HAMLINE UNIVERSITY OF MINNESOTA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

HAMLINE UNIVERSITY OF MINNESOTA
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hamline University of Minnesota
St. Paul, Minnesota

We have audited the accompanying balance sheets of Hamline University of Minnesota 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 3, 2012

HAMLINE UNIVERSITY OF MINNESOTA
BALANCE SHEETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	$ 9,974,370	$ 8,789,464
Restricted Cash	11,909,914	33,146,940
Accounts Receivable (Net)	4,199,714	3,930,782
Prepaid Expenses and Other Assets	1,742,931	1,596,311
Inventories	204,049	168,232
Contributions Receivable	7,608,131	8,417,680
Student Loans Receivable (Net)	7,789,936	8,161,354
Investments	77,237,059	79,905,026
Property, Plant and Equipment (Net)	73,380,455	75,457,632
Construction in Progress	34,149,805	7,531,455
Beneficial Interest in Trusts	1,196,018	1,729,249
Total Assets	$ 229,392,382	$ 228,834,125
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Expenses	$ 16,513,042	$ 14,979,775
Deposits and Deferred Revenue	3,468,629	3,991,645
Annuities and Unitrusts Payable	1,927,288	1,998,700
Perkins Loans Refundable to Government	8,884,936	8,788,958
Long-Term Debt	58,475,225	60,180,732
Total Liabilities	89,269,120	89,939,810
Net Assets:		
Unrestricted	49,768,035	53,500,121
Temporarily Restricted	29,165,040	24,800,282
Permanently Restricted	61,190,187	60,593,912
Total Net Assets	140,123,262	138,894,315
Total Liabilities and Net Assets	$ 229,392,382	$ 228,834,125

See accompanying Notes to Financial Statements.

HAMLINE UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Tuition and Fees	$100,467,638	$ -	$ -	$100,467,638
Less:				
Unfunded Student Aid	31,188,166	-	-	31,188,166
Funded Student Aid	1,827,471	-	-	1,827,471
Net Student Tuition and Fees	67,452,001	-	-	67,452,001
Government Grants	98,313	2,021,517	-	2,119,830
Contributions	1,786,013	8,638,031	1,177,496	11,601,540
Investment Income (Loss), Net	802,668	2,367,500	(184,757)	2,985,411
Sale and Services of Educational				-
Activities	465,399	354,475	-	819,874
Change in Value of Split-Interest				-
Agreements	-	(528,895)	105,820	(423,075)
Other Sources	1,333,078	(483,888)	(502,284)	346,906
Auxiliary Enterprises	8,010,408	-	-	8,010,408
Net Assets Released from Restrictions	6,897,955	(6,897,955)	-	-
Total Revenue	86,845,835	5,470,785	596,275	92,912,895
EXPENSES				
Instruction	34,102,230	-	-	34,102,230
Academic Support	15,588,271	-	-	15,588,271
Research	189,643	-	-	189,643
Public Service	1,653,880	-	-	1,653,880
Student Services	13,092,600	-	-	13,092,600
Institutional Support	12,966,389	-	-	12,966,389
Auxiliary Enterprises	9,533,062	-	-	9,533,062
Total Expenses	87,126,075	-	-	87,126,075
CHANGE IN OPERATING NET ASSETS	(280,240)	5,470,785	596,275	5,786,820
Endowment Income (Loss)	2,151,275	(1,106,027)	-	1,045,248
Appropriation of Endowment Assets				
for Expenditure	(2,971,488)	-	-	(2,971,488)
Restructuring Costs	(2,360,803)	-	-	(2,360,803)
Board Designated Unrestricted Spending	(270,830)	-	-	(270,830)
CHANGE IN NET ASSETS	(3,732,086)	4,364,758	596,275	1,228,947
Net Assets - Beginning of Year	53,500,121	24,800,282	60,593,912	138,894,315
NET ASSETS - END OF YEAR	$ 49,768,035	$29,165,040	$61,190,187	$140,123,262

See accompanying Notes to Financial Statements.

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 98,174,231	$ -	$ -	$ 98,174,231
27,269,098	-	-	27,269,098
1,741,244	-	-	1,741,244
69,163,889	-	-	69,163,889
107,892	1,955,963	-	2,063,855
1,159,735	6,437,225	71,800	7,668,760
914,791	2,479,088	598,609	3,992,488
			-
327,460	164,758	-	492,218
			-
-	170,054	288,989	459,043
1,642,750	(438,773)	(366,430)	837,547
7,284,928	-	-	7,284,928
6,976,055	(6,976,055)	-	-
87,577,500	3,792,260	592,968	91,962,728
34,182,612	-	-	34,182,612
14,932,104	-	-	14,932,104
288,314	-	-	288,314
1,370,272	-	-	1,370,272
13,511,720	-	-	13,511,720
13,467,035	-	-	13,467,035
9,527,545	-	-	9,527,545
87,279,602	-	-	87,279,602
297,898	3,792,260	592,968	4,683,126
7,808,271	3,813,475	-	11,621,746
(3,088,511)	-	-	(3,088,511)
-	-	-	-
(387,844)	-	-	(387,844)
4,629,814	7,605,735	592,968	12,828,517
48,870,307	17,194,547	60,000,944	126,065,798
$ 53,500,121	$ 24,800,282	$ 60,593,912	$ 138,894,315

