

DENISON UNIVERSITY

FINANCIAL REPORT

JUNE 30, 2013 and 2012

DENISON UNIVERSITY

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Independent Auditors' Report

To the Board of Trustees
Denison University
Granville, Ohio

We have audited the accompanying financial statements of Denison University (the University), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related 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 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Meloney + Novatny LLC

Cleveland, Ohio
October 11, 2013

DENISON UNIVERSITY

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and net assets		
Accounts payable	\$ 5,757,467	\$ 8,202,897
Accrued compensation and related taxes:		
Payroll	2,673,087	2,705,824
Compensated absences	2,052,899	1,998,779
Deferred compensation	1,402,718	1,146,444
Other	917,991	871,904
	<u>7,046,695</u>	<u>6,722,951</u>
Deposits	1,804,408	2,804,048
Agency funds held for others	4,376,148	4,032,703
Long-term debt	100,000	100,000
Capital lease obligations (Note 9)	179,374,580	170,189,378
Liability for payment to beneficiaries under split-interest agreements	4,092,354	4,079,339
Discount for future interest on life income agreements	1,687,092	1,759,663
Liability for post-retirement healthcare benefits (Note 8)	18,340,173	20,384,665
Refundable advances:		
Revocable charitable remainder trusts	282,099	259,402
Federal Perkins Loans to students	2,093,788	2,061,003
Schell Foundation Loans to students	346,050	346,050
	<u>2,721,937</u>	<u>2,666,455</u>
Total liabilities	225,300,854	220,942,099
Net assets (Note 5):		
Unrestricted	381,074,232	362,495,720
Temporarily restricted	286,999,978	258,004,640
Permanently restricted	177,740,423	170,102,378
Total net assets	<u>845,814,633</u>	<u>790,602,738</u>
Total liabilities and net assets	<u>\$1,071,115,487</u>	<u>\$1,011,544,837</u>

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

DENISON UNIVERSITY
STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	\$ 91,940,557			\$ 91,940,557
Less financial aid discount	<u>(41,566,917)</u>			<u>(41,566,917)</u>
Net tuition and fees	50,373,640			50,373,640
Auxiliary service revenues	24,948,645			24,948,645
Government grant revenue	826,496			826,496
Private contributions and grants	4,877,354	\$ 424,851		5,302,205
Investment income and operating gains:				
Endowment, quasi-endowment and other	27,540,636	3,875,688		31,416,324
Earnings on cash and short-term investments	1,449,986	697		1,450,683
Other revenues	1,511,792	12,756		1,524,548
Net assets released from restrictions	<u>4,306,506</u>	<u>(4,306,506)</u>		<u>-</u>
Total operating revenues	<u>115,835,055</u>	<u>7,486</u>		<u>115,842,541</u>
Operating expenses				
Instruction	40,491,566			40,491,566
Research	734,467			734,467
Academic support	12,393,027			12,393,027
Student services	19,031,884			19,031,884
Auxiliary services	18,306,963			18,306,963
Financial aid expense	9,845,900			9,845,900
Management and general	9,612,892			9,612,892
Fund raising	<u>2,983,852</u>			<u>2,983,852</u>
Total operating expenses	<u>113,400,551</u>			<u>113,400,551</u>
Net increase from operations	2,434,504	7,486		2,441,990
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	325	38,083	\$ 5,363,921	5,402,329
Contributions restricted for property and equipment	100	2,661,917		2,662,017
Investment gains:				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	10,970,882	29,226,391	1,091,226	41,288,499
Unrealized gain on perpetual trusts held by others			<u>75,935</u>	<u>75,935</u>
	<u>10,970,882</u>	<u>29,226,391</u>	<u>1,167,161</u>	<u>41,364,434</u>
Net assets released from restrictions for property and equipment	2,793,156	(2,793,156)		-
Changes in designation of gifts received in prior years and matured split interest agreements	201,781	(250,815)	49,034	-
Actuarial adjustment of split-interest agreements		105,432	1,057,929	1,163,361
Post-retirement related changes other than net periodic post-retirement cost	<u>2,177,764</u>			<u>2,177,764</u>
Total nonoperating items	<u>16,144,008</u>	<u>28,987,852</u>	<u>7,638,045</u>	<u>52,769,905</u>
Change in net assets	18,578,512	28,995,338	7,638,045	55,211,895
Net assets at beginning of year	<u>362,495,720</u>	<u>258,004,640</u>	<u>170,102,378</u>	<u>790,602,738</u>
Net assets at end of year	<u>\$381,074,232</u>	<u>\$286,999,978</u>	<u>\$177,740,423</u>	<u>\$845,814,633</u>

