DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2015 and 2014

DENISON UNIVERSITY AND SUBSIDIARIES

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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 and subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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, 2015

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 26,344	$ 31,821
Accounts receivable:		
Students, less allowance of $375,000 in 2015 and 2014	173,461	170,276
Grants	107,673	249,893
Other	592,425	613,907
	873,559	1,034,076
Investments (Notes 1 and 2):		
Endowment and quasi-endowment funds	806,766,294	793,911,415
Annuity and life income funds	15,433,108	15,825,461
Other	36,070,668	44,371,784
	858,270,070	854,108,660
Pledges receivable (Note 3)	28,151,433	11,696,901
Interest in charitable trusts held by others	6,723,713	6,303,667
Inventories and prepaid expenses	1,114,008	1,346,368
Assets held in deferred compensation plans	2,016,728	1,807,227
Assets held for others in agency funds	3,846,611	4,151,730
Student loans receivable, less allowance of $312,000 in 2015 and 2014	4,462,189	4,004,846
Unamortized bond issue costs	846,531	926,645
Beneficial interests in perpetual trusts held by others	1,105,998	1,139,201
Short-term investments restricted for land, buildings and equipment	9,090,144	11,323,382
Investments restricted for bond defeasance (Note 9)	-	24,543,126
Land, buildings and equipment, net (Note 4)	255,535,559	245,202,146
Total assets	$1,172,062,887	$1,167,619,796

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
Liabilities and net assets		
Accounts payable	$ 4,676,110	$ 5,032,698
Accrued compensation and related taxes:		
Payroll	2,985,735	2,853,827
Compensated absences	2,303,426	2,307,959
Deferred compensation	2,016,728	1,807,227
Other	757,034	772,928
	8,062,923	7,741,941
Deposits and other	2,144,135	1,779,189
Agency funds held for others	3,846,611	4,151,730
Long-term debt	100,000	100,000
Capital lease obligations (Note 9)	137,370,801	169,935,626
Liability for payment to beneficiaries under split-interest agreements	3,826,801	3,926,154
Discount for future interest on life income agreements	1,270,472	1,376,838
Liability for post-retirement healthcare benefits (Note 8)	25,360,167	19,675,670
Refundable advances:		
Revocable charitable remainder trusts	318,272	317,721
Federal Perkins Loans to students	2,062,000	2,090,678
Schell Foundation Loans to students	346,050	346,050
	2,726,322	2,754,449
Total liabilities	189,384,342	216,474,295
Net assets (Note 5):		
Unrestricted	414,823,093	409,976,968
Temporarily restricted	368,965,812	355,066,795
Permanently restricted	198,849,696	186,101,738
Total net assets - University	982,638,601	951,145,501
Noncontrolling interest	39,944	-
Total net assets	982,678,545	951,145,501
Total liabilities and net assets	$1,172,062,887	$1,167,619,796