HAMLINE UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,228,947	$ 12,828,517
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Loss on Disposal of Assets	6,954,727	7,088,606
Net Realized and Unrealized (Gain) Loss on Investments	134,042	(11,129,534)
Contributions Restricted for Long-Term Investment	(7,062,374)	(3,466,014)
Adjustment of Actuarial Liability for Annuities Payable	356,853	214,405
Change in Value of Beneficial Interest in Trusts	533,231	(248,542)
Change in Assets and Liabilities:		
Student Accounts Receivable	(268,932)	15,754
Prepaid Expenses and Other Assets	(146,620)	(975,792)
Inventories	(35,817)	54,961
Contributions Receivable	1,023,469	1,169,885
Student Loans Receivable	371,418	359,836
Accounts Payable and Accrued Expenses	1,533,267	3,212,194
Deposits and Deferred Revenue	(523,016)	(373,861)
Net Cash Provided by Operating Activities	4,099,195	8,750,415
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property, Plant, and Equipment	(31,495,902)	(10,712,786)
Purchases of Investments	(18,510,863)	(14,888,358)
Proceeds from Sale of Investments	21,044,791	14,598,221
Net Cash Used by Investing Activities	(28,961,974)	(11,002,923)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	-	31,030,588
Proceeds from Contributions Restricted for Long-Term Investment	6,848,454	3,454,926
Grants Refundable to Government	95,977	67,827
Payments on Long-Term Debt	(1,705,507)	(1,695,000)
Payments on Annuities Payable	(428,265)	(399,591)
Net Cash Provided by Financing Activities	4,810,659	32,458,750
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,052,120)	30,206,242
Cash and Cash Equivalents - Beginning of Year	41,936,404	11,730,162
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 21,884,284	$ 41,936,404
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	$ 9,974,370	$ 8,789,464
Restricted Cash	11,909,914	33,146,940
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 21,884,284	$ 41,936,404
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest (includes Capitalized Interest Paid of $1,570,131 and $19,546 in 2012 and 2011, Respectively)	$ 2,422,951	$ 879,779

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hamline University is a nationally ranked university serving 5,000 students in its four schools: the college of liberal arts, School of Law, School of Education, and School of Business. It offers undergraduate, masters, doctorate and professional degrees, as well as certificate and continuing studies programs. Founded in 1854, Hamline was the first institution of higher learning in Minnesota.

During the past 158 years, Hamline has established a national reputation for academic quality, as well as providing students with personal attention and exceptional experiences. Hamline is one of only 280 Phi Beta Kappa institutions in the United States. In the Best Regional Universities category, *U.S. News and World Report* ranks Hamline first in Minnesota for the past eleven consecutive years. Hamline is ranked seventh in the nation by *Washington Monthly's* College Rankings of service-oriented schools. The Hamline University School of Law was named among the top twenty most innovative Law Schools in the country by *National Jurist*, the Alternative Dispute Resolution program is ranked third in the nation by *U. S. News and World Report* in the Dispute Resolution category, and the Health Law Institute is ranked among the top twenty *U. S. News and World Report* in the Health Law category. Forbes.com ranks Hamline University among the nation's Best Colleges and Universities with success of the graduates and quality of education as the biggest factors in the rankings.

Hamline is recognized as a diverse, learning-centered university that is rooted in a tradition of liberal education; dynamic and actively inclusive; locally engaged and globally connected; and invested in the personal and professional growth of its employees and students. The University has a strong tradition of excellence in teaching, research, and scholarship. Among its longstanding values are commitments to rigorous academics; creation, dissemination, and practical application of knowledge; multicultural competencies; the development and education of the whole person; and an ethic of social justice and civic responsibility.

Located in the vibrant Twin Cities of Saint Paul and Minneapolis, Minnesota, Hamline is affiliated with the United Methodist Church. Its main campus in St. Paul is known for its central location, historic buildings and beautiful gardens.

Basis of Presentation

The accompanying financial statements of the University have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the University and changes therein are classified into the following three categories:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of the University. Certain of these amounts have been designated by the board for endowment and for specific future operating purposes;

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time; and
- Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently, but permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions (whose restrictions are met in the same year as the gift is made) are reported as temporarily restricted contributions in the current year. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts and short-term investments with an original maturity of less than three months except those held for investment purposes.

Restricted Cash

The provisions of the University's long-term financing agreements require it to maintain a certain amount of its cash and cash equivalents in reserve funds, which are subject to restrictions on the disbursement of such funds. Accordingly, such amounts are reported separately from cash and cash equivalents in the statements of financial position. Restricted cash also consists of cash and cash equivalents from the investments held by the University under split-interest agreements and bond escrow accounts.

Concentrations

The University maintains its operating cash balances with high credit quality financial institutions. At times, the amounts on deposit may exceed the Federal Deposit Insurance Corporation limit.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Student Loan Receivables

Receivables are stated at net realizable value. The University provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Accounts past due more than 90 days are individually analyzed for collectibility. When all collection efforts have been exhausted and no payments have been received, accounts are individually written off against the related allowance. At June 30, 2012 and 2011, the allowance was $775,000 and $938,954, respectively. All accounts, notes, and other receivables are expected to be collected within one year.

Inventories

Inventories are carried at the lower of cost or market using the first-in, first-out (FIFO) method.

Contributions Receivable

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate (between the tax-free one-year Treasury bill rate and the incremental borrowing rate) applicable to the year in which the pledge is received. Conditional promises are not included as revenue until such times as the conditions are substantially met.

Investments

The University invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. Investments in debt securities and marketable securities are carried at fair value, based upon quoted market prices or values provided by external investment managers. Unrealized gains and losses are recognized in the period in which they occur.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at the date of acquisition or at fair value at the date of donation, less accumulated depreciation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment (Continued)

Depreciation is computed on the straight-line method (half-year convention for the year placed in service) over the estimated useful lives of the assets as follows:

Buildings	20-75 Years
Land Improvements	10-20 Years
Building Improvements	20 Years
Equipment	3-20 Years
Library Materials	15 Years

Expenditures for new construction, major renewals and replacements, and equipment over $2,500 are capitalized.

Collections

The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the balance sheet. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from de-accessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

The University's collections are made up of pottery, prints, musical instruments, and paintings that are held for educational and performance purposes. Each of the items are cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously.

Deferred Revenue

Deferred revenue represents students' tuition, fees, conference revenues and housing revenues billed or received in advance for the summer term and other University programs.

Loans Refundable to Government

Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the determination is made.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification

The University follows the provisions of *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. This provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component is a requirement for expanded disclosures about all endowment funds whether or not the organization is subject to UPMIFA.