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

DENISON UNIVERSITY
STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	\$ 86,012,970			\$ 86,012,970
Less financial aid discount	<u>(38,106,606)</u>			<u>(38,106,606)</u>
Net tuition and fees	47,906,364			47,906,364
Auxiliary service revenues	23,745,556			23,745,556
Government grant revenue	725,890			725,890
Private contributions and grants	4,847,644	\$ 1,459,093		6,306,737
Investment income and operating gains:				
Endowment, quasi-endowment and other	27,168,137	3,781,589		30,949,726
Earnings on cash and short-term investments	1,112,179	398		1,112,577
Other revenues	1,480,843	12,239		1,493,082
Net assets released from restrictions	<u>4,482,646</u>	<u>(4,482,646)</u>		<u>-</u>
Total operating revenues	<u>111,469,259</u>	<u>770,673</u>		<u>112,239,932</u>
Operating expenses				
Instruction	39,202,919			39,202,919
Research	696,537			696,537
Academic support	12,010,826			12,010,826
Student services	17,186,553			17,186,553
Auxiliary services	17,535,090			17,535,090
Financial aid expense	9,003,473			9,003,473
Management and general	9,245,844			9,245,844
Fund raising	<u>2,872,453</u>			<u>2,872,453</u>
Total operating expenses	<u>107,753,695</u>			<u>107,753,695</u>
Net increase from operations	3,715,564	770,673		4,486,237
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	275		\$ 3,868,511	3,868,786
Contributions restricted for property and equipment	244,927	5,842,182		6,087,109
Investment (losses) gains:				
Net (losses) gains on investments, net of amount appropriated for endowment, quasi-endowment and other	(3,338,353)	(22,972,352)	272,529	(26,038,176)
Unrealized loss on perpetual trusts held by others			<u>(53,611)</u>	<u>(53,611)</u>
	<u>(3,338,353)</u>	<u>(22,972,352)</u>	218,918	<u>(26,091,787)</u>
Net assets released from restrictions for property and equipment	10,158,097	(10,158,097)		-
Changes in designation of gifts received in prior years and matured split interest agreements	5,985	(48,276)	42,291	-
Actuarial adjustment of split-interest agreements		(6,184)	572,177	565,993
Early retirement of bonds	(499,798)			(499,798)
Post-retirement related changes other than net periodic post-retirement cost	<u>(2,841,142)</u>			<u>(2,841,142)</u>
Total nonoperating items	<u>3,729,991</u>	<u>(27,342,727)</u>	<u>4,701,897</u>	<u>(18,910,839)</u>
Change in net assets	7,445,555	(26,572,054)	4,701,897	(14,424,602)
Net assets at beginning of year	<u>355,050,165</u>	<u>284,576,694</u>	<u>165,400,481</u>	<u>805,027,340</u>
Net assets at end of year	<u>\$362,495,720</u>	<u>\$258,004,640</u>	<u>\$170,102,378</u>	<u>\$790,602,738</u>

