

HAMLIN UNIVERSITY OF MINNESOTA
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

**HAMLIN UNIVERSITY OF MINNESOTA
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YEARS ENDED JUNE 30, 2010 AND 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
October 1, 2010



**HAMLIN UNIVERSITY OF MINNESOTA
BALANCE SHEