

DENISON UNIVERSITY

FINANCIAL REPORT

JUNE 30, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 17, 2012

DENISON UNIVERSITY

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 15,282	\$ 297,906
Accounts receivable:		
Students, less allowance of \$350,000 in 2012 and 2011	357,492	249,590
Grants	176,337	162,874
Other	552,150	573,918
	<hr/> 1,085,979	<hr/> 986,382
Investments (Notes 1 and 2):		
Endowment and quasi-endowment funds	639,817,100	666,885,186
Annuity and life income funds	16,103,661	16,928,723
Other	41,313,914	32,577,538
	<hr/> 697,234,675	<hr/> 716,391,447
Pledges receivable (Note 3)	17,189,790	16,616,196
Interest in charitable trusts held by others	5,928,670	5,764,128
Inventories and prepaid expenses	553,453	597,213
Assets held in deferred compensation plans	1,146,444	1,036,383
Assets held for others in agency funds	4,032,703	4,163,483
Student loans receivable, less allowance of \$312,000 in 2012 and 2011	4,232,371	4,567,973
Unamortized bond issue costs	1,048,855	922,087
Beneficial interests in perpetual trusts held by others	943,177	996,788
Short-term investments restricted for land, buildings and equipment	33,811,249	27,483,163
Investments restricted for bond defeasance (Note 9)	8,059,728	46,747,406
Land, buildings and equipment, net (Note 4)	236,262,461	214,816,480
	<hr/>	<hr/>
Total assets	<u>\$1,011,544,837</u>	<u>\$1,041,387,035</u>

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

DENISON UNIVERSITY

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Liabilities and net assets		
Accounts payable	\$ 8,202,897	\$ 7,668,489
Accrued compensation and related taxes:		
Payroll	2,705,824	2,487,201
Compensated absences	1,998,779	1,959,982
Deferred compensation	1,146,444	1,036,383
Other	<u>871,904</u>	<u>884,366</u>
	6,722,951	6,367,932
Deposits	2,804,048	2,196,731
Agency funds held for others	4,032,703	4,163,483
Long-term debt	100,000	100,000
Capital lease obligations (Note 9)	170,189,378	189,102,624
Liability for payment to beneficiaries under split-interest agreements	4,079,339	4,405,548
Discount for future interest on life income agreements	1,759,663	1,872,588
Liability for post-retirement healthcare benefits (Note 8)	20,384,665	17,789,596
Refundable advances:		
Revocable charitable remainder trusts	259,402	273,853
Federal Perkins Loans to students	2,061,003	2,097,801
Schell Foundation Loans to students	<u>346,050</u>	<u>321,050</u>
	2,666,455	2,692,704
Total liabilities	<u>220,942,099</u>	<u>236,359,695</u>
Net assets (Note 5):		
Unrestricted	362,495,720	355,050,165
Temporarily restricted	258,004,640	284,576,694
Permanently restricted	<u>170,102,378</u>	<u>165,400,481</u>
Total net assets	<u>790,602,738</u>	<u>805,027,340</u>
Total liabilities and net assets	<u>\$1,011,544,837</u>	<u>\$1,041,387,035</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			(53,611)	(53,611)
	<u>(3,338,353)</u>	<u>(22,972,352)</u>	<u>218,918</u>	<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
STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
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	110,750,445	(517,981)		110,232,464
Operating expenses				
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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (14,424,602)	\$ 110,952,844
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	8,718,778	8,105,339
Loss on disposal of property and equipment and early retirement of bonds	504,328	4,151
Gains on investments	(4,240,007)	(123,351,968)
Unrealized loss (gain) on perpetual trusts held by others	53,611	(135,015)
Contributions of perpetual trusts held by others	-	(68,983)
Contributions, net of pledges, for permanently restricted purposes	(4,839,483)	(3,084,106)
Income and gains restricted to long-term investment	(272,529)	(2,757,761)
Contributions, net of pledges, restricted for property and equipment	(4,650,905)	(5,562,062)
Actuarial adjustment of split interest agreements	(565,993)	(1,366,717)
(Increase) decrease in accounts receivable	(99,597)	237,774
Increase in pledges receivable	(573,594)	(1,966,033)
Decrease in inventories and prepaid expenses	43,760	211,823
Increase in assets held in deferred compensation plans	(110,061)	(267,308)
Increase (decrease) in agency funds held for others	130,780	(327,907)
Increase in accounts payable	534,408	3,018,236
Increase in accrued compensation and related taxes	355,019	366,516
Increase in deposits and agency funds held for others	476,537	531,032
(Decrease) increase in liability for payment to beneficiaries under split-interest agreements	(627,474)	837,892
Increase in liability for post-retirement healthcare benefits	2,595,069	117,415
(Decrease) increase in refundable advances	(26,249)	28,997
Net cash used in operating activities	<u>(17,018,204)</u>	<u>(14,475,841)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(30,328,562)	(26,133,457)
(Increase) decrease in assets restricted to investment in land, buildings and equipment	(6,328,086)	5,090,487
Decrease (increase) in investments restricted for bond defeasance	38,687,678	(1,840,892)
Net proceeds from sales of investments	23,396,779	31,717,392
Proceeds from loan collections and cancellations	688,602	671,369
Student loans issued	(353,000)	(359,000)
Net cash provided by investing activities	<u>25,763,411</u>	<u>9,145,899</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital lease obligations, net of discount	35,507,811	-
Payment of bond issuance costs	(285,800)	(500)
Payments of capital lease obligations	(54,602,550)	(7,035,000)
Contributions, net of pledges, for permanently restricted purposes	4,839,483	3,084,106
Interest in charitable trusts held by others	589,791	800,019
Income and gains restricted to long-term investment	272,529	2,757,761
Contributions, net of pledges, restricted for property and equipment	4,650,905	5,562,062
Net cash (used in) provided by financing activities	<u>(9,027,831)</u>	<u>5,168,448</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(282,624)	(161,494)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>297,906</u>	<u>459,400</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 15,282</u>	<u>\$ 297,906</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 17, 2012, 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, 2012, the following liquidity characteristics applied to the University's endowment and quasi-endowment funds:

<u>Liquid within:</u>	<u>% of Endowment</u>
1 year	56%
3 years	4%
Illiquid*	40%

*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, 2012 and 2011:

	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>

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2011			
	Level 1	Level 2	Level 3	Total
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
Fixed income	30,389,298	9,667,740	6,240,017	46,297,055
Real assets	8,954,255	-	74,545,386	83,499,641
Cash and other investments	17,018,244	-	137,296	17,155,540
Total investments	80,886,853	135,778,570	501,783,529	718,448,952
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	27,483,163	-	-	27,483,163
Investments restricted for bond defeasance	46,747,406	-	-	46,747,406
Total	\$156,153,805	\$135,778,570	\$508,544,445	\$800,476,820

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, 2012 and 2011, approximately \$62 million and \$74 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, 2012 and 2011, approximately \$83 million and \$95 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:

	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>
	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 other	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	
	<u>\$ 408,519,362</u>	<u>\$ 54,534,426</u>	<u>\$ (55,091,646)</u>	<u>\$ 100,582,303</u>	<u>\$ 508,544,445</u>	

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, 2012 and 2011, 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, 2012, the University's income tax years from 2008 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 2011 financial statements to conform to the 2012 presentation.

Note 2. Investments

Investments at June 30, 2012 consist of the following:

	Total	Alternative Investments
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	-
	\$697,234,675	\$599,899,729

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Investments (Continued)

Investments at June 30, 2011 consisted 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 other assets	17,097,880	-
	\$716,391,447	\$629,074,534

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 86% and 88% of the University's investments at June 30, 2012 and 2011, respectively. The University was obligated at June 30, 2012 to invest additional funds in limited partnership investments in the amount of \$76 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	
	2012	2011
Investment income (interest and dividends)	\$ 1,473,508	\$ 4,011,418
Net realized and unrealized gains	4,497,008	126,253,209
Total investment return	5,970,516	130,264,627
Investment return included in operations	(32,062,303)	(34,000,082)
Nonoperating investment return	\$ (26,091,787)	\$ 96,264,545

Note 3. Pledges Receivable

As of June 30, 2012 and 2011, the University had received unconditional promises totaling \$17,189,790 and \$16,616,196, 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, 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

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Pledges Receivable (Continued)

	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

The amounts are recorded at the present value of future cash flows based on a discount rate of 5.5%. The discount is \$2,103,336 and \$2,963,882 at June 30, 2012 and 2011, respectively.