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 97,628,446			$ 97,628,446
Less financial aid discount	(46,887,431)			(46,887,431)
Net tuition and fees	50,741,015			50,741,015
Auxiliary service revenues	26,845,083			26,845,083
Government grant revenue	610,829			610,829
Private contributions and grants	5,644,820	$ 7,770,541		13,415,361
Investment income and operating gains:				
Endowment, quasi-endowment and other	30,159,570	4,172,444		34,332,014
Earnings on cash and short-term investments	963,700	54		963,754
Other revenues	1,761,238	882		1,762,120
Net assets released from restrictions	4,701,209	(4,701,209)		-
Total operating revenues	121,427,464	7,242,712		128,670,176
Operating expenses				
Instruction	42,293,492			42,293,492
Research	762,661			762,661
Academic support	12,858,742			12,858,742
Student services	20,674,055			20,674,055
Auxiliary services	21,169,065			21,169,065
Financial aid expense	10,753,727			10,753,727
Management and general	11,539,915			11,539,915
Fund raising	3,105,211			3,105,211
Total operating expenses	123,156,868			123,156,868
Net (decrease) increase from operations	(1,729,404)	7,242,712		5,513,308
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	868,575	411,618	$ 11,289,886	12,570,079
Contributions restricted for building and equipment	1,969,053	5,965,650		7,934,703
Investment gains (losses):				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	7,390,210	674,945	1,283,686	9,348,841
Unrealized losses on perpetual trusts held by others			(33,203)	(33,203)
	7,390,210	674,945	1,250,483	9,315,638
Net assets released from restrictions for building and equipment	798,909	(798,909)		-
Changes in designation of gifts received in prior years and matured split interest agreements	55,352	349,434	(404,786)	-
Actuarial adjustment of split-interest agreements		53,567	612,375	665,942
Post-retirement related changes other than net periodic post-retirement cost	(5,035,126)			(5,035,126)
Total nonoperating items	6,046,973	6,656,305	12,747,958	25,451,236
Change in net assets	4,317,569	13,899,017	12,747,958	30,964,544
Net assets at beginning of year	409,976,968	355,066,795	186,101,738	951,145,501
Capital contribution - noncontrolling interest	568,500			568,500
Net assets at end of year	$414,863,037	$368,965,812	$198,849,696	$982,678,545

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 92,825,686			$ 92,825,686
Less financial aid discount	(42,051,863)			(42,051,863)
Net tuition and fees	50,773,823			50,773,823
Auxiliary service revenues	26,314,555			26,314,555
Government grant revenue	511,818			511,818
Private contributions and grants	5,101,685	$ 714,922		5,816,607
Investment income and operating gains:				
Endowment, quasi-endowment and other	28,585,288	3,946,739		32,532,027
Earnings on cash and short-term investments	1,387,697	188		1,387,885
Other revenues	1,836,214	12,761		1,848,975
Net assets released from restrictions	4,385,947	(4,385,947)		-
Total operating revenues	118,897,027	288,663		119,185,690
Operating expenses				
Instruction	40,838,833			40,838,833
Research	387,891			387,891
Academic support	13,246,511			13,246,511
Student services	20,182,628			20,182,628
Auxiliary services	20,344,959			20,344,959
Financial aid expense	10,611,794			10,611,794
Management and general	11,154,516			11,154,516
Fund raising	3,019,821			3,019,821
Total operating expenses	119,786,953			119,786,953
Net (decrease) increase from operations	(889,926)	288,663		(601,263)
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	1,009,084	32,110	$ 5,513,566	6,554,760
Contributions restricted for building and equipment		336,529		336,529
Investment gains:				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	30,355,522	67,921,404	1,769,969	100,046,895
Unrealized gain on perpetual trusts held by others			120,090	120,090
	30,355,522	67,921,404	1,890,059	100,166,985
Net assets released from restrictions for building and equipment	620,531	(620,531)		-
Changes in designation of gifts received in prior years and matured split interest agreements	58,302	(102,872)	44,570	-
Actuarial adjustment of split-interest agreements		211,514	913,120	1,124,634
Loss on disposal of buildings and equipment	(991,845)			(991,845)
Post-retirement related changes other than net periodic post-retirement cost	(1,258,932)			(1,258,932)
Total nonoperating items	29,792,662	67,778,154	8,361,315	105,932,131
Change in net assets	28,902,736	68,066,817	8,361,315	105,330,868
Net assets at beginning of year	381,074,232	286,999,978	177,740,423	845,814,633
Net assets at end of year	$409,976,968	$355,066,795	$186,101,738	$951,145,501