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

DENISON UNIVERSITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 55,211,895	\$ (14,424,602)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	9,102,151	8,718,778
Loss on disposal of property and equipment and early retirement of bonds	112,013	504,328
Gains on investments	(70,644,893)	(4,240,007)
Unrealized (gain) loss on perpetual trusts held by others	(75,935)	53,611
Contributions, net of pledges, for permanently restricted purposes	(5,918,619)	(4,839,483)
Income and gains restricted to long-term investment	(1,091,226)	(272,529)
Contributions, net of pledges, restricted for property and equipment	(7,144,109)	(4,650,905)
Actuarial adjustment of split interest agreements	(1,163,361)	(565,993)
Decrease (increase) in accounts receivable	33,522	(99,597)
Decrease (increase) in pledges receivable	5,063,123	(573,594)
Decrease in inventories and prepaid expenses	21,678	43,760
Increase in assets held in deferred compensation plans	(256,274)	(110,061)
(Decrease) increase in agency funds held for others	(343,445)	130,780
(Decrease) increase in accounts payable	(2,445,430)	534,408
Increase in accrued compensation and related taxes	323,744	355,019
(Decrease) increase in deposits and agency funds held for others	(656,195)	476,537
Increase (decrease) in liability for payment to beneficiaries under split-interest agreements	55,785	(627,474)
(Decrease) increase in liability for post-retirement healthcare benefits	(2,044,492)	2,595,069
Increase (decrease) in refundable advances	55,482	(26,249)
Net cash used in operating activities	<u>(21,804,586)</u>	<u>(17,018,204)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(19,123,572)	(30,328,562)
Decrease (increase) in assets restricted to investment in land, buildings and equipment	13,073,867	(6,328,086)
(Increase) decrease in investments restricted for bond defeasance	(17,607,296)	38,687,678
Net proceeds from sales of investments	20,283,153	23,396,779
Proceeds from loan collections and cancellations	668,767	688,602
Student loans issued	(364,600)	(353,000)
Net cash (used in) provided by investing activities	<u>(3,069,681)</u>	<u>25,763,411</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital lease obligations, net of discount	18,086,936	35,507,811
Payment of bond issuance costs	(116,120)	(285,800)
Payments of capital lease obligations	(7,790,000)	(54,602,550)
Contributions, net of pledges, for permanently restricted purposes	5,918,619	4,839,483
Interest in charitable trusts held by others	544,215	589,791
Income and gains restricted to long-term investment	1,091,226	272,529
Contributions, net of pledges, restricted for property and equipment	7,144,109	4,650,905
Net cash provided by (used in) financing activities	<u>24,878,985</u>	<u>(9,027,831)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,718	(282,624)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,282</u>	<u>297,906</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 20,000</u>	<u>\$ 15,282</u>

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

DENISON UNIVERSITY

NOTES TO 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.

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

- B. Accounting Method – The 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 has reported information regarding its 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.

The University has evaluated all subsequent events through October 11, 2013, which is the date the financial statements were available to be issued.

- C. Use of Estimates – Preparation of the financial statements 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 statements of financial position are recorded in order of liquidity or nearness to conversion to cash.
- E. Cash Equivalents – The University considers 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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

- 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's 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 holds 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's investment account balances and the amounts reported in the statements of financial position. The University accounts 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.

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 invests 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 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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

G. Investments (Continued)

Public Equities

The University invests 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 or indirectly through investments in limited partnerships and commingled vehicles which invest primarily in public equity securities.

Private Equity

Private equity investments include venture capital, growth equity, leveraged buyouts and distressed debt. The University diversifies 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).

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, in response to this risk, closely monitors the liquidity of the portfolio. As of June 30, 2013, the following liquidity characteristics applied to the University's endowment and quasi-endowment funds:

<u>Liquid within:</u>	<u>% of Endowment</u>
1 year	62%
3 years	3%
Illiquid*	35%

*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 is not actively trying to sell any of its illiquid investments at this time.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

G. Investments (Continued)

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 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 to capitalize additions and, for replacements, to capitalize the incremental increase in cost of plant and equipment items.

The University recognizes 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 are not available to be spent and are, therefore, classified as non-operating items in the statements of activities.

Contributions restricted for property 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 statements of activities.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

J. Nonoperating Activities (Continued)

Endowment and quasi-endowment 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 statements of activities.

Net assets released from restrictions by the purchase of land, buildings and equipment: These expenditures do not represent an operating expense of the University, 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 statements of activities.

Actuarial adjustment to 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.

Early retirement of bonds: Represents the loss recognized on the early retirement of a portion of the 2001 bonds. This type of loss is both unusual and infrequent and, therefore, does not represent operating activity in the statements of activities.

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's long-term debt and capital leases is based on the University's 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:

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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.

