-	880,499	1,570,885	2,451,384
	$ 110,076	$ 9,662,190	$ 16,976,744	$ 26,749,010

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5%. The discount is $6,780,449 and $4,989,365 at June 30, 2017 and 2016, respectively.

Note 4. Land, Buildings and Equipment

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

	June 30,	
	2017	2016
Land	$ 2,461,349	$ 2,461,349
Improvements other than buildings	38,077,190	36,736,619
Buildings	206,658,915	206,658,915
Building improvements	105,722,823	98,238,232
Construction in progress	5,329,159	1,691,378
Library books	13,486,950	13,063,250
Computer equipment and software	59,469,672	56,921,876
	431,206,058	415,771,619
Accumulated depreciation	(171,912,695)	(159,896,299)
	$ 259,293,363	$ 255,875,320

Note 4. Land, Buildings and Equipment (Continued)

Depreciation expense totaled $12,016,396 and $11,714,593 for the years ended June 30, 2017 and 2016, respectively. The University and subsidiaries have outstanding commitments of approximately $31.8 million remaining for the construction and renewal of facilities and equipment at June 30, 2017.

Note 5. Net Assets

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

	June 30, 2017	June 30, 2016
Unrestricted net assets:		
University reserves	$ 13,296,401	$ 12,223,631
Quasi endowment	260,916,407	236,230,901
Student loans	628,051	808,995
Invested in land, buildings and equipment	143,381,228	139,565,455
	$418,222,087	$388,828,982

	June 30, 2017 Temporarily Restricted	June 30, 2017 Permanently Restricted	June 30, 2016 Temporarily Restricted	June 30, 2016 Permanently Restricted
Scholarships, prizes and awards	$135,570,675	$ 79,899,698	$118,642,179	$ 72,526,080
Faculty support and academic programs	111,626,113	73,352,695	96,156,925	69,396,834
General university operations	66,165,219	17,757,618	59,104,684	17,675,367
Annuity, life income and unitrust funds	4,105,576	13,057,288	3,488,827	12,341,206
Gifts pending donor designation	235,000	10,866,223	166,424	5,184,954
Student loans	-	5,545,842	-	5,201,510
Physical plant maintenance	8,340,320	5,186,578	7,240,421	4,771,381
Student employment	3,867,296	962,579	3,459,861	962,579
Library acquisitions	4,614,851	1,116,749	4,130,162	1,116,749
Beneficial interest in perpetual trusts	-	1,132,515	-	1,044,906
Gifts restricted for capital assets	11,018,814	-	5,878,130	-
Private grants	5,209,520	-	5,278,465	-
Other purposes	7,330,525	16,183,950	5,790,752	19,484,116
	$358,083,909	$225,061,735	$309,336,830	$209,705,682

Note 5. Net Assets (Continued)

Net assets released from restriction relate to the following:

	June 30, 2017	June 30, 2016
Instructional	$ 4,139,129	$ 3,571,682
Building and equipment	3,644,527	2,347,177
Research	505,999	430,694
Academic support	1,478,482	475,601
Student services	1,094,249	738,868
Management and general	5,675	154,117
Other purposes	148,515	68,220
	$11,016,576	$ 7,786,359

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, 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 current spending rule (also known as the "Yale Spending Model") provides an annual cash flow to the operating budget equal to 5% of an inflation-adjusted average of all past calendar year end endowment market values with exponentially declining weights (30% weight to current market value and 70% to historical market values).

According to the University's spending policy, $38,080,506 and $36,757,321 were distributed for operations during the years ended June 30, 2017 and 2016, 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, 2017 and 2016:

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$295,775,918	$343,080,449	$175,708,514	$814,564,881
Investment return:				
Investment income	23,975	47,752	(3,717)	68,010
Net depreciation (realized and unrealized)	(18,275,988)	(38,100,172)	(752,419)	(57,128,579)
Total investment return	(18,252,013)	(38,052,420)	(756,136)	(57,060,569)
Cash contributions and transfers	523,224	(3,257)	6,758,225	7,278,192
Appropriation of endowment assets for expenditure and debt service	(15,645,900)	(22,767,993)	(539,045)	(38,952,938)
Endowment assets, end of of year	$262,401,229	$282,256,779	$181,171,558	$725,829,566

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, 2017 and 2016, the assets of the Foundation held by the University and subsidiaries were $2,359,171 and $2,194,259, 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 $4,266,991 and $4,046,127 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 as calculated by Aon, the University and subsidiaries' actuary, are as follows:

	June 30,	
	2017	2016
Net Periodic Post-Retirement Benefit Cost		
Service cost	$ 114,003	$ 150,989
Interest cost	755,963	1,146,813
Amortization of unrecognized loss	-	1,678,206
Total net periodic post-retirement benefit cost	$ 869,966	$2,976,008

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, 2017 and 2016 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $1,946,504 and $5,537,166, respectively. There is no unrecognized net prior service cost. The actuarial loss cost expected to be recognized during the year ended June 30, 2018 is $-0-.