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

DENISON UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 30,964,544	$ 105,330,868
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	10,505,005	9,663,849
Loss on disposal of building and equipment	20,483	991,845
Gains on investments	(41,915,775)	(129,664,971)
Unrealized loss (gain) on perpetual trusts held by others	33,203	(120,090)
Contributions, net of pledges, for permanently restricted purposes	(4,496,899)	(3,918,884)
Income and gains restricted to long-term investment	(1,283,686)	(1,769,969)
Contributions, net of pledges, restricted for property and equipment	(4,718,336)	(2,301,176)
Actuarial adjustment of split interest agreements	(665,942)	(1,124,634)
Decrease in accounts receivable	160,517	18,381
(Increase) decrease in pledges receivable	(16,454,532)	429,766
Decrease (increase) in inventories and prepaid expenses	232,360	(814,593)
Increase in assets held in deferred compensation plans	(209,501)	(404,509)
Decrease in assets held for others in agency funds	305,119	224,418
Decrease in accounts payable	(356,588)	(724,769)
Increase in accrued compensation and related taxes	320,982	695,246
Increase (decrease) in deposits and agency funds held for others	59,827	(249,637)
(Decrease) increase in liability for payment to beneficiaries under split-interest agreements	(240,598)	206,386
Increase in liability for post-retirement healthcare benefits	5,684,497	1,335,497
(Decrease) increase in refundable advances	(28,127)	32,512
Net cash used in operating activities	(22,083,447)	(22,164,464)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(21,423,610)	(11,643,328)
Decrease in assets restricted to investment in land, buildings and equipment	2,233,238	9,414,000
Decrease in investments restricted for bond defeasance	24,543,126	1,123,898
Net proceeds from sales of investments	37,754,363	23,152,725
Proceeds from loan collections and cancellations	707,783	422,797
Student loans issued	(1,165,126)	(499,439)
Net cash provided by investing activities	42,649,774	21,970,653
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of capital lease obligations	(31,920,000)	(8,330,000)
Contributions, net of pledges, for permanently restricted purposes	4,496,899	3,918,884
Interest in charitable trusts held by others	280,775	570,603
Income and gains restricted to long-term investment	1,283,686	1,769,969
Contributions, net of pledges, restricted for building and equipment	4,718,336	2,301,176
Capital contributions from noncontrolling investors	568,500	-
Payment of bond issuance costs	-	(25,000)
Net cash (used in) provided by financing activities	(20,571,804)	205,632
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,477)	11,821
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,821	20,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 26,344	$ 31,821

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 39-bed 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.

Note 1. Significant Accounting Policies (Continued)

B. Accounting Method (Continued)

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.

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 9, 2015, which is the date the consolidated financial statement were available to be issued.

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 recognized only to the extent cash payments are received.

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

Note 1. Significant Accounting Policies (Continued)

G. Investments (Continued)

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

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

<u>Absolute Return (Hedge Funds)</u>
Hedge funds seek to generate 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.

<u>Public Equities</u>
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.

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

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

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

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, 2015, the following liquidity characteristics applied to the University and subsidiaries' endowment and quasi-endowment funds:

Liquid within:	% of Endowment
1 year	64%
3 years	4%
Illiquid*	32%

*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 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.

Loss on disposal of buildings and equipment: Represents the loss on disposals of buildings and equipment that were not fully depreciated. This type of loss is infrequent and, therefore, does not represent operating activity in the consolidated statements of activities.

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 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 - Note 7) that were accounted for at a fair value on a recurring basis as of June 30, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	$ 18,241,296	$ 11,645,785	$287,626,673	$317,513,754
Public equities	46,866,620	80,811,950	47,013,233	174,691,803
Private equities	-	-	195,429,831	195,429,831
Fixed income	27,465,776	15,775,647	11,764	43,253,187
Real assets	-	100,000	75,456,909	75,556,909
Cash and other investments	54,149,887	-	100,000	54,249,887
Total investments	146,723,579	108,333,382	605,638,410	860,695,371
Interest in charitable trusts held by others	-	-	6,723,713	6,723,713
Assets held in deferred compensation plans	2,016,728	-	-	2,016,728
Beneficial interests in perpetual trusts held by others	-	-	1,105,998	1,105,998
Short-term investments restricted for land, buildings and equipment	9,090,144	-	-	9,090,144
Total	$157,830,451	$108,333,382	$613,468,121	$879,631,954