The following tables set forth by level the University's 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, 2013 and 2012:

	2013			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Absolute return (hedge funds)	\$ -	\$ 59,714,666	\$ 194,964,923	\$ 254,679,589
Public equities	24,437,895	72,438,788	42,410,112	139,286,795
Private equities	-	-	170,081,710	170,081,710
Fixed income	36,388,624	15,047,139	2,073,298	53,509,061
Real assets	173,536	130,000	81,257,156	81,560,692
Cash and other investments	50,474,342	-	100,000	50,574,342
Total investments	<u>111,474,397</u>	<u>147,330,593</u>	<u>490,887,199</u>	<u>749,692,189</u>
Interest in charitable trusts held by others	-	-	6,432,475	6,432,475
Assets held in deferred compensation plans	1,402,718	-	-	1,402,718
Beneficial interests in perpetual trust held by others	-	-	1,019,111	1,019,111
Short-term investments restricted for land, buildings and equipment	20,737,382	-	-	20,737,382
Investments restricted for bond defeasance	<u>25,667,024</u>	<u>-</u>	<u>-</u>	<u>25,667,024</u>
Total	<u>\$159,281,521</u>	<u>\$147,330,593</u>	<u>\$498,338,785</u>	<u>\$804,950,899</u>

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2012			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Absolute return (hedge funds)	\$ -	\$ 56,056,147	\$183,815,798	\$239,871,945
Public equities	22,172,551	60,907,455	36,475,527	119,555,533
Private equities	-	-	173,344,884	173,344,884
Fixed income	26,701,997	9,765,427	4,742,900	41,210,324
Real assets	325,444	-	81,580,289	81,905,733
Cash and other investments	43,214,278	-	126,614	43,340,892
Total investments	<u>92,414,270</u>	<u>126,729,029</u>	<u>480,086,012</u>	<u>699,229,311</u>
Interest in charitable trusts held by others	-	-	5,928,670	5,928,670
Assets held in deferred compensation plans	1,146,444	-	-	1,146,444
Beneficial interests in perpetual trust held by others	-	-	943,177	943,177
Short-term investments restricted for land, buildings and equipment	33,811,249	-	-	33,811,249
Investments restricted for bond defeasance	<u>8,059,728</u>	<u>-</u>	<u>-</u>	<u>8,059,728</u>
Total	<u>\$135,431,691</u>	<u>\$126,729,029</u>	<u>\$486,957,859</u>	<u>\$749,118,579</u>

Investments – The University invests 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, 2013 and 2012, approximately \$72 million and \$62 million, respectively, of assets reported as Level 1 assets in the University's managers' audited financial statements have been reported as Level 2 assets in the above table.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 is not required to disclose the quantitative information of the valuation inputs. The University reviews the fund manager's valuation. Due to the redemption terms of some of these investment vehicles, as of June 30, 2013 and 2012, approximately \$91 million and \$83 million, respectively, of assets reported as Level 2 assets in the University's managers' audited financial statements have been reported as Level 3 assets in the above table.

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 2012 to 2013. Furthermore, while the University believes its 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 interest in perpetual trusts – Interest includes charitable trusts held by others and beneficial interests in perpetual trusts held by others and are 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:

	2013					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains (Losses)	Transfer to Level II	Ending Balance
Absolute return						
(hedge funds)	\$ 183,815,798	\$ 15,021,326	\$ (23,791,402)	\$ 19,919,201	\$ -	\$ 194,964,923
Public equities	36,475,527	-	(79,485)	6,014,070	-	42,410,112
Private equities	173,344,884	18,329,097	(37,821,735)	16,229,464	-	170,081,710
Real assets	81,580,289	12,425,735	(16,937,881)	4,189,013	-	81,257,156
Fixed income	4,742,900	-	(2,951,570)	281,968	-	2,073,298
Cash and other assets	126,614	-	(25,299)	(1,315)	-	100,000
Interest in charitable trusts held by other	5,928,670	-	(544,216)	1,048,021	-	6,432,475
Beneficial interests in perpetual trust held by others	943,177	-	-	75,934	-	1,019,111
	<u>\$486,957,859</u>	<u>\$ 45,776,158</u>	<u>\$ (82,151,588)</u>	<u>\$ 47,756,356</u>	<u>\$ -</u>	<u>\$498,338,785</u>