The University's endowment consists of approximately 400 individual funds established for a variety of purposes including scholarships and program support. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

(1) The duration and preservation of the fund
(2) The purposes of the University and the donor-restricted fund
(3) General economic conditions
(4) The possible effects of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and deposits and deferred credits approximate fair value because of the short maturity of these financial instruments. Contributions receivable and annuities payable are recorded at fair value using appropriate historical discount rates. The carrying value of contributions receivable was materially consistent with the fair value at June 30, 2012. The carrying values of investments and assets held in charitable remainder unitrusts are based upon values provided by an external investment manager or quoted market values. Investments are carried at fair value, as indicated in Note 4, Investments.

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. It is not practicable to estimate the fair value of these receivables since they contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

The fair value of the University's long-term debt is estimated based on the current rates offered to the University for debt of similar terms and maturities. The MHEFA Revenue Bonds, Series Seven E, Seven K1, and Seven K2 are fixed rate bonds. The fair value of these bonds was determined based on the prices of the bonds as of June 30, 2012. The fair value of the remainder of the University's long-term debt approximates fair value because the debt's interest rates are variable.

The carrying value of the interest rate swap is valued based upon mid-market bid/ask quotations as of the close of business. The carrying value approximates fair value at June 30, 2012 and 2011.

The estimated fair values of the University's long-term financial instruments at June 30 are as follows:

	2012		2011	
	Carry Amount	Fair Value	Carry Amount	Fair Value
Student Loans Receivable	$ 7,789,936	$ 7,789,936	$ 8,161,354	$ 8,161,354
Contribution Receivable	7,608,131	7,608,131	8,417,680	8,417,680
Investments	77,237,059	77,237,059	79,905,026	79,905,026
Beneficial Interest in Trusts	1,196,018	1,196,018	1,729,249	1,729,249
Perkins Loans Refundable to Government	8,884,936	8,884,936	8,788,958	8,788,958
Long-Term Debt	58,475,225	62,940,988	60,180,732	58,987,862
Annuities and Unitrusts Payable	1,927,288	1,927,288	1,998,700	1,998,700
Interest Rate Swap	327,840	327,840	354,067	354,067

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

The University follows the provisions of *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. *Fair Value Measurements* established a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. *Fair Value Measurements* expanded disclosures about instruments measured at fair value. *Fair Value Measurements* applied to other accounting pronouncements that require or permit fair value measurements and, accordingly, *Fair Value Measurements* does not require any new fair value measurements.

As noted above, *Fair Value Measurements* establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices or similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Expenses

Expenses are categorized according to how they are used to achieve the mission of the University and fall into these categories: Instruction, Academic Support, Research, Public Service, Student Services, Institutional Support and Auxiliary Enterprises.

Instruction includes the instruction expenses of the undergraduate college, schools, departments, and other instructional divisions of the University.

Academic Support represents support services that are an integral part of the University's primary mission of instruction and includes expenses for libraries, galleries, audio/visual services, academic development, academic computing support, course and curriculum development, and academic administration.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses (Continued)

Research is related to activities specifically organized to produce research outcomes and either commissioned by an agency external to the institution or separately budgeted by an organizational unit within the University.

Public Service is specifically for public service and for activities established primarily to provide non-instructional services beneficial to groups external to the institution and includes expenses for the Wesley Center and the Mediation Center.

Student Services includes such expenses as admissions, financial aid administration, registrar activities and activities whose primary purpose is to contribute to students' emotional and physical well-being and to their intellectual, cultural and social development outside the context of the formal instructional program.

Institutional Expense reflects the day-to-day operational support of the University and includes expenses for general administrative services, executive direction and planning, legal and fiscal operations, administrative computing support, communications and development.

Auxiliary Enterprises is essentially the self-supporting operations of the University that exist to furnish a service to students, faculty, or staff, and that charge a fee that is directly related to, although not necessarily equal to, the cost of the service. Examples are residence halls, food services, student health services, and bookstores.

All expense categories, except Institutional Support, are considered Program Service expenses. Certain other expenses are allocated to all categories. See Note 15 for more information on allocated expenses.

Advertising Expense

Advertising expenses are expensed as incurred. Advertising expense for the years ended June 30, 2012 and 2011 was $1,097,878 and $1,050,548, respectively.

Federal Income Taxes

The Internal Revenue Service has determined that the University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The University has adopted the accounting standard relating to Accounting for Uncertainty in Income Taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this standard had no impact on the University's financial statements. The University's tax returns are open to examinations for the years ending June 30, 2010 through June 30, 2012.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 2011 amounts in the accompanying financial statement have been classified to conform to the 2012 presentation. Such reclassifications had no impact on net assets or the change in net assets.

NOTE 2 CONTRIBUTIONS RECEIVABLE

For the years ended June 30, 2012 and 2011, contributions receivable included two significant pledges that represented 38% and 42% of the receivable balance, respectively. Contributions receivable are summarized as follows at June 30:

	2012	2011
Unconditional Promises Expected to be Collected in:		
Less Than One Year	$ 1,367,693	$ 1,202,592
One to Five Years	6,438,923	6,391,796
More than Five Years	100,000	1,224,982
Total Contributions	7,906,616	8,819,370
Allowance	(99,000)	(99,000)
Discount (1.00% and 1.02% for 2012 and 2011, Respectively)	(199,485)	(302,690)
Total Contributions, Net of Discount and Allowance	$ 7,608,131	$ 8,417,680

NOTE 3 STUDENT LOANS RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Perkins loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of recipients to repay the amounts per the loan terms. Perkins loans are assignable to the Federal Government when proper due diligence procedures are performed. The allowance at June 30, 2012, and 2011 was $-0-. At June 30, 2012 and 2011, student loans represented 3.2% and 3.4% of total assets, respectively.

At June 30, student loans consisted of the following:

	2012	2011
Perkins Loan Program	$ 7,776,178	$ 8,077,829
Institutional Programs	13,758	83,525
Student Loan Receivable, Net	$ 7,789,936	$ 8,161,354

Funds advanced by the Federal government of $8,884,936 and $8,788,958 at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

At June 30, 2012 and 2011, the following amounts were past due under student loan programs:

June 30,	1-60 Days Past Due	60-90 Days Past Due	90+ Days Past Due	Total Past Due
2012	$ 11,223	$ 13,526	$ 1,123,160	$ 1,147,909
2011	11,857	17,306	961,555	990,718

NOTE 4 INVESTMENTS

Investments as defined by asset allocation category at June 30 consist of the following:

	Fair Value	
	2012	2011
Bonds:		
Multi-Faceted Bonds	$ 13,746,219	$ 13,491,730
TIPS	-	2,281,735
Subtotal Bonds	13,746,219	15,773,465
Equities:		
Domestic	27,136,174	31,208,026
International	10,939,546	12,773,519
Subtotal Equities	38,075,720	43,981,545
Private Equity, Hedge Funds and Real Assets	24,484,608	19,124,273
Cash and Short-Term Investments	318,075	371,362
Other	612,437	654,381
Total Investments	$ 77,237,059	$ 79,905,026

Investments in debt securities and marketable securities are carried at fair value, based upon quoted market prices or values provided by external investment managers. Unrealized gains and losses are recognized in the period in which they occur.

As noted above, within the portfolio certain investments are invested in funds for which value is not determinable on a daily basis and are held by private companies. These are commonly referred to as Alternative investments. These include Hedge Funds, Private Equity Funds, Real Estate Funds, Venture Capital Funds, Commodity Funds, Offshore Fund Vehicles, Fund of Funds, and Bank Collective Common Trusts. Alternative Investments may be structured through Limited Partnerships, Limited Liability Corporations, Trusts or Corporations. The estimated fair values of Alternative Investments may differ significantly from the values that would have been used had a ready market existed for these investments, and these differences could be material.

NOTE 4 INVESTMENTS (CONTINUED)

The Alternative Investments within the University's portfolio consist of the following at June 30:

	Fair Value	
	2012	2011
Private Equity	$ 7,620,497	$ 6,989,227
Hedge Funds	11,076,487	8,860,888
Real Assets	5,787,624	3,274,158
Total Private Equity, Hedge Funds and Real Assets	24,484,608	19,124,273
U.S. Equities	39,480	35,797
Total Publicly Traded Investments Held in Private Funds	39,480	35,797
Total Alternative Investments	$ 24,524,088	$ 19,160,070

Private equity investments are investments in limited partnership interests and are carried at fair values as determined by the general partner in the absence of readily ascertainable market values. Hedge funds are investment vehicles that explicitly pursue absolute returns on their investments using financial instruments such as stocks, bonds, commodities, currencies, and derivatives through techniques such as shorting, leveraging, arbitrage, swaps and other strategies. Real Assets investments include real estate, energy, timber, agricultural land, mining and other similar investments. U.S. Equities include investments held by limited partnerships which include long/short strategies carried at fair values based on investment manager market valuations. Non-U.S. Equities are investments which include foreign exchange contracts carried at fair values based on investment manager market valuations which may not be available on a daily basis.

A certain portion of the U.S. Equities and Non U.S. Equities are in pooled funds. At June 30, 2012 and 2011, the amount of pooled funds that include the University's assets was $25,266,209 and $29,667,652, respectively.

Investments include funds traditionally considered the endowment of the University, as well as assets of split-interest agreements and unrestricted net assets. As of June 30, the allocations shown at fair value are as follows:

	2012	2011
Endowment Funds	$ 74,058,462	$ 75,833,917
Split-Interest Agreements	3,031,485	3,792,329
Unrestricted Investments	147,112	278,780
Total Investments	$ 77,237,059	$ 79,905,026

NOTE 5 FAIR VALUE MEASUREMENTS

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the University values all other assets and liabilities refer to Note 1 – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Investments:				
Bonds - Multifaceted Bonds	$ 7,437,731	$ 6,308,488	$ -	$ 13,746,219
Equities - Domestic	8,060,236	19,075,938	-	27,136,174
Equities - International	4,749,275	6,190,271	-	10,939,546
Hedge Funds	-	12,937,556	-	12,937,556
Private Equity and Real Assets	-	-	11,547,052	11,547,052
Other	160,711	-	-	160,711
Total Investments	20,407,953	44,512,253	11,547,052	76,467,258
Beneficial Interest in Trusts	-	-	1,240,252	1,240,252
Other Assets - Interest Rate Swap	-	(327,840)	-	(327,840)
Total	$ 20,407,953	$ 44,184,413	$ 12,787,304	$ 77,379,670

Assets measured at fair value on a recurring basis as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Investments:				
Bonds - Multifaceted Bonds	$ 13,491,730	$ -	$ -	$ 13,491,730
Bonds - TIPS	2,281,735	-	-	2,281,735
Equities - Domestic	9,110,152	22,097,874	-	31,208,026
Equities - International	5,203,741	7,569,778	-	12,773,519
Hedge Funds	-	8,860,888	-	8,860,888
Private Equity and Real Assets	-	-	10,263,385	10,263,385
Other	162,276	-	-	162,276
Total Investments	30,249,634	38,528,540	10,263,385	79,041,559
Beneficial Interest in Trusts	-	-	1,729,249	1,729,249
Other Assets - Interest Rate Swap	-	(354,067)	-	(354,067)
Total	$ 30,249,634	$ 38,174,473	$ 11,992,634	$ 80,416,741

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The totals on previous page do not include certain amounts as they are not measured on a recurring basis at fair value. The table below reconciles total University investments:

	2012	2011
Total Investments	$ 77,237,061	$ 79,905,026
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(318,075)	(371,362)
Cash Surrender Value of Life Insurance Policies	(451,728)	(492,105)
Total Investments Measured at Fair Value on a Recurring Basis	$ 76,467,258	$ 79,041,559

Level 3 Assets

The following table provides summary of changes in fair value of the University's Level 3 financial assets for the year ended June 30, 2012:

	Private Equity, Etc.	Beneficial Int.	Total
Balances as of July 1, 2011	$ 10,263,385	$ 1,729,249	$ 11,992,634
Net Realized and Unrealized Gains on Investments	310,229	(39,048)	271,181
Investment Income	610,550	-	610,550
Purchases of Investments	1,540,948	145,359	1,686,307
Proceeds from Sales of Investments	(1,178,060)	(595,308)	(1,773,368)
Balances as of June 30, 2012	$ 11,547,052	$ 1,240,252	$ 12,787,304

The following table provides summary of changes in fair value of the University's Level 3 financial assets for the year ended June 30, 2011:

	Private Equity, Etc.	Beneficial Int.	Total
Balances as of July 1, 2010	$ 8,504,592	$ 1,480,707	$ 9,985,299
Net Realized and Unrealized Gains on Investments	1,102,418	253,428	1,355,846
Investment Income	474,643	-	474,643
Purchases of Investments	720,647	-	720,647
Proceeds from Sales of Investments	(538,915)	(4,886)	(543,801)
Balances as of June 30, 2011	$ 10,263,385	$ 1,729,249	$ 11,992,634

The University values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date.

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Net Asset Value

Fair Value Measurements of Investments that calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2012:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	$ 22,255,846	$ -	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	11,076,487	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	11,179,920	-	Annually	75 Days

Fair Value Measurements of Investments that calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2011:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	$ 14,729,099	$ -	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	8,860,888	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	14,938,553	-	Annually	75 Days

Equity Collective Funds includes investments in long only funds and an enhanced index fund that are invested in domestic and international common stocks. The fair value of the investment in this category is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the University is able to verify its account balances.

Multi-Strategy Hedge Fund of Funds is invested primarily in a diversified portfolio of directly originated loan investments, distressed corporate and mortgage bonds and long/short credit. The fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

Equity Long/Short Fund of Funds is invested primarily in long/short equity managers. The fair value of the fund of funds in this category has been estimated using the net asset value of the investments.

NOTE 6 INVESTMENT INCOME

The following schedule summarizes the investment return and its classification in the statements of activities:

	2012	2011
Dividend and Interest	$ 1,397,599	$ 1,572,863
Advisory Fees	(357,471)	(406,776)
Net Realized and Unrealized Gains	26,457	11,129,534
Gain on Assets Held for Investment	1,066,585	12,295,621
Investment Income on Short-Term Investments	180,708	254,163
Total Net Gain on Investments	1,247,293	12,549,784
Investment Gain Designated for Current Operations	202,045	928,038
Investment Gain in Excess of Amount Designated for Current Operations	$ 1,045,248	$ 11,621,746

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2012 and 2011:

	2012	2011
Land	$ 2,998,980	$ 2,998,980
Land Improvements	8,045,103	7,979,140
Buildings and Building Improvements	104,173,426	102,315,154
Equipment	33,933,720	33,623,066
Library Materials	20,030,797	18,960,418
Property, Plant, and Equipment	169,182,026	165,876,758
Less: Accumulated Depreciation	(95,801,571)	(90,419,126)
Property, Plant, and Equipment, Net of Accumulated Depreciation	73,380,455	75,457,632
Construction in Process	34,149,805	7,531,455
Total	$ 107,530,260	$ 82,989,087

Total depreciation expense was $6,954,727 and $7,088,606 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8 RESTRUCTURING COSTS

In 2010, the board of trustees approved the implementation of an early retirement incentive program providing the options of an immediate or phased retirement, one week of pay per year of service and subsidized medical coverage. The program was open to those faculty and staff members who are 55 years of age or older on or before December 31, 2010 and who have completed ten or more years of service. Thirty two employees were approved for the program in late June 2010. The liability represents the present value of the expenses to be paid to or on behalf of these individuals that remain. The long-term portion of the payout was discounted using a rate of 2.5%. The restructuring liability was $730,235 and $1,413,374 at June 30, 2012 and 2011, respectively, and is included in accrued expenses on the accompanying balance sheet.

In 2012, the University offered the Voluntary Early Retirement Incentive Program (VERIP). VERIP was an early retirement incentive program providing the options of an immediate or phased retirement, up to two weeks of pay per year of service, subsidized medical coverage and limited tuition waiver benefits. The program was open to those faculty and staff members who are either 55 years of age or older on or before December 31, 2012 and who have completed ten or more years of service or 60 years of age or older on or before December 31, 2012 and who have completed five or more years of service. Twenty one employees were approved for the program in late May 2012. The liability represents the present value of the expenses to be paid to or on behalf of these individuals up to the next five years. The long-term portion of the payout was discounted using a rate of 1.5%. The restructuring liability was $2,401,168 at June 30, 2012 and is included in accrued expenses on the accompanying balance sheet.

NOTE 9 SPLIT-INTEREST AGREEMENTS

The University has arrangements with donors classified as charitable remainder trusts, perpetual trusts, charitable annuity trusts, and charitable gift annuities. In general, under these arrangements, the University receives a gift from a donor in which it has a remainder interest and agrees to pay the donor-stipulated amounts over the life of the donor. The arrangement may cover one or more lives.

The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as unrestricted, temporarily restricted, or permanently restricted net assets or, in some instances, distributed to third-party beneficiaries.

NOTE 9 SPLIT-INTEREST AGREEMENTS (CONTINUED)

When a split interest gift noted on previous page is received, it is recorded as a partial gift and a partial liability. The liability is calculated based on an actuarial calculation of the present value of future distributions to the donor and the remaining amount of the initial receipts is retained for the benefit of the University or third-party beneficiaries.

The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered, and age and gender characteristics of the donor. The University used an interest rate of 6% at June 30, 2012 and 2011 in making the calculation.

Investments held by the University under split-interest agreements totaled $3,031,485 and $3,792,329 at June 30, 2012 and 2011, respectively.

For charitable remainder trusts for which Hamline is not the trustee the value of the beneficial interest in the remainder trusts is recorded when the trust agreement has been received and there is sufficient information available to value the agreement. The amount recorded is the beneficial interest which is the net expected benefit to be received.

This is determined as the difference between the fair value of the trust assets and the actuarial liability. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered, and age and gender characteristics of the donor. The University used an interest rate of 6% at June 30, 2012 and 2011 in making the calculation.