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	$ 17,380,293	$ 49,486,982	$234,277,384	$301,144,659
Public equities	31,094,805	75,583,170	48,592,128	155,270,103
Private equities	-	-	208,244,984	208,244,984
Fixed income	36,349,338	15,789,646	1,157,888	53,296,872
Real assets	2,442	-	85,769,315	85,771,757
Cash and other investments	52,607,874	-	100,000	52,707,874
Total investments	137,434,752	140,859,798	578,141,699	856,436,249
Interest in charitable trusts held by others	-	-	6,303,667	6,303,667
Assets held in deferred compensation plans	1,807,227	-	-	1,807,227
Beneficial interests in perpetual trusts held by others	-	-	1,139,201	1,139,201
Short-term investments restricted for land, buildings and equipment	11,323,382	-	-	11,323,382
Investments restricted for bond defeasance	24,543,126	-	-	24,543,126
Total	$175,108,487	$140,859,798	$585,584,567	$901,552,852

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 but legally structured with limited redemption rights (most limited partnerships and master trusts) have been designated as Level 2 assets. Due to the redemption terms of these investment vehicles, as of June 30, 2015 and 2014, approximately $182 million and $100 million, respectively, of assets reported as Level 1 assets in the University and subsidiaries' managers' audited consolidated financial statements have been reported as Level 2 assets in the above table.

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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. Due to the redemption terms of some of these investment vehicles, as of June 30, 2015 and 2014, approximately $135 million and $123 million, respectively, of assets reported as Level 2 assets in the University and subsidiaries' managers' audited consolidated financial statements have been reported as Level 3 assets in the above table. Investments were transferred from Level 2 to Level 3 due to change in the underlying assets by the fund.

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 2014 to 2015. Furthermore, while the University and subsidiaries believes 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:

	2015					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Transfer to Level 3	Ending Balance
Absolute return (hedge funds)	$234,277,384	$ 35,029,784	$ (40,032,069)	$ 17,610,590	$ 40,740,984	$287,626,673
Public equities	48,592,128	-	(158,439)	(1,420,456)	-	47,013,233
Private equities	208,244,984	28,900,426	(62,992,519)	21,276,940	-	195,429,831
Fixed income	1,157,888	-	(1,045,912)	(100,212)	-	11,764
Real assets	85,769,315	17,611,648	(22,534,757)	(5,389,297)	-	75,456,909
Cash and other investments	100,000	-	-	-	-	100,000
Interest in charitable trusts held by others	6,303,667	378,737	(659,512)	700,821	-	6,723,713
Beneficial interests in perpetual trusts held by others	1,139,201	-	-	(33,203)	-	1,105,998
	$585,584,567	$ 81,920,595	$(127,423,208)	$ 32,645,183	$ 40,740,984	$613,468,121

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2014					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Transfer to Level 3	Ending Balance
Absolute return (hedge funds)	$194,964,923	$ 20,827,622	$ (32,231,435)	$ 36,366,161	$ 14,350,113	$234,277,384
Public equities	42,410,112	-	(1,732,221)	7,914,237	-	48,592,128
Private equities	170,081,710	23,451,614	(38,380,581)	53,092,241	-	208,244,984
Fixed income	2,073,298	-	(1,322,755)	407,345	-	1,157,888
Real assets	81,257,156	18,539,184	(22,123,583)	8,096,558	-	85,769,315
Cash and other investments	100,000	-	-	-	-	100,000
Interest in charitable trusts held by others	6,432,475	-	(570,603)	441,795	-	6,303,667
Beneficial interests in perpetual trusts held by others	1,019,111	-	-	120,090	-	1,139,201
	$498,338,785	$ 62,818,420	$ (96,361,178)	$106,438,427	$ 14,350,113	$585,584,567

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, 2015 and 2014, 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, 2015, the University and subsidiaries' income tax years from 2011 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, 2015 consist of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	$316,582,536	$316,582,536
Public equities	174,194,036	118,839,764
Private equities	194,855,348	194,855,348
Real assets	75,335,127	75,224,602
Fixed income	43,213,867	15,748,091
Cash and other assets	54,089,156	-
	$858,270,070	$721,250,341