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2012					
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains (Losses)	Transfer to Level II	Ending Balance
Absolute return (hedge funds)	\$ 186,485,962	\$ 10,106,032	\$ (21,141,897)	\$ 8,365,701	\$ -	\$ 183,815,798
Public equities	53,731,279	-	(5,469,521)	(5,496,334)	(6,289,897)	36,475,527
Private equities	180,643,589	22,495,052	(28,542,872)	(1,250,885)	-	173,344,884
Real assets	74,545,386	15,575,964	(16,570,313)	8,029,252	-	81,580,289
Fixed income	6,240,017	-	(870,485)	(626,632)	-	4,742,900
Cash and other assets	137,296	-	(10,682)	-	-	126,614
Interest in charitable trusts held by other	5,764,128	-	(589,791)	754,333	-	5,928,670
Beneficial interests in perpetual trust held by others	996,788	-	-	(53,611)	-	943,177
	<u>\$508,544,445</u>	<u>\$ 48,177,048</u>	<u>\$ (73,195,561)</u>	<u>\$ 9,721,824</u>	<u>\$ (6,289,897)</u>	<u>\$486,957,859</u>

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 believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the University may settle the obligations is unknown and cannot be estimated. As a result, as of June 30, 2013 and 2012, 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 recognizes 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, the continued tax-exempt status of bonds issued by the University and various positions related to potential sources of unrelated taxable income. The University believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

As of June 30, 2013, the University's income tax years from 2009 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

- O. Reclassifications – Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Note 2. Investments

Investments at June 30, 2013 consist of the following:

	<u>Total</u>	<u>Alternative Investments</u>
Absolute return (hedge funds)	\$253,914,294	\$253,914,294
Public equities	138,886,819	109,189,549
Private equities	169,570,380	169,570,380
Real assets	81,316,434	81,124,495
Fixed income	53,462,042	17,073,417
Cash and other assets	50,446,446	-
	<u>\$747,596,415</u>	<u>\$630,872,135</u>

Investments at June 30, 2012 consisted of the following:

	<u>Total</u>	<u>Alternative Investments</u>
Absolute return (hedge funds)	\$239,132,427	\$239,132,427
Public equities	119,204,346	92,223,270
Private equities	172,810,230	172,810,230
Real assets	81,654,144	81,268,175
Fixed income	41,167,624	14,465,627
Cash and other assets	43,265,904	-
	<u>\$697,234,675</u>	<u>\$599,899,729</u>

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 86% of the University's investments at June 30, 2013 and 2012, respectively. The University was obligated at June 30, 2013 to invest additional funds in limited partnership investments in the amount of \$77,207,122 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	
	<u>2013</u>	<u>2012</u>
Investment income (interest and dividends)	\$ 2,368,383	\$ 1,473,508
Net realized and unrealized gains	71,863,058	4,497,008
Total investment return	74,231,441	5,970,516
Investment return included in operations	<u>(32,867,007)</u>	<u>(32,062,303)</u>
Nonoperating investment return	<u>\$ 41,364,434</u>	<u>\$ (26,091,787)</u>

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Pledges Receivable

As of June 30, 2013 and 2012, the University had received unconditional promises totaling \$12,126,667 and \$17,189,790, 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, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	\$ 144,756	\$ 5,336,163	\$ 2,150,932	\$ 7,631,851
One to five years	-	3,301,712	713,660	4,015,372
More than five years	-	-	479,444	479,444
	\$ 144,756	\$ 8,637,875	\$ 3,344,036	\$ 12,126,667

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	\$ 5,617	\$ 5,517,544	\$ 2,467,859	\$ 7,991,020
One to five years	-	7,767,896	944,915	8,712,811
More than five years	-	-	485,959	485,959
	\$ 5,617	\$ 13,285,440	\$ 3,898,733	\$ 17,189,790

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5%. The discount is \$1,460,929 and \$2,103,336 at June 30, 2013 and 2012, respectively.