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

The following sets forth the change in the benefit obligation of the University's defined benefit post-retirement plan as of June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Change in Benefit Obligation		
Benefit obligation at beginning of year	$24,144,187	$25,360,167
Service cost	114,003	150,989
Interest cost	755,963	1,146,813
Actuarial gain	(3,590,662)	(1,295,057)
Benefits paid	(1,187,400)	(1,218,725)
Benefit obligation at end of year	20,236,091	24,144,187
Plan assets	-	-
Funded status/net recorded liability	$20,236,091	$24,144,187

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, 2017 and 2016 are as follows:

	June 30, 2017	June 30, 2016
Weighted average discount rate	3.89%	4.62%
Medical trend:		
For next year - pre 65 and post 65	6.8%/8.5%	7%/12%
Ultimate trend rate	4.5%/4.5%	5%/5.3%
Year reached	2024/2025	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, 2017	June 30, 2016
Effect of an increase		
Accumulated post-retirement benefit obligation	$ 2,724,761	$ 3,726,436
Service cost and interest cost	132,704	186,091
Effect of a decrease		
Accumulated post-retirement benefit obligation	(2,271,079)	(3,045,411)
Service cost and interest cost	(109,362)	(150,021)

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

Estimated future benefit payments as of June 30, 2017 are as follows:

2018	$1,069,000
2019	1,138,000
2020	1,084,000
2021	1,168,000
2022	1,210,000
2023-2027	6,132,000

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 is payable November 1 and May 1 at rates ranging from 4.0% to 5.0%. Principal payments began November 1, 2008. The bonds will be paid off in November 2017.

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. The investments held for defeasance of the bonds amounted to $21,265,889 and $22,212,036 at June 30, 2017 and 2016, 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 the 2004 bonds which were paid off in 2014. 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 the 2004 bonds which were paid off in 2014. 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.

Note 9. Capital Lease Obligations (Continued)

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 begin 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 at rates ranging from 2.00% to 5.00%. Principal payments begin 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.

Amounts due under the lease agreements as of June 30, 2017 and 2016 are as follows:

	2017	2016
2007 Project	$ 57,770,000	$ 61,910,000
2012 Project	23,835,000	25,330,000
2013 Project	13,965,000	15,715,000
2015 Project	56,620,000	58,245,000
2017 Project	27,015,000	-
	179,205,000	161,200,000
Unamortized discount, premium and bond issuance costs	13,694,047	13,075,086
	$192,899,047	$174,275,086

Capital lease obligations of $192,899,047, reduced by bond defeasance funds of $21,265,889, total $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 $2,369,743 and $1,201,835 for the years ended June 30, 2017 and 2016, respectively.

Note 9. Capital Lease Obligations (Continued)

Effective January 1, 2016, the University changed its method of presentation relating to debt issuance costs in accordance with FASB ASU 2015-03 (*Simplifying the Presentation of Debt Issuance Costs*). Prior to 2017, the University's policy was to present these debt issuance costs in assets on the consolidated statements of financial position, net of accumulated amortization. During fiscal 2017, the University has presented these debt issuance costs as a direct deduction to the related capital lease obligations. The effect of the retrospective adoption on the 2016 consolidated financial statements was to reclassify $1,007,070 from other assets to capital lease obligations.

At June 30, 2017 (including the effects of the August 2017 bond issue), future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2018	$ 71,536,493
2019	17,012,698
2020	17,016,479
2021	17,012,196
2022	17,010,618
Remaining amount due	132,535,144
	272,123,628
Less: Amounts representing interest	(63,778,628)
August 2017 bond issue	(29,140,000)
Unamortized discount, premium and bond issuance costs, net	13,694,047
Balance outstanding	$192,899,047

Interest expense on long-term debt and capital lease obligations totaled $6,960,980 and $7,618,092 for the years ended June 30, 2017 and 2016, respectively. An additional $110,882 was capitalized for the year ended June 30, 2017. Cash paid for interest totaled $7,289,550 and $7,315,254 for the years ended June 30, 2017 and 2016, 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 2023. The future minimum lease payments, exclusive of renewal options, as of June 30, 2017 are as follows:

2018	$ 339,235
2019	250,430
2020	185,506
2021	160,237
2022	97,926
Thereafter	16,321
	$ 1,049,655

Note 10. Operating Lease Agreements (Continued)

Lease payments charged to operations for the years ended June 30, 2017 and 2016 were $575,992 and $554,303, 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, 2015	$ 982,638,601	$ 39,944	$ 982,678,545
Net capital contribution	-	2,266,140	2,266,140
Decrease in net assets attributable to:			
University	(76,106,524)	-	(76,106,524)
Noncontrolling interests	-	(966,667)	(966,667)
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	94,413,393	-	94,413,393
Noncontrolling interests	-	(882,695)	(882,695)
Net assets balance at June 30, 2017	$1,000,945,470	$ 422,261	$1,001,367,731

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.