Investments at June 30, 2014 consisted of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	$300,271,194	$300,271,194
Public equities	154,837,592	115,868,594
Private equities	207,639,317	207,616,278
Real assets	85,522,333	85,509,366
Fixed income	53,252,168	1,113,184
Cash and other assets	52,586,056	-
	$854,108,660	$710,378,616

As more fully explained in Note 1, alternative investments with valuations dependent on the external investment managers and the managers' third-party administrators accounted for 84% and 83% of the University and subsidiaries' investments at June 30, 2015 and 2014, respectively. The University and subsidiaries were obligated at June 30, 2015 to invest additional funds in limited partnership investments in the amount of $116,504,447 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	
	2015	2014
Investment income (interest and dividends)	$ 1,980,699	$ 2,528,235
Net realized and unrealized gains	42,630,707	131,558,662
Total investment return	44,611,406	134,086,897
Investment return included in operations	(35,295,768)	(33,919,912)
Nonoperating investment return	$ 9,315,638	$100,166,985

Note 3. Pledges Receivable

As of June 30, 2015 and 2014, the University had received unconditional promises totaling $28,151,433 and $11,696,901, 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, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 86,022	$ 9,538,808	$ 4,617,216	$ 14,242,046
One to five years	-	5,523,849	6,589,149	12,112,998
More than five years	-	1,271,048	525,341	1,796,389
	$ 86,022	$ 16,333,705	$ 11,731,706	$ 28,151,433

	June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 237,748	$ 6,288,203	$ 3,843,118	$ 10,369,069
One to five years	-	232,232	623,030	855,262
More than five years	-	-	472,570	472,570
	$ 237,748	$ 6,520,435	$ 4,938,718	$ 11,696,901

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5%. The discount is $4,143,939 and $1,216,554 at June 30, 2015 and 2014, respectively.

Note 4. Land, Buildings and Equipment

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

	June 30,	
	2015	2014
Land	$ 2,461,349	$ 1,901,504
Improvements other than buildings	35,245,827	34,373,238
Buildings	208,175,459	195,330,108
Building improvements	91,689,146	87,104,664
Construction in progress	66,938	424,168
Library books	12,553,284	12,083,558
Computer equipment and software	53,923,499	51,702,259
	404,115,502	382,919,499
Accumulated depreciation	(148,579,943)	(137,717,353)
	$ 255,535,559	$ 245,202,146

Note 4. Land, Buildings and Equipment (Continued)

Depreciation expense totaled $11,069,714 and $10,637,617 for the years ended June 30, 2015 and 2014, respectively. The University and subsidiaries have outstanding commitments of approximately $4.5 million remaining for the construction and renewal of facilities and equipment at June 30, 2015.

Note 5. Net Assets

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

	June 30, 2015	June 30, 2014
Unrestricted net assets:		
University reserves	$ 11,848,637	$ 10,359,054
Quasi endowment	268,116,180	267,354,229
Student loans	765,037	730,702
Invested in land, buildings and equipment	134,133,183	131,532,983
	$414,863,037	$409,976,968

	June 30, 2015		June 30, 2014	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarships, prizes and awards	$143,832,610	$ 69,550,669	$142,974,260	$ 66,607,194
Faculty support and academic programs	116,642,874	69,157,320	115,141,649	67,950,231
General university operations	69,632,286	17,369,873	69,989,742	17,327,179
Annuity, life income and unitrust funds	3,974,427	12,766,057	3,900,614	12,650,043
Gifts pending donor designation	10,000	5,330,256	37,750	3,819,868
Student loans	-	5,379,002	-	5,164,267
Physical plant maintenance	8,811,366	4,174,834	8,812,295	3,798,373
Student employment	4,069,367	962,579	4,088,795	962,579
Library acquisitions	4,851,922	1,116,749	4,885,353	1,116,749
Beneficial interest in perpetual trusts	-	1,105,998	-	1,139,201
Gifts restricted for capital assets	5,970,320	-	38,819	-
Private grants	5,462,218	-	1,199,963	-
Other purposes	5,708,422	11,936,359	3,997,555	5,566,054
	$368,965,812	$198,849,696	$355,066,795	$186,101,738