Note 4. Land, Buildings and Equipment

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

	June 30,	
	2013	2012
Land	\$ 1,326,349	\$ 1,326,349
Improvements other than buildings	34,056,408	33,586,616
Buildings	184,263,124	148,817,509
Building improvements	83,042,193	78,171,924
Construction in progress	10,185,139	34,759,186
Library books	11,638,310	11,152,655
Computer equipment and software	48,855,857	47,061,181
	373,367,380	354,875,420
Accumulated depreciation	(128,179,100)	(118,612,959)
	\$ 245,188,280	\$ 236,262,461

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Land, Buildings and Equipment (Continued)

Depreciation expense totaled \$10,085,741 and \$8,878,050 for the years ended June 30, 2013 and 2012, respectively. The University has outstanding commitments of approximately \$6.6 million remaining for the construction and renewal of facilities and equipment at June 30, 2013.

Note 5. Net Assets

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

	June 30,	
	2013	2012
Unrestricted net assets:		
University reserves	\$ 14,144,948	\$ 13,459,867
Quasi endowment funds	236,858,038	222,845,504
Student loans	1,375,787	1,332,696
Invested in land, buildings and equipment	128,695,459	124,857,653
	\$381,074,232	\$362,495,720

	June 30, 2013		June 30, 2012	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarships, prizes and awards	\$ 114,828,029	\$ 63,869,100	\$ 102,729,198	\$ 59,857,305
Faculty support and academic programs	91,317,748	67,156,789	81,219,067	64,251,245
General university operations	58,026,194	13,480,553	52,646,089	13,391,001
Annuity, life income and unitrust funds	3,737,380	13,440,384	3,799,526	12,126,348
Gifts pending donor designation	321,213	2,976,496	223,513	4,083,709
Student loans	-	4,731,402	-	4,491,890
Physical plant maintenance	7,071,683	3,773,073	6,350,517	3,654,720
Student employment	3,376,318	962,579	3,055,333	962,579
Library acquisitions	4,039,912	1,111,749	3,655,830	1,111,749
Beneficial interest in perpetual trusts	-	1,019,111	-	943,177
Gifts restricted for capital assets	215,424	-	72,974	-
Private grants	1,040,673	-	1,523,077	-
Other purposes	3,025,404	5,219,187	2,729,516	5,228,655
	\$286,999,978	\$177,740,423	\$258,004,640	\$170,102,378

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 records 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, \$31,901,554 and \$31,305,504 were distributed for operations during the years ended June 30, 2013 and 2012, respectively.

The University's consolidated endowment pool, which includes true endowment, quasi-endowment, gift annuities and Denison University Research Foundation, was as follows as of June 30, 2013 and 2012:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning of year,	\$ 245,755,564	\$ 245,290,839	\$ 155,035,437	\$ 646,081,840
Investment return:				
Investment income	325,431	528,269	11,605	865,305
Net appreciation (realized and unrealized)	23,133,677	48,033,389	941,796	72,108,862
Total investment return	23,459,108	48,561,658	953,401	72,974,167
Cash contributions and transfers	562	93,874	6,460,493	6,554,929
Appropriation of endowment assets for expenditure	(12,011,929)	(19,403,042)	(486,583)	(31,901,554)
Endowment assets, end of year	\$ 257,203,305	\$ 274,543,329	\$ 161,962,748	\$ 693,709,382

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowment Funds (Continued)

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning of year,	\$ 255,316,332	\$ 268,276,454	\$ 149,808,714	\$ 673,401,500
Investment return:				
Investment income	70,405	119,703	297	190,405
Net appreciation depreciation (realized and unrealized)	8,623,207	(4,217,835)	338,371	4,743,743
Total investment return	8,693,612	(4,098,132)	338,668	4,934,148
Cash contributions and transfers	137,955	(18,061)	5,352,485	5,472,379
Appropriation of endowment assets for expenditure and debt service	(18,392,335)	(18,869,422)	(464,430)	(37,726,187)
Endowment assets, end of year	\$ 245,755,564	\$ 245,290,839	\$ 155,035,437	\$ 646,081,840

