

**DENISON UNIVERSITY**

**FINANCIAL REPORT**

**JUNE 30, 2011 and 2010**

DENISON UNIVERSITY

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To the Board of Trustees  
Denison University  
Granville, Ohio

Independent Auditors' Report

We have audited the accompanying statements of financial position of Denison University (the University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Denison University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Cleveland, Ohio  
October 14, 2011

## DENISON UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 297,906	\$ 459,400
Accounts receivable:		
Students, less allowance of \$350,000 in 2011 and 2010	249,590	250,346
Grants	162,874	316,331
Other	573,918	657,479
	<u>986,382</u>	<u>1,224,156</u>
Investments (Notes 1 and 2):		
Endowment and quasi-endowment funds	666,885,186	568,693,894
Annuity and life income funds	16,928,723	16,598,433
Other	32,577,538	39,464,544
	<u>716,391,447</u>	<u>624,756,871</u>
Pledges receivable (Note 3)	16,616,196	14,650,163
Interest in charitable trusts held by others	5,764,128	5,576,908
Inventories and prepaid expenses	597,213	809,036
Assets held in deferred compensation plans	1,036,383	769,075
Assets held for others in agency funds	4,163,483	3,835,576
Student loans receivable, less allowance of \$312,000 in 2011 and 2010	4,567,973	4,880,342
Unamortized bond issue costs	922,087	1,012,532
Beneficial interests in perpetual trusts held by others	996,788	792,789
Short-term investments restricted for land, buildings and equipment	24,803,982	29,894,469
Investments restricted for bond defeasance (Note 9)	49,426,587	47,585,695
Land, buildings and equipment, net (Note 4)	214,816,480	196,983,224
	<u>  </u>	<u>  </u>
Total assets	<u>\$1,041,387,035</u>	<u>\$ 933,230,236</u>

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

## DENISON UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Liabilities and net assets</b>		
Accounts payable	\$ 7,668,489	\$ 4,650,253
Accrued compensation and related taxes:		
Payroll	2,487,201	2,520,183
Compensated absences	1,959,982	1,843,870
Deferred compensation	1,036,383	769,075
Other	<u>884,366</u>	<u>868,288</u>
	6,367,932	6,001,416
Deposits	2,196,731	1,993,606
Agency funds held for others	4,163,483	3,835,576
Long-term debt	100,000	100,000
Capital lease obligations (Note 9)	189,102,624	196,419,280
Liability for payment to beneficiaries under split-interest agreements	4,405,548	4,036,133
Discount for future interest on life income agreements	1,872,588	1,783,588
Liability for post-retirement healthcare benefits (Note 8)	17,789,596	17,672,181
Refundable advances:		
Revocable charitable remainder trusts	273,853	226,122
Federal Perkins Loans to students	2,097,801	2,141,535
Schell Foundation Loans to students	<u>321,050</u>	<u>296,050</u>
	2,692,704	2,663,707
Total liabilities	<u>236,359,695</u>	<u>239,155,740</u>
Net assets (Note 5):		
Unrestricted	355,050,165	312,936,106
Temporarily restricted	284,576,694	222,082,684
Permanently restricted	<u>165,400,481</u>	<u>159,055,706</u>
Total net assets	<u>805,027,340</u>	<u>694,074,496</u>
Total liabilities and net assets	<u>\$1,041,387,035</u>	<u>\$ 933,230,236</u>