Note 5. Net Assets (Continued)

Net assets released from restriction relate to the following:

	June 30,	
	2015	2014
Instructional	$3,408,209	$3,571,892
Building and equipment	798,909	620,531
Research	429,872	178,332
Academic support	116,717	90,832
Student services	438,153	483,257
Management and general	266,412	11,500
Other purposes	41,846	50,134
	$5,500,118	$5,006,478

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, $34,805,629 and $32,974,759 were distributed for operations during the years ended June 30, 2015 and 2014, 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, 2015 and 2014:

Note 6. Endowment Funds (Continued)

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$289,270,549	$342,347,390	$169,688,962	$801,306,901
Investment return:				
Investment income	151,675	254,976	4,486	411,137
Net appreciation (realized and unrealized)	20,659,323	21,882,868	790,423	43,332,614
Total investment return	20,810,998	22,137,844	794,909	43,743,751
Cash contributions and transfers	940,230	39,162	5,692,760	6,672,152
Appropriation of endowment assets for expenditure and debt service	(15,245,859)	(21,443,947)	(468,117)	(37,157,923)
Endowment assets, end of of year	$295,775,918	$343,080,449	$175,708,514	$814,564,881

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$257,203,305	$274,543,329	$161,962,748	$693,709,382
Investment return:				
Investment income	398,027	654,589	14,142	1,066,758
Net appreciation (realized and unrealized)	42,272,144	87,386,230	1,507,822	131,166,196
Total investment return	42,670,171	88,040,819	1,521,964	132,232,954
Cash contributions and transfers	1,701,484	(844)	6,638,684	8,339,324
Appropriation of endowment assets for expenditure	(12,304,411)	(20,235,914)	(434,434)	(32,974,759)
Endowment assets, end of year	$289,270,549	$342,347,390	$169,688,962	$801,306,901

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, 2015 and 2014, the assets of the Foundation held by the University and subsidiaries were $2,425,301 and $2,327,589, 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 $4,001,564 and $3,881,456 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 as calculated by Aon, the University and subsidiaries' actuary, are as follows:

	June 30,	
	2015	2014
Net Periodic Post-Retirement Benefit Cost		
Service cost	$ 139,638	$ 172,749
Interest cost	876,733	878,166
Amortization of unrecognized loss	585,883	84,592
Total net periodic post-retirement benefit cost	$1,602,254	$1,135,507

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, 2015 and 2014 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $8,510,429 and $3,475,303, respectively. There is no unrecognized net prior service cost. The actuarial loss cost expected to be recognized during the year ended June 30, 2016 is $1,678,206.

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, 2015 and 2014:

	June 30, 2015	June 30, 2014
Change in Benefit Obligation		
Benefit obligation at beginning of year	$19,675,670	$18,340,173
Service cost	139,638	172,749
Interest cost	876,733	878,166
Actuarial loss	5,621,009	1,343,524
Benefits paid	(952,883)	(1,058,942)
Benefit obligation at end of year	25,360,167	19,675,670
Plan assets	-	-
Funded status/net recorded liability	$25,360,167	$19,675,670

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, 2015 and 2014 are as follows:

	June 30, 2015	June 30, 2014
Weighted average discount rate	4.37%	4.92%
Medical trend:		
For next year - pre 65 and post 65	7.75%/5%	8%/7%
Ultimate trend rate	6.75%/5.%	5%
Year reached	2021	2021