NOTE 10 LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

Description	2012	2011
MHEFA Revenue Bonds of 2011, Series Seven K2, Bearing Interest at 6%, Payable in Varying Installments to October 1, 2041 (Original Amount of $18,330,000). The proceeds are being used for the construction of the University Center. Interest is payable semiannually on April 1 and October 1 of each year. The principal amounts are delayed until October 1, 2027 . Deposits with the trustees under the bond indenture are pledged as collateral and reported in the statement of financial position as restricted cash. The balance includes $303,904 of bond original issue discount. The bonds are secured by a reserve account in the amount of $2,341,272 at June 30, 2012.	$ 18,026,095	$ 18,026,095
MHEFA Revenue Bonds of 2010, Series Seven E, Bearing Interest at 3% to 5%, Payable in Varying Installments to October 1, 2021 (Original Amount of $14,890,000). The proceeds were used for refunding the Series 5B bonds and refinancing the Harris line of credit. Interest is payable semiannually on April 1 and October 1 of each year. The principal amounts due on or after October 1, 2021 are subject to optional redemption at the discretion of the University commencing October 1, 2020. Deposits with the trustees under the bond indenture are pledged as collateral and reported in the statement of financial position as restricted cash. The balance includes $99,130 and $104,637 of bond premium in 2012 and 2011, respectively. The bonds are secured by a reserve account in the amount of $1,424,883 at June 30, 2012.	14,464,130	14,699,637
MHEFA Revenue Bonds of 2011, Series Seven K1, Bearing Interest at 3.75%, Payable in Varying Installments to October 1, 2019 (Original Amount of $8,810,000). The proceeds are being used for a bridge loan for construction of the University Center. Payments will be made from pledge payments. Interest is payable semiannually on April 1 and October 1 of each year. Deposits with the trustees under the bond indenture are pledged as collateral and reported in the statement of financial position as restricted cash.	8,810,000	8,810,000

NOTE 10 LONG-TERM DEBT (CONTINUED)

Description	2012	2011
MHEFA Bonds of 2005, Series Six E2, Variable Interest Rate Debt reset weekly at the Bond Market Association (BMA) Municipal Swap Index, Interest is payable monthly beginning August 1, 2005 to October 1, 2025 (Original Amount of $8,580,000) The proceeds were used for improvements to various buildings on campus, to refinance a note payable, and acquire property. The Bonds are secured by a Letter of Credit.	6,945,000	7,295,000
MHEFA Bonds of 2005, Series Six E1, Variable Interest Rate Debt reset weekly at the Bond Market Association (BMA) Municipal Swap Index, Interest is payable monthly beginning August 1, 2005 to October 1, 2016 (Original Amount of $9,580,000) The proceeds were used to advance refund a portion of the MHEFA Series Four I. The Bonds are secured by a Letter of Credit. In direct connection with this series, an interest rate swap agreement was entered into for the same term at a fixed rate of 3.4092% annually.	4,665,000	5,500,000
US Bank Private Placement Loan Series Seven L Note, Variable Interest Rate Debt is based on 1.8% plus 1-month LIBOR. Interest is payable monthly beginning March 31, 2011. (Original Amount of $4,000,000) The proceeds are being used for the construction of the University Center. An additional $4,000,000 loan is available when necessary for the construction of the University Center. Deposits with the trustees under the loan are pledged as collateral and reported in the statement of financial position as restricted cash. The note is unsecured.	4,000,000	4,000,000
MHEFA Bonds of 2006, Series Six E3, Variable Interest Rate Debt reset weekly at the Bond Market Association (BMA) Municipal Swap Index, Interest is payable monthly beginning September 1, 2006 to October 1, 2016 (Original Amount of $2,195,000) The proceeds were used to refund a portion of the MHEFA Series Four I. The Bonds are secured by a Letter of Credit.	1,185,000	1,400,000
Note Payable, Dated August, 2006, Bearing Interest at 0%. Payable in annual installments of $50,000 until August 2016. The note is unsecured.	200,000	250,000
Note Payable, Dated June, 2011, Bearing Interest at 0%. Payable in annual installments of $20,000 until May 2021. The note is unsecured.	180,000	200,000
Total	$ 58,475,225	$ 60,180,732

NOTE 10 LONG-TERM DEBT (CONTINUED)

At June 30, 2012, long-term debt in the above table includes a bond premium on the MHEFA Series Seven E revenue bonds in the amount of $99,130 and an original issue discount on the MHEFA Series Seven K1 & K2 revenue bonds of $303,905.

As of June 30, 2012, future debt service requirements (principal payments), excluding impact of bond premium and discount, on all long-term borrowings are summarized as follows:

Year Ending June 30,	Scheduled Payment Amount	Contractual Payment Amount
2013	$ 2,890,000	$ 7,126,667
2014	4,990,000	9,171,667
2015	4,080,000	3,946,666
2016	4,190,000	2,580,000
2017	3,260,000	1,590,000
After 2017	39,270,000	34,265,000
Total Long-Term Debt	$ 58,680,000	$ 58,680,000

Total interest expense on debt was $1,014,364 and $1,040,792 for the years ended June 30, 2012 and 2011, respectively.

The contractual payment column in the schedule above reflects the full value of the Series Six-E revenue bonds to Minnesota Higher Education Funding Authority (MHEFA) as payable by July 7, 2013. These bonds have a letter of credit with Harris Bank, in the amount of $12,839,733, which expires July 7, 2014. The contractual payment arises from accounting standards that require debt obligations, which are subject to a remarketing agreement, secured by the letter of credit containing a reimbursement provision of quarterly interest payments. In the event that the bonds could not be remarketed, the draw on the Letter of Credit would be reimbursed with interest and equal principal installments due quarterly through the termination (expiration) date of the letter of credit. The scheduled payment column in the schedule above reflects the anticipated payment schedule assuming that there are no draws on the letter of credit and the bonds continue to be successfully remarketed.

NOTE 10 LONG-TERM DEBT (CONTINUED)

Interest Rate Swap Agreement

In conjunction with the MHEFA Series Six-E1 bonds, the University entered into an interest rate swap agreement with RBC Dain Rauscher Inc. (the Swap Provider) with the objective to minimize the risks associated with market rate fluctuations. The swap agreement is a cash flow hedge that is deemed to be 100% effective. Pursuant to the terms of the swap agreement (Interest Rate Swap), the University pays the Swap Provider interest at a fixed rate, 3.4092%. The Swap Provider will pay the University interest at a variable rate equal to the Weighted Average Rate (the arithmetic mean of the Bond Market Association (BMA) Index in effect for each day in the calculation period). This Interest Rate Swap has the effect of converting the interest rate on the Bonds from a variable rate to a net fixed rate, or synthetic rate, of 3.4092%. The swap agreement expires on October 1, 2016. As of June 30, 2012, the notional amount of the swap agreement was $4,665,000. At June 30, 2012 and 2011, the fair value of the swap agreement liability was $(327,841) and $(354,067), respectively, and is reported in prepaid expenses and other assets on the balance sheet. The change in value of the swap agreement for the years ended June 30, 2012 and 2011 was $26,226 and $51,038, respectively, and is reported in the statement of activities. The swap agreement is collateralized with a bank account at the Swap Provider. The balance of the collateralized account is $410,000 and $300,000 at June 30, 2012 and 2011, respectively, and is reported as part of Cash and Cash Equivalents on the balance sheet.

NOTE 11 OBLIGATIONS UNDER OPERATING LEASES

The University entered into various lease agreements of which the future commitments are summarized as follows:

Year Ending June 30,	Amount
2013	$ 1,478,838
2014	1,149,367
2015	751,414
2016	764,488
2017	752,524
Total Future Minimum Lease Payments	$ 4,896,631

Rental expense for the years ended June 30, 2012 and 2011 was $1,109,003 and $1,059,760, respectively.

NOTE 12 LINE OF CREDIT

The University has an unsecured line of credit totaling $10,000,000 with a bank. Interest is payable monthly at 1.6% plus the one-month LIBOR rate. Principal is repayable at April 30, 2013, expiration date of the agreement. At June 30, 2012 and 2011, the University had no borrowings under this agreement. The interest rate on this line of credit was 1.84% at June 30, 2012 and 2.69% at June 30, 2011.

The University also has an unsecured revolving line of credit totaling $5,000,000 with another bank. Interest is payable quarterly at 1.0% plus LIBOR. Principal is repayable at July 7, 2014, expiration date of the agreement. At June 30, 2012 and 2011, the University had no borrowings under this agreement.

NOTE 13 ENDOWMENT

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of endowment assets. Under this policy approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve an annualized total return after investment management fees of 5.5% net of inflation. Actual returns in any given year may vary from this amount.

It is the policy of the board to spend 4.5% of the rolling three-year market value of the Endowment assets. At its discretion the board may change the targeted spending rate, in any one year to achieve the strategic objectives of the University. During fiscal 2012 and 2011, the University endowment appropriation designated for current operations was $2,971,488 and $3,088,511, respectively.

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of historical value. Deficiencies of this nature, which are reported in unrestricted net assets, were $2,207,362 and $1,671,029 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriations for certain programs that was deemed prudent by the board of trustees.

Endowment by Net Asset Class

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Donor-Restricted Endowment Funds	$ (2,207,362)	$ 7,144,113	$ 58,501,783	$ 63,438,534
Board-Designated Endowment Funds	10,857,953	-	-	10,857,953
Total Funds	$ 8,650,591	$ 7,144,113	$ 58,501,783	$ 74,296,487

NOTE 13 ENDOWMENT (CONTINUED)

Endowment by Net Asset Class (Continued)

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Donor-Restricted Endowment Funds	$ (1,671,029)	$ 8,250,140	$ 57,327,415	$ 63,906,526
Board-Designated Endowment Funds	11,155,367	-	-	11,155,367
Total Funds	$ 9,484,338	$ 8,250,140	$ 57,327,415	$ 75,061,893

Changes in Endowment Net Assets

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 9,484,338	$ 8,250,140	$ 57,327,415	$ 75,061,893
Investment Return	1,020,990	-	-	1,020,990
Net Appreciation (Depreciation)	1,106,027	(1,106,027)	-	-
Contributions	836	-	1,184,256	1,185,092
Appropriation of Endowment Assets for Expenditure	(2,971,488)	-	-	(2,971,488)
Other	9,888	-	(9,888)	-
Endowment Net Assets, End of Year	$ 8,650,591	$ 7,144,113	$ 58,501,783	$ 74,296,487

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 4,797,834	$ 4,436,665	$ 57,305,863	$ 66,540,362
Investment Return	11,573,990	-	-	11,573,990
Net Appreciation (Depreciation)	(3,813,475)	3,813,475	-	-
Contributions	872	-	1,521,944	1,522,816
Pledge Reclassification	-	-	(1,486,764)	(1,486,764)
Appropriation of Endowment Assets for Expenditure	(3,088,511)	-	-	(3,088,511)
Other	13,628	-	(13,628)	-
Endowment Net Assets, End of Year	$ 9,484,338	$ 8,250,140	$ 57,327,415	$ 75,061,893

NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

The net asset balances consist of the following at June 30:

	2012	2011
Temporarily Restricted:		
Restricted for Programs	$ 6,934,617	$ 6,826,322
Gains on Permanently Restricted Endowment Funds	7,144,113	8,250,140
Gifts Designated for Plant Expenditures	14,950,735	9,013,717
Beneficial Interest in Trust/Planned Gifts	135,575	710,103
Total	$ 29,165,040	$ 24,800,282

	2012	2011
Permanently Restricted:		
Permanent Endowment	$ 58,501,783	$ 57,327,415
Beneficial Interest in Trust/Planned Gifts	2,645,860	3,223,953
Gifts Designated for Student Loans	42,544	42,544
Total	$ 61,190,187	$ 60,593,912

The temporarily restricted net assets released from restrictions of $6,897,955 and $6,976,055 for the years ended June 30, 2012 and 2011, respectively, were from gifts restricted for a particular purpose and from pledges.