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

DENISON UNIVERSITY  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Tuition and fees	\$ 81,070,167			\$ 81,070,167
Less financial aid discount	<u>(34,951,835)</u>			<u>(34,951,835)</u>
Net tuition and fees	46,118,332			46,118,332
Auxiliary service revenues	22,827,058			22,827,058
Government grant revenue	671,014			671,014
Private contributions and grants	4,839,293	\$ 357,479		5,196,772
Investment income and operating gains:				
Endowment, quasi-endowment and other	26,979,875	3,746,175		30,726,050
Earnings on cash and short-term investments	3,272,559	1,473		3,274,032
Other revenues	1,413,811	5,395		1,419,206
Net assets released from restrictions	<u>4,628,503</u>	<u>(4,628,503)</u>		<u>-</u>
Total operating revenues	<u>110,750,445</u>	<u>(517,981)</u>		<u>110,232,464</u>
<b>Operating expenses</b>				
Instruction	39,550,789			39,550,789
Research	539,626			539,626
Academic support	11,999,204			11,999,204
Student services	17,432,778			17,432,778
Auxiliary services	17,463,659			17,463,659
Financial aid expense	8,722,641			8,722,641
Management and general	8,782,072			8,782,072
Fund raising	<u>2,818,395</u>			<u>2,818,395</u>
Total operating expenses	<u>107,309,164</u>			<u>107,309,164</u>
Net increase (decrease) from operations	3,441,281	(517,981)		2,923,300
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	350	36,407	\$ 2,646,254	2,683,011
Contributions restricted for property and equipment		8,198,022		8,198,022
Investment gains:				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	32,900,310	60,471,459	2,757,761	96,129,530
Unrealized gain on perpetual trusts held by others			<u>135,015</u>	<u>135,015</u>
	<u>32,900,310</u>	<u>60,471,459</u>	<u>2,892,776</u>	<u>96,264,545</u>
Net assets released from restrictions for property and equipment	6,089,106	(6,089,106)		-
Changes in designation of gifts received in prior years and matured split interest agreements	165,763	(197,778)	32,015	-
Actuarial adjustment of split-interest agreements		592,987	773,730	1,366,717
Post-retirement related changes other than net periodic post-retirement cost	<u>(482,751)</u>			<u>(482,751)</u>
Total nonoperating items	<u>38,672,778</u>	<u>63,011,991</u>	<u>6,344,775</u>	<u>108,029,544</u>
Change in net assets	42,114,059	62,494,010	6,344,775	110,952,844
Net assets at beginning of year	<u>312,936,106</u>	<u>222,082,684</u>	<u>159,055,706</u>	<u>694,074,496</u>
Net assets at end of year	<u>\$355,050,165</u>	<u>\$284,576,694</u>	<u>\$165,400,481</u>	<u>\$805,027,340</u>

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

DENISON UNIVERSITY  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Tuition and fees	\$ 77,234,718			\$ 77,234,718
Less financial aid discount	<u>(32,684,259)</u>			<u>(32,684,259)</u>
Net tuition and fees	44,550,459			44,550,459
Auxiliary service revenues	21,902,786			21,902,786
Government grant revenue	979,607			979,607
Private contributions and grants	4,589,572	\$ 699,524		5,289,096
Investment income and operating gains:				
Endowment, quasi-endowment and other	26,538,306	3,718,583		30,256,889
Earnings on cash and short-term investments	3,856,698	2,022		3,858,720
Other revenues	1,352,265	290		1,352,555
Net assets released from restrictions	<u>4,443,295</u>	<u>(4,443,295)</u>		<u>-</u>
Total operating revenues	<u>108,212,988</u>	<u>(22,876)</u>		<u>108,190,112</u>
<b>Operating expenses</b>				
Instruction	37,310,333			37,310,333
Research	726,353			726,353
Academic support	11,386,497			11,386,497
Student services	16,865,582			16,865,582
Auxiliary services	16,994,650			16,994,650
Financial aid expense	8,716,693			8,716,693
Management and general	8,301,732			8,301,732
Fund raising	<u>2,742,868</u>			<u>2,742,868</u>
Total operating expenses	<u>103,044,708</u>			<u>103,044,708</u>
Net increase (decrease) from operations	5,168,280	(22,876)		5,145,404
Nonoperating items:				
Contributions restricted for endowment, quasi-endowment and similar funds	100,525	18,051	\$ 1,236,641	1,355,217
Contributions restricted for property and equipment		5,490,767		5,490,767
Investment gains:				
Net gains on investments, net of amount appropriated for endowment, quasi-endowment and other	12,297,392	15,420,596	1,520,079	29,238,067
Unrealized gain on perpetual trusts held by others			48,599	48,599
	<u>12,297,392</u>	<u>15,420,596</u>	<u>1,568,678</u>	<u>29,286,666</u>
Net assets released from restrictions for property and equipment	4,255,518	(4,255,518)		-
Changes in designation of gifts received in prior years and matured split interest agreements	(192,689)	(982,810)	1,175,499	-
Actuarial adjustment of split-interest agreements		(87,802)	337,086	249,284
Post-retirement related changes other than net periodic post-retirement cost	<u>(3,053,196)</u>			<u>(3,053,196)</u>
Total nonoperating items	<u>13,407,550</u>	<u>15,603,284</u>	<u>4,317,904</u>	<u>33,328,738</u>
Change in net assets	18,575,830	15,580,408	4,317,904	38,474,142
Net assets at beginning of year	<u>294,360,276</u>	<u>206,502,276</u>	<u>154,737,802</u>	<u>655,600,354</u>
Net assets at end of year	<u>\$312,936,106</u>	<u>\$222,082,684</u>	<u>\$159,055,706</u>	<u>\$694,074,496</u>

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

## DENISON UNIVERSITY

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 110,952,844	\$ 38,474,142
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	8,105,339	8,041,950
Loss on disposal of property and equipment	4,151	138,006
Gains on investments	(123,351,968)	(57,090,750)
Unrealized gain on perpetual trusts held by others	(135,015)	(48,599)
Contributions of perpetual trusts held by others	(68,983)	-
Contributions, net of pledges, for permanently restricted purposes	(3,084,106)	(5,421,388)
Income and gains restricted to long-term investment	(2,757,761)	(1,520,079)
Contributions, net of pledges, restricted for property and equipment	(5,562,062)	(5,911,453)
Actuarial adjustment of split interest agreements	(1,366,717)	(249,284)
Decrease in accounts receivable	237,774	186,382
(Increase) decrease in pledges receivable	(1,966,033)	5,510,791
Decrease (increase) in inventories and prepaid expenses	211,823	(13,694)
Increase in deferred compensation plans	(267,308)	(139,116)
Increase in agency funds held for others	(327,907)	(364,367)
Increase (decrease) in accounts payable	3,018,236	(1,153,958)
Increase in accrued compensation and related taxes	366,516	395,643
Increase in deposits and agency funds held for others	531,032	501,323
Increase in liability for payment to beneficiaries under split-interest agreements	837,892	256,374
Increase in liability for post-retirement healthcare benefits	117,415	2,658,234
Increase in refundable advances	28,997	39,037
Net cash used in operating activities	<u>(14,475,841)</u>	<u>(15,710,806)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of land, buildings and equipment	(26,133,457)	(9,373,108)
Decrease (increase) in assets restricted to investment in land, buildings and equipment	5,090,487	(13,896,969)
Increase in assets restricted for bond defeasance	(1,840,892)	(2,390,225)
Net proceeds from sales of investments	31,717,392	5,585,693
Proceeds from loan collections and cancellations	671,369	628,648
Student loans issued	(359,000)	(316,150)
Net cash provided by (used in) investing activities	<u>9,145,899</u>	<u>(19,762,111)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital lease obligations, net of discount	-	27,756,730
Payment of bond issuance costs	(500)	(256,677)
Payments capital lease obligations	(7,035,000)	(5,440,000)
Contributions, net of pledges, for permanently restricted purposes	3,084,106	5,421,388
Interest in charitable trusts held by others	800,019	596,000
Income and gains restricted to long-term investment	2,757,761	1,520,079
Contributions, net of pledges, restricted for property and equipment	5,562,062	5,911,453
Net cash provided by financing activities	<u>5,168,448</u>	<u>35,508,973</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(161,494)</u>	<u>36,056</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>459,400</u>	<u>423,344</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 297,906</u>	<u>\$ 459,400</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 14, 2011, 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.

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 some 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.

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.

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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Significant Accounting Policies (Continued)**

G. Investments (Continued)

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, 2011, the following liquidity characteristics applied to the University's endowment and quasi-endowment funds:

<u>Liquid within:</u>	<u>% of Endowment</u>
1 year	59%
3 years	4%
Illiquid*	37%

\*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.

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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Significant Accounting Policies (Continued)**

G. Investments (Continued)

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

Short-term investments restricted for land, building and equipment represent 2007 and 2010 bond improvement funds and gifts restricted for capital improvements.