Note 4. Land, Buildings and Equipment

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

	June 30,	
	2012	2011
Land	\$ 1,326,349	\$ 1,326,349
Improvements other than buildings	33,586,616	32,624,360
Buildings	148,817,509	134,651,420
Building improvements	78,171,924	76,568,483
Construction in progress	34,759,186	24,961,699
Library books	11,152,655	10,677,190
Computer equipment and software	47,061,181	44,121,908
	354,875,420	324,931,409
Accumulated depreciation	(118,612,959)	(110,114,929)
	\$ 236,262,461	\$ 214,816,480

Depreciation expense totaled \$8,878,050 and \$8,296,050 for the years ended June 30, 2012 and 2011, respectively. The University has outstanding commitments of approximately \$13.2 million remaining for the construction of new facilities at June 30, 2012.

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,	
	2012	2011
Unrestricted net assets:		
University reserves	\$ 13,459,867	\$ 7,772,805
Quasi endowment funds	222,845,504	235,218,936
Student loans	1,332,696	1,284,658
Invested in land, buildings and equipment	122,857,653	110,773,766
	\$360,495,720	\$355,050,165

	June 30, 2012		June 30, 2011	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarships, prizes and awards	\$ 102,729,198	\$ 59,857,305	\$ 112,182,284	\$ 55,675,984
Faculty support and academic programs	81,219,067	64,251,245	88,280,917	63,181,042
General university operations	52,646,089	13,391,001	57,382,829	12,698,370
Annuity, life income and unitrust funds	3,799,526	12,126,348	4,194,473	11,968,242
Gifts pending donor designation	223,513	4,083,709	286,966	5,769,904
Student loans	-	4,491,890	-	4,397,655
Physical plant maintenance	6,350,517	3,654,720	6,948,406	3,591,084
Student employment	3,055,333	962,579	3,333,014	962,579
Library acquisitions	3,655,830	1,111,749	3,983,005	1,111,649
Beneficial interest in perpetual trusts	-	943,177	-	996,788
Gifts restricted for capital assets	72,974	-	4,062,242	-
Private grants	1,523,077	-	1,576,541	-
Other purposes	2,729,516	5,228,655	2,346,017	5,047,184
	\$258,004,640	\$170,102,378	\$284,576,694	\$165,400,481

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 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, \$31,305,504 and \$31,245,396 was distributed for operations during the years ended June 30, 2012 and 2011, 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, 2012 and 2011:

	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

DENISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowment Funds (Continued)

	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)	45,745,137	77,741,969	2,040,051	125,527,157
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
Appropriation of endowment assets for expenditure and debt service	(17,772,830)	(18,501,534)	(538,698)	(36,813,062)
Endowment assets, end of year	\$ 255,316,332	\$ 268,276,454	\$ 149,808,714	\$ 673,401,500

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, 2012 and 2011, the assets of the Foundation held by the University were \$1,994,636 and \$2,057,505, 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 \$3,548,366 and \$3,469,608 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 as calculated by Aon, the University's actuary, are as follows:

	June 30,	
	<u>2012</u>	<u>2011</u>
Net Periodic Post-Retirement Benefit Cost		
Service cost	\$ 189,592	\$ 197,376
Interest cost	948,231	924,442
Amortization of prior service cost	(589,488)	(589,496)
Amortization of unrecognized loss	<u>161,815</u>	<u>140,184</u>
Total net periodic post-retirement benefit cost	<u><u>\$ 710,150</u></u>	<u><u>\$ 672,506</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, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$4,906,033 and \$2,654,379, respectively, and unrecognized net prior service cost of \$511,898 and \$1,101,386, respectively. The actuarial loss and prior service cost expected to be recognized during the year ended June 30, 2013 are \$574,663 and \$511,898, respectively.