NOTE 15 FUNCTIONAL EXPENSES

Expenses reported in the financial statements are classified among program services and supporting activities as follows:

	2012	2011
Program Services	$ 74,159,686	$ 75,177,777
Supporting Activities:		
Management and General	11,016,782	10,163,832
Fundraising	1,949,607	1,937,993
Total	$ 87,126,075	$ 87,279,602

The University allocated interest expense of $1,013,539, depreciation expense of $6,954,727 and facility operation and maintenance expense of $7,108,765 to program and support functions for the year ended June 30, 2012.

The University allocated interest expense of $1,040,792, depreciation expense of $7,088,606 and facility operation and maintenance expense of $6,813,468 to program and support functions for the year ended June 30, 2011.

NOTE 15 FUNCTIONAL EXPENSES (CONTINUED)

Expenses are allocated based on square footage percentages and the best estimates of management.

The University has a policy that allows functional units to expend funds from Board Designated funds. The activity in the funds is as follows:

	2012	2011
Beginning Balance	$ 70,830	$ 83,674
Additions	200,000	375,000
Expense	(270,830)	(387,844)
Ending Balance	$ -	$ 70,830

NOTE 16 RETIREMENT PLAN

The University participates in the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF "the Plan"), which covers certain faculty and staff employees. Nonelective discretionary contributions equal to 5% of eligible compensation and discretionary match contributions up to 2.5% of pretax elective deferrals are required under the program. Benefits are based upon amounts accumulated for the account of each individual employee at date of retirement. Contributions by the University for the Plan were $2,488,947 and $2,350,756 for the years ended June 30, 2012 and 2011, respectively.

NOTE 17 OTHER POSTRETIREMENT BENEFITS

The University provides medical benefits for eligible employees who retire at or beyond age 55 with 10 or more years of service. The Plan is contributory for all retired employees. The University does not pre-fund these costs.

In 2003, the Plan was amended to provide benefits only to those employees retiring on or before June 30, 2008. The University adopted the curtailment methodology of recognizing the financial impact in the year of the change.

	2012	2011
Accumulated Postretirement Benefit Obligation:		
Retirees	$ 1,289,230	$ 1,301,048
Fully Eligible Active Plan Participants	-	-
Accrued Postretirement Benefit Cost Included in Accounts Payable and Accrued Expenses	$ 1,289,230	$ 1,301,048

NOTE 17 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

The amounts recognized in the University's statements of financial position are as follows:

	2012	2011
Service Cost of Benefits Earned During the Period	$ -	$ -
Interest Cost on Accumulated Postretirement Benefit Obligation	73,208	81,758
Amortization of Prior Service Cost	-	-
Amortization of Gain	(19,178)	(12,791)
Net Periodic Postretirement Benefit Cost	$ 54,030	$ 68,967

The discount rate used in determining the accumulated postretirement benefit obligation (APBO) was 5.00% and 6.00% in 2012 and 2011, respectively. The assumed increase in health-care costs used in measuring the APBO was 10% for the first year decreasing to 5% for future years. The health-care cost trend rate assumption has an effect on the amounts reported. For example, a 1% increase in the health-care trend rate would increase the APBO by approximately $1,487 at June 30, 2012 and the net periodic postretirement benefit cost by approximately $77 for fiscal year 2012. A 1% decrease in the health care trend rate would decrease the APBO by approximately $2,409 at June 30, 2012 and the net periodic postretirement benefit cost by approximately $124 for fiscal year 2012.

NOTE 18 RELATED PARTY

Pledges from certain board of trustee members and parents of trustee members are included in the financial statements. The pledges outstanding were $4,586,304 and $5,307,468 for the years ended June 30, 2012 and 2011, respectively.

The University contracts with a board member's firm for construction projects. The University has a conflict of interest policy in place which is updated annually and also performs an independent third party review of these contracts. The expenditures paid were $24,133,270 and $2,465,099 for the years ended June 30, 2012 and 2011, respectively. Accounts payable at June 30, 2012 and 2011 totaled $3,129,691 and $2,411,382, respectively.

NOTE 19 COMMITMENTS AND CONTINGENCIES

The University is subject to certain claims arising out of the ordinary course of business. Although it is not possible to predict the outcome of these claims, management believes they will not have a material effect on the financial condition of the University.

For the years ended June 30, 2012 and 2011, the University had commitments to investment funds in the amount of $3,601,571 and $4,469,204, respectively, funded through reallocation of investments.

NOTE 20 ANDERSON CENTER

The Carol Young Anderson and Dennis L. Anderson Center, located on the prominent corner of Snelling and Englewood, will be the official entrance to campus, opening August, 2012. The Anderson Center will welcome visitors, alumni, parents, and the community, and will create a positive first impression of the university as energetic yet modest, down-to-earth yet ambitious. The University Center will be the anchor gathering place on campus, appropriate for virtual and person-to-person connections, with the amenities of good food, and essential services. Just as Old Main represents Hamline as a revered place of tradition, authenticity, and academic excellence, the Carol Young Anderson and Dennis L. Anderson Center will become a welcoming icon of an innovative, diverse, learning-centered university for generations of students.

During the year ended June 30, 2011, the University entered into a contract for $30,070,897 for the construction of the Anderson Center. At June 30, 2012, $2,500,235 remains to be paid on the contract. Also during 2011, the University issued MHEFA Revenue Bonds Series Seven K1 and K2 and US Bank Private Placement Loan Series Seven L for the construction of the new Anderson Center. Approximately $6,428,000 related to the Series K1 and K2 bonds and Series L loan is considered restricted cash at June 30, 2012. For the years ended June 30, 2012 and 2011, architectural, engineering and construction fees totaling $34,021,710 and $6,662,558, respectively, were capitalized as part of Construction in Progress. Construction period interest in the amount of approximately $1,526,727 and $418,000 was capitalized in 2012 and 2011, respectively.

NOTE 21 SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 3, 2012, the date the financial statements were available to be issued.