H. Inventories – Inventories 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.

Nonoperating bequests: The University's policy is to designate unrestricted bequests as quasi-endowment. Accordingly, such bequests are not considered part of the University's operating budget and are, therefore, classified as nonoperating 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.

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 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

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Significant Accounting Policies (Continued)**

K. Fair Value of Financial Instruments (Continued)

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, 2011 and 2010:

	2011			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Absolute return (hedge funds)	\$ -	\$ 68,527,212	\$ 186,485,962	\$ 255,013,174
Public equities	24,525,056	57,583,618	53,731,279	135,839,953
Private equities	-	-	180,643,589	180,643,589
Real assets	8,954,255	-	74,545,386	83,499,641
Fixed income	30,389,298	9,667,740	6,240,017	46,297,055
Cash and other investments	16,977,424	-	137,296	17,114,720
Total investments	80,846,033	135,778,570	501,783,529	718,408,132
Interest in charitable trusts held by others	-	-	5,764,128	5,764,128
Assets held in deferred compensation plans	1,036,383	-	-	1,036,383
Beneficial interests in perpetual trust held by others	-	-	996,788	996,788
Short-term investments restricted for land, buildings and equipment	24,803,982	-	-	24,803,982
Investments restricted for bond defeasance	49,426,587	-	-	49,426,587
Total	\$156,112,985	\$135,778,570	\$508,544,445	\$800,436,000

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Significant Accounting Policies (Continued)**

K. Fair Value of Financial Instruments (Continued)

	2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Absolute return (hedge funds)	\$ -	\$ 65,909,622	\$162,820,539	\$228,730,161
Public equities	23,672,922	44,086,604	43,121,595	110,881,121
Private equities	-	-	132,507,435	132,507,435
Real assets	8,591,969	-	55,919,203	64,511,172
Fixed income	32,580,981	9,089,737	7,643,597	49,314,315
Cash and other investments	40,419,371	-	137,296	40,556,667
Total investments	<u>105,265,243</u>	<u>119,085,963</u>	<u>402,149,665</u>	<u>626,500,871</u>
Interest in charitable trusts held by others	-	-	5,576,908	5,576,908
Assets held in deferred compensation plans	769,075	-	-	769,075
Beneficial interests in perpetual trust held by others	-	-	792,789	792,789
Short-term investments restricted for land, buildings and equipment	29,894,469	-	-	29,894,469
Investments restricted for bond defeasance	<u>47,585,695</u>	<u>-</u>	<u>-</u>	<u>47,585,695</u>
Total	<u>\$183,514,482</u>	<u>\$119,085,963</u>	<u>\$408,519,362</u>	<u>\$711,119,807</u>

*Investments* – The University invests in cash and equivalents, fixed income, marketable debt and 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, 2011 and 2010, approximately \$74 million and \$53 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.

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. Due to the redemption terms of some of these investment vehicles, as of June 30, 2011 and 2010, approximately \$95 million and \$116 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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Significant Accounting Policies (Continued)**

K. Fair Value of Financial Instruments (Continued)

*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:

	2011				
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Absolute return (hedge funds)	\$ 162,820,539	\$ 10,162,334	\$ (11,860,316)	\$ 25,363,405	\$ 186,485,962
Public equities	43,121,595	-	(613,549)	11,223,233	53,731,279
Private equities	132,507,435	29,629,997	(29,963,725)	48,469,882	180,643,589
Real assets	55,919,203	14,673,112	(9,023,353)	12,976,424	74,545,386
Fixed income	7,643,597	-	(2,830,683)	1,427,103	6,240,017
Cash and other assets	137,296	-	-	-	137,296
Interest in charitable trusts held by others	5,576,908	-	(800,020)	987,240	5,764,128
Beneficial interests in perpetual trust held by others	792,789	68,983	-	135,016	996,788
	2010				
	Beginning Balance	Purchases	Distributions	Realized and Unrealized Gains (Losses)	Ending Balance
Absolute return (hedge funds)	\$ 150,309,022	\$ 10,000,000	\$ (11,513,492)	\$ 14,025,009	\$ 162,820,539
Public equities	29,171,988	13,000,000	(2,854,685)	3,804,292	43,121,595
Private equities	117,591,151	20,880,934	(23,357,471)	17,392,821	132,507,435
Real assets	52,433,224	11,122,994	(15,312,897)	7,675,882	55,919,203
Fixed income	9,470,856	-	(4,177,334)	2,350,075	7,643,597
Cash and other assets	137,296	-	-	-	137,296
Interest in charitable trusts held by others	6,477,914	-	(596,001)	(305,005)	5,576,908
Beneficial interests in perpetual trust held by others	744,191	-	-	48,598	792,789



DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Significant Accounting Policies (Continued)**

- 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, 2011 and 2010, 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 had no obligation for unrelated business income tax for the years ended June 30, 2011 and 2010. 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, 2011, the University's income tax years from 2007 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

- O. Reclassifications – Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

**Note 2. Investments**

Investments at June 30, 2011 consist of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	\$254,249,467	\$254,249,467
Public equities	135,455,435	104,640,484
Private equities	180,102,602	180,102,602
Real assets	83,249,616	74,234,835
Fixed income	46,236,447	15,847,146
Cash and ready assets	16,960,598	-
Other investments	137,282	-
	\$716,391,447	\$629,074,534

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Investments (Continued)**

Investments at June 30, 2010 consisted of the following:

	Total	Alternative Investments
Absolute return (hedge funds)	\$228,036,052	\$228,036,052
Public equities	110,556,145	74,969,387
Private equities	132,115,729	132,115,729
Real assets	64,315,438	55,662,943
Fixed income	49,239,606	16,658,625
Cash and ready assets	40,356,619	-
Other investments	137,282	-
	\$624,756,871	\$507,442,736

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 88% and 81% of the University's investments at June 30, 2011 and 2010, respectively. The University was obligated at June 30, 2011 to invest additional funds in limited partnership investments in the amount of \$85 million at the direction of the general partners. These commitments are to be satisfied through redistribution of invested assets.

The composition of investment return is as follows:

	Year Ended June 30	
	2011	2010
Investment income (interest and dividends)	\$ 4,011,418	\$ 4,776,579
Net realized and unrealized gains	126,253,209	58,625,696
Total investment return	130,264,627	63,402,275
Investment return included in operations	(34,000,082)	(34,115,609)
Nonoperating investment return	\$ 96,264,545	\$ 29,286,666

**Note 3. Pledges Receivable**

As of June 30, 2011 and 2010, the University had received unconditional promises totaling \$16,616,196 and \$14,650,163, 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, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	\$ 184,069	\$ 2,502,976	\$ 2,637,104	\$ 5,324,149
One to five years	-	9,059,444	1,765,103	10,824,547
More than five years	-	-	467,500	467,500
	\$ 184,069	\$ 11,562,420	\$ 4,869,707	\$ 16,616,196

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 3. Pledges Receivable (Continued)**

	June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	\$ 20,652	\$ 4,476,770	\$ 2,244,062	\$ 6,741,484
One to five years	-	4,845,182	2,638,917	7,484,099
More than five years	-	-	424,580	424,580
	<u>\$ 20,652</u>	<u>\$ 9,321,952</u>	<u>\$ 5,307,559</u>	<u>\$ 14,650,163</u>

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5%.

**Note 4. Land, Buildings and Equipment**

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

	June 30,	
	2011	2010
Land	\$ 1,326,349	\$ 1,326,349
Improvements other than buildings	32,624,360	32,074,425
Buildings	134,651,420	134,534,474
Building improvements	76,568,483	73,280,126
Construction in progress	24,961,699	5,126,635
Library books	10,677,190	10,237,327
Computer equipment and software	44,121,908	42,479,574
	<u>324,931,409</u>	<u>299,058,910</u>
Accumulated depreciation	<u>(110,114,929)</u>	<u>(102,075,686)</u>
	<u>\$ 214,816,480</u>	<u>\$ 196,983,224</u>

Depreciation expense totaled \$8,296,050 and \$8,245,678 for the years ended June 30, 2011 and 2010, respectively. The University has outstanding commitments of approximately \$29 million remaining for the construction of new facilities at June 30, 2011.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 5. Net Assets**

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

	June 30,	
	2011	2010
Unrestricted net assets:		
University reserves	\$ 7,772,805	\$ 10,127,927
Quasi endowment funds	235,218,936	203,973,639
Student loans	1,284,658	1,229,238
Invested in land, buildings and equipment	110,773,766	97,605,302
	<b>\$355,050,165</b>	<b>\$312,936,106</b>

	June 30, 2011		June 30, 2010	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarships, prizes and awards	\$106,670,286	\$ 55,675,984	\$ 85,502,288	\$ 54,562,208
Faculty support and academic programs	84,145,840	63,181,042	65,541,110	60,042,006
General university operations	54,540,885	12,698,370	45,593,897	12,628,082
Annuity, life income and unitrust funds	4,172,620	11,968,242	4,002,413	12,127,085
Gifts pending donor designation	286,966	5,769,904	208,568	4,605,708
Student loans	-	4,397,655	-	3,925,201
Physical plant maintenance	6,606,382	3,591,084	5,237,247	3,551,763
Student employment	3,167,803	962,579	2,618,047	962,579
Library acquisitions	3,786,173	1,111,649	3,132,644	1,111,549
Beneficial interest in perpetual trusts	-	996,788	-	792,789
Gifts restricted for capital assets	4,062,242	-	1,368,793	-
Private grants	1,576,541	-	2,309,842	-
Other purposes	15,560,956	5,047,184	6,567,835	4,746,736
	<b>\$284,576,694</b>	<b>\$165,400,481</b>	<b>\$222,082,684</b>	<b>\$159,055,706</b>

**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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Endowment Funds (Continued)**

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 Mode") 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, \$31,245,396 and \$30,823,362 was distributed for operations during the years ended June 30, 2011 and 2010, 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, 2011 and 2010:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning of year,	\$ 223,707,546	\$ 208,085,589	\$ 142,908,739	\$ 574,701,874
Investment return:				
Investment income	696,297	1,043,400	30,517	1,770,214
Net appreciation (realized and unrealized)	<u>45,745,137</u>	<u>77,741,969</u>	<u>2,040,051</u>	<u>125,527,157</u>
Total investment return	46,441,434	78,785,369	2,070,568	127,297,371
Cash contributions and transfers	2,940,182	(92,970)	5,368,105	8,215,317
Quasi-endowment used for bond debt service	(5,567,666)	-	-	(5,567,666)
Appropriation of endowment assets for expenditure	<u>(12,205,164)</u>	<u>(18,501,534)</u>	<u>(538,698)</u>	<u>(31,245,396)</u>
Endowment assets, end of year	<u>\$ 255,316,332</u>	<u>\$ 268,276,454</u>	<u>\$ 149,808,714</u>	<u>\$ 673,401,500</u>

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Endowment Funds (Continued)**

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	\$ 206,660,268	\$ 192,703,255	\$ 135,347,620	\$ 534,711,143
Investment return:				
Investment income	543,644	777,119	66,159	1,386,922
Net appreciation (realized and unrealized)	23,351,288	32,646,400	978,357	56,976,045
Total investment return	23,894,932	33,423,519	1,044,516	58,362,967
Cash contributions and transfers	10,700,802	114,386	7,075,938	17,891,126
Quasi-endowment used for bond debt service	(5,440,000)	-	-	(5,440,000)
Appropriation of endowment assets for expenditure	(12,108,456)	(18,155,571)	(559,335)	(30,823,362)
Endowment assets, end of year	\$ 223,707,546	\$ 208,085,589	\$ 142,908,739	\$ 574,701,874

**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, 2011 and 2010, the assets of the Foundation held by the University were \$2,057,505 and \$1,783,279, 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 \$3,469,608 and \$3,269,210 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 as calculated by Aon, the University's actuary, are as follows:

	June 30,	
	<u>2011</u>	<u>2010</u>
<b>Net Periodic Post-Retirement Benefit Cost</b>		
Service cost	\$ 197,376	\$ 181,196
Interest cost	924,442	955,046
Amortization of prior service cost	(589,496)	(634,970)
Amortization of unrecognized loss	<u>140,184</u>	<u>-</u>
<b>Total net periodic post-retirement benefit cost</b>	<u><u>\$ 672,506</u></u>	<u><u>\$ 501,272</u></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, 2011 and 2010 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$2,654,379 and \$2,761,124, respectively, and unrecognized net prior service cost of \$1,101,386 and \$1,690,882, respectively. The actuarial loss and prior service cost expected to be recognized during the year ended June 30, 2012 are \$161,815 and \$589,488, respectively.