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

	June 30, 2015	June 30, 2014
Effect of an increase		
Accumulated post-retirement benefit obligation	$ 3,558,262	$ 2,649,867
Service cost and interest cost	200,732	143,121
Effect of a decrease		
Accumulated post-retirement benefit obligation	(2,929,689)	(2,205,704)
Service cost and interest cost	(163,340)	(118,477)

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

Estimated future benefit payments as of June 30, 2015 are as follows:

2016	$ 1,087,000
2017	1,186,000
2018	1,279,000
2019	1,361,000
2020	1,343,000
2021-2025	7,379,000

Note 9. Capital Lease Obligations

In April 2004, the University entered into a lease agreement with the State of Ohio Higher Educational Facility Commission (the Commission) to finance various building and improvement projects, and to advance refund the Denison University 1996 Project Bonds. The University's lease serves as security for the Commission's $41,965,000 Higher Educational Facility Revenue Bonds (Denison University 2004 Project). The 2004 bonds were paid off in 2014.

On May 8, 2012, in connection with the Commission's issuance of $31,105,000 Higher Educational Facility Revenue Bonds (Denison University 2012 Project) discussed below, cash was deposited for the 2004 bonds which were paid off in 2014. The investments held for defeasance of the bonds amounted to $-0- and $7,384,019 at June 30, 2015 and 2014, respectively.

On April 18, 2013, in connection with the Commission's issuance of $18,145,000 Higher Educational Facility Revenue Bonds (Denison University 2013 Project) discussed below, cash was deposited for the 2004 bonds which were paid off in 2014. The investments held for defeasance of the bonds amounted to $-0- and $17,159,107 at June 30, 2015 and 2014, respectively.

In February 2007, the University entered into a lease agreement with 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 and continue through November 1, 2032.

In March 2010, 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 refunded 2001 bonds. The University's lease serves as security for the Commission's $27,860,000 Higher Education Facility Revenue Bonds (Denison University 2010 Project). Interest is payable November 1 and May 1 at rates ranging from 1.75% to 4.00%. Principal payments began November 1, 2010 and continue through November 1, 2024.

Note 9. Capital Lease Obligations (Continued)

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.

Amounts due under the lease agreements as of June 30, 2015 and 2014 are as follows:

	2015	2014
2004 Project	$ -	$ 26,247,065
2007 Project	69,451,256	73,447,579
2010 Project	20,024,575	21,049,313
2012 Project	30,495,283	31,440,492
2013 Project	17,399,687	17,751,177
	$137,370,801	$169,935,626

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.

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 bonds and to advance refund a portion of the 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.

Note 9. Capital Lease Obligations (Continued)

At June 30, 2015 (including the effects of the July 2015 bond issue), future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2016	$ 35,385,254
2017	16,299,550
2018	36,642,837
2019	14,543,985
2020	14,550,742
Remaining amount due	133,473,989
	250,896,357
Less: Amounts representing interest	(61,626,357)
Unamortized discount and premium, net	7,180,801
July 2015 Bond Issue	(59,080,000)
Balance outstanding	$137,370,801

Interest expense on long-term debt and capital lease obligations totaled $6,129,198 and $7,196,529 for the years ended June 30, 2015 and 2014, respectively. Interest expense of $-0- and $10,389 was capitalized in the years ended June 30, 2015 and 2014, respectively. Cash paid for interest totaled $6,378,199 and $7,262,921 for the years ended June 30, 2015 and 2014, 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 June 2020. The future minimum lease payments, exclusive of renewal options, as of June 30, 2015 are as follows:

2016	$ 431,781
2017	322,541
2018	27,483
2019	6,708
2020	5,031
	$ 793,544

Lease payments charged to operations for the years ended June 30, 2015 and 2014 were $519,664 and $486,876, 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, 2014	$951,145,501	$ -	$951,145,501
Capital contribution	-	568,500	568,500
Increase (decrease) in net assets attributable to:			
University	31,493,100	-	31,493,100
Noncontrolling interests	-	(528,556)	(528,556)
Net assets balance at June 30, 2015	$982,638,601	$ 39,944	$982,678,545