The following sets forth the change in the benefit obligation of the University's defined benefit post-retirement plan as of June 30, 2012 and 2011:

	June 30,	
	<u>2012</u>	<u>2011</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$17,789,596	\$17,672,181
Service cost	189,592	197,376
Interest cost	948,231	924,442
Actuarial loss	2,413,469	33,439
Benefits paid	<u>(956,223)</u>	<u>(1,037,842)</u>
Benefit obligation at end of year	20,384,665	17,789,596
Plan assets	<u>-</u>	<u>-</u>
Funded status/net recorded liability	<u><u>\$20,384,665</u></u>	<u><u>\$17,789,596</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, 2012 and 2011 are as follows:

	June 30,	
	<u>2012</u>	<u>2011</u>
Weighted average discount rate	4.51%	5.48%
Medical trend:		
For next year - pre 65 and post 65	10.0%/8.0%	8.0%/8.0%
Thereafter decreasing by 1% per year to 5%		
Ultimate trend rate	5%	5%
Year reached	2015	2014

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

	June 30,	
	<u>2012</u>	<u>2011</u>
Effect of an increase		
Accumulated post-retirement benefit obligation	\$ 2,596,910	\$ 2,129,877
Service cost and interest cost	162,201	155,201
Effect of a decrease		
Accumulated post-retirement benefit obligation	(2,169,479)	(1,790,339)
Service cost and interest cost	(133,690)	(128,873)

Estimated future benefit payments as of June 30, 2012 are as follows:

2013	\$ 993,235
2014	1,064,907
2015	1,129,362
2016	1,180,739
2017	1,212,676
2018-2022	6,409,219

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. The investments held for defeasance of the bonds amounted to \$-0- and \$44,424,722 at June 30, 1012 and 2011, 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 \$-0- and \$2,322,684 at June 30, 2012 and 2011, respectively.

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)

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 begin November 1, 2012 and continue through November 1, 2032. The investments held for defeasance of the bonds amounted to \$8,059,728 at June 30, 2012.

Amounts due under the lease agreements as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
2001 Project	\$ -	\$ 49,244,377
2004 Project	31,434,455	33,293,174
2007 Project	77,870,224	80,136,546
2010 Project	25,403,789	26,428,527
2012 Project	<u>35,480,910</u>	<u>-</u>
	<u>\$170,189,378</u>	<u>\$189,102,624</u>

Capital lease obligations of \$170,189,378 reduced by bond defeasance funds of \$8,059,728 total \$162,129,650 at June 30, 2012. 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, 2012, future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Capital Lease Obligations (Continued)

2013	\$ 14,867,891
2014	14,873,375
2015	14,187,156
2016	14,846,656
2017	14,817,656
Remaining amount due	<u>157,128,816</u>
	230,721,550
Less: Amounts representing interest	(70,636,550)
Unamortized discount and premium, net	<u>10,104,378</u>
Balance outstanding	<u><u>\$170,189,378</u></u>

Interest expense on long-term debt and capital lease obligations totaled \$6,091,563 and \$8,004,289 for the years ended June 30, 2012 and 2011, respectively. Interest expense of \$1,003,341 and \$696,769 was capitalized in the years ended June 30, 2012 and 2011, respectively. Cash paid for interest totaled \$7,344,814 and \$8,895,711 for the years ended June 30, 2012 and 2011, respectively.

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, 2012 are as follows:

2013	\$ 422,502
2014	301,624
2015	189,544
2016	172,560
2017	<u>172,560</u>
	 <u><u>\$ 1,258,790</u></u>

Lease payments charged to operations for the years ended June 30, 2012 and 2011 were \$552,514 and \$483,550, respectively.