The following sets forth the change in the benefit obligation of the University's defined benefit post-retirement plan as of June 30, 2011 and 2010:

	June 30,	
	<u>2011</u>	<u>2010</u>
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$17,672,181	\$15,013,947
Service cost	197,376	181,196
Interest cost	924,442	955,046
Actuarial loss	33,439	2,418,226
Benefits paid	<u>(1,037,842)</u>	<u>(896,234)</u>
Benefit obligation at end of year	17,789,596	17,672,181
Plan assets	<u>-</u>	<u>-</u>
<b>Funded status/net recorded liability</b>	<u><u>\$17,789,596</u></u>	<u><u>\$17,672,181</u></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, 2011 and 2010 are as follows:

	June 30,	
	2011	2010
Weighted average discount rate	5.48%	5.37%
Medical trend:		
For next year	8.0%	10.0%
Thereafter decreasing by 1% per year for 2011 and 2010	8.0-5%	9.0-5%
Ultimate trend rate	5%	5%
Year reached	2014	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,	
	2011	2010
<b>Effect of an increase</b>		
Accumulated post-retirement benefit obligation	\$ 2,129,877	\$ 2,129,192
Service cost and interest cost	155,201	155,034
<b>Effect of a decrease</b>		
Accumulated post-retirement benefit obligation	(1,790,339)	(1,790,188)
Service cost and interest cost	(128,873)	(128,662)

Estimated future benefit payments as of June 30, 2011 are as follows:

2012	\$ 985,362
2013	1,037,138
2014	1,097,178
2015	1,145,307
2016	1,180,147
2017-2021	6,215,316

**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 and continue through November 1, 2026.



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. The investments held for defeasance of the bonds amounted to \$47,103,903 and \$45,152,797 at June 30, 2011 and 2010, respectively.

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. The investments held for defeasance of the bonds amounted to \$2,322,684 and \$2,432,898 at June 30, 2011 and 2010, respectively.

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 begin November 1, 2004 and continue through November 1, 2029.

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.

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 9. Capital Lease Obligations (Continued)**

Amounts due under the lease agreements as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
2001 Project	\$ 49,244,377	\$ 51,161,253
2004 Project	33,293,174	35,071,893
2007 Project	80,136,546	82,427,869
2010 Project	<u>26,428,527</u>	<u>27,758,265</u>
	<u>\$189,102,624</u>	<u>\$196,419,280</u>

Capital lease obligations of \$189,102,624 reduced by bond defeasance funds of \$49,426,587 total \$139,676,037 at June 30, 2011. 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, 2011, future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2012	\$60,509,438
2013	14,049,503
2014	12,875,050
2015	12,190,431
2016	12,184,581
Remaining amount due	<u>136,331,035</u>
	248,140,038
Less: Amounts representing interest	(65,030,038)
Unamortized discount and premium, net	<u>5,992,624</u>
Balance outstanding	<u>\$189,102,624</u>

Interest expense on long-term debt and capital lease obligations totaled \$8,004,289 and \$8,372,331 for the years ended June 30, 2011 and 2010, respectively. Interest expense of \$696,769 and \$41,449 was capitalized in the years ended June 30, 2011 and 2010, respectively. Cash paid for interest totaled \$8,895,711 and \$8,154,101 for the years ended June 30, 2011 and 2010, respectively.

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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 2015. The future minimum lease payments, exclusive of renewal options, as of June 30, 2011 are as follows:

2012	\$442,591
2013	378,380
2014	42,951
2015	<u>14,112</u>
	<u>\$878,034</u>

Lease payments charged to operations for the years ended June 30, 2011 and 2010 were \$483,550 and \$590,125, respectively.