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 disbursed by it to the designated beneficiaries. The assets of the Foundation are invested with the Endowment of Denison University, and included in the financial statements of the University as a component of assets held for others in agency funds. As of June 30, 2013 and 2012, the assets of the Foundation held by the University were \$2,095,774 and \$1,994,636, 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 \$3,923,664 and \$3,548,366 for the years ended June 30, 2013 and 2012, respectively. The University pays pension costs concurrently with the salaries to which they apply.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Components of net periodic post-retirement benefit cost for the years ended June 30, 2013 and 2012 as calculated by Aon, the University's actuary, are as follows:

	June 30,	
	<u>2013</u>	<u>2012</u>
Net Periodic Post-Retirement Benefit Cost		
Service cost	\$ 215,691	\$ 189,592
Interest cost	897,198	948,231
Amortization of prior service cost	(511,898)	(589,488)
Amortization of unrecognized loss	<u>574,663</u>	<u>161,815</u>
 Total net periodic post-retirement benefit cost	 <u>\$ 1,175,654</u>	 <u>\$ 710,150</u>

The University recognizes in its 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, 2013 and 2012 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$2,216,371 and \$4,906,033, respectively, and unrecognized net prior service cost of \$-0- and \$511,898, respectively. The actuarial loss cost expected to be recognized during the year ended June 30, 2014 is \$84,592.

The following sets forth the change in the benefit obligation of the University's defined benefit post-retirement plan as of June 30, 2013 and 2012:

	June 30,	
	<u>2013</u>	<u>2012</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$20,384,665	\$17,789,596
Service cost	215,691	189,592
Interest cost	897,198	948,231
Actuarial (gain) loss	(2,114,999)	2,413,469
Benefits paid	<u>(1,042,382)</u>	<u>(956,223)</u>
Benefit obligation at end of year	18,340,173	20,384,665
Plan assets	<u>-</u>	<u>-</u>
 Funded status/net recorded liability	 <u>\$18,340,173</u>	 <u>\$20,384,665</u>

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

The above net recorded liability is included in the accompanying 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, 2013 and 2012 are as follows:

	June 30,	
	2013	2012
Weighted average discount rate	4.51%	5.48%
Medical trend:		
For next year - pre 65 and post 65	10.0%/8.0%	10.0%/8.0%
Thereafter decreasing by 1% per year to 5%		
Ultimate trend rate	5%	5%
Year reached	2017/2015	2015

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

	June 30,	
	2013	2012
Effect of an increase		
Accumulated post-retirement benefit obligation	\$ 2,195,646	\$ 2,596,910
Service cost and interest cost	141,665	162,201
Effect of a decrease		
Accumulated post-retirement benefit obligation	(1,842,014)	(2,169,479)
Service cost and interest cost	(117,549)	(133,690)

Estimated future benefit payments as of June 30, 2013 are as follows:

2014	\$ 994,501
2015	1,074,848
2016	1,109,283
2017	1,151,097
2018	1,188,338
2019-2023	6,362,518

Note 9. Capital Lease Obligations

In May 2001, 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. The University's lease serves as security for the Commission's \$63,860,000 Higher Educational Facility Revenue Bonds (Denison University 2001 Project). Interest is payable November 1 and May 1 at rates ranging from 4.2% to 5.5%. Principal payments began November 1, 2002.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Capital Lease Obligations (Continued)

On February 20, 2007, in connection with the Commission's issuance of \$81,200,000 Higher Educational Facility Revenue Bonds (Denison University 2007 Project) discussed below, cash was deposited for the 2001 bonds that was used to purchase noncallable direct obligations of the United States of America which are of such maturities or redemption dates and interest payment dates, and which bear such interest as is sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, to pay the interest on and maturing principal of a portion of the 2001 bonds (2014-2026 maturities totaling \$42,885,000), on each May 1 and November 1 from May 1, 2007 to and including November 1, 2011 and to pay on November 1, 2011 the principal of and redemption premium on the 2014-2026 maturities of the 2001 bonds maturing on and after November 1, 2011.

On March 18, 2010, in connection with the Commission's issuance of \$27,860,000 Higher Educational Facility Revenue Bonds (Denison University 2010 Project) discussed below, cash was deposited for the 2001 bonds that was used to purchase noncallable direct obligations of the United States of America which are of such maturities or redemption dates and interest payment dates, and which bear such interest as is sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, to pay the interest on and maturing principal of a portion of the 2001 bonds (2013 maturities totaling \$2,245,000), on each May 1 and November 1 from May 1, 2010 to and including May 1, 2011 and to pay on November 1, 2011 the outstanding principal of and interest and redemption premium on the refunded 2001 bonds.

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 2001 bonds that was used to purchase noncallable direct obligations of the United States of America which are of such maturities or redemption dates and interest payment dates, and which bear such interest as is sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, to pay the interest on and maturing principal of a portion of the 2001 bonds (2012 maturities totaling \$2,125,000) on November 1, 2012.

The 2001 bonds refunded by the 2007 bond issue and the 2010 bond issue were called in May 2012 at 101%. The 2001 bonds refunded by the 2012 issue were called early in June 2012 at 101%. A loss of \$499,798 is reported in the statement of activities on the refunding of the 2001 bonds. As of June 30, 2012, the outstanding obligation on the 2001 bonds was \$-0-.

In April 2004, the University entered into a lease agreement with the Commission to finance various building and improvement projects, and to advance refund the Denison University 1996 Project. The University's lease serves as security for the Commission's \$41,965,000 Higher Educational Facility Revenue Bonds (Denison University 2004 Project). Interest is payable November 1 and May 1 at rates ranging from 2.0% to 5.0%. Principal payments began November 1, 2004 and continue through November 1, 2029.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Capital Lease Obligations (Continued)

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 that was used to purchase noncallable direct obligations of the United States of America which are of such maturities or redemption dates and interest payment dates, and which bear such interest as is sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, to pay the interest on and maturing principal of a portion of the 2004 bonds (2012-2026 maturities totaling \$7,035,000), on each May 1 and November 1 from November 1, 2012 to and including November 1, 2026. The investments held for defeasance of the bonds amounted to \$7,721,534 and \$8,059,728 at June 30, 2013 and 2012, 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 that was used to purchase noncallable direct obligations of the United States of America which are of such maturities or redemption dates and interest payment dates, and which bear such interest as is sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, to pay the interest on and maturing principal of a portion of the 2004 bonds (2015-2029 maturities totaling \$16,765,000), on each May 1 and November 1 from November 1, 2013 to and including November 1, 2029. The investments held for defeasance of the bonds amounted to \$17,945,490 at June 30, 2013.

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 (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.

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. 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. 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 begin November 1, 2013 and continue through November 1, 2029.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Capital Lease Obligations (Continued)

Amounts due under the lease agreements as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
2004 Project	\$ 28,888,260	\$ 31,434,455
2007 Project	75,673,901	77,870,224
2010 Project	24,359,051	25,403,789
2012 Project	32,365,701	35,480,910
2013 Project	<u>18,087,667</u>	<u>-</u>
	<u>\$179,374,580</u>	<u>\$170,189,378</u>

Capital lease obligations of \$179,374,580 reduced by bond defeasance funds of \$25,667,024 total \$153,707,556 at June 30, 2013. 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.

At June 30, 2013, future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2014	\$ 15,592,911
2015	14,906,727
2016	16,938,827
2017	16,909,481
2018	16,917,243
Remaining amount due	<u>156,235,563</u>
	237,500,752
Less: Amounts representing interest	(67,060,752)
Unamortized discount and premium, net	<u>8,934,580</u>
Balance outstanding	<u>\$179,374,580</u>

Interest expense on long-term debt and capital lease obligations totaled \$6,728,828 and \$6,091,563 for the years ended June 30, 2013 and 2012, respectively. Interest expense of \$401,157 and \$1,003,341 was capitalized in the years ended June 30, 2013 and 2012, respectively. Cash paid for interest totaled \$7,077,891 and \$7,344,814 for the years ended June 30, 2013 and 2012, respectively.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 10. Operating Lease Agreements

The University leases buildings, office equipment and vehicles under the terms of several operating lease agreements expiring at various dates through June 2017. The future minimum lease payments, exclusive of renewal options, as of June 30, 2013 are as follows:

2014	\$ 407,370
2015	317,797
2016	295,252
2017	<u>187,938</u>
	<u>\$1,208,357</u>

Lease payments charged to operations for the years ended June 30, 2013 and 2012 were \$539,949 and \$552,514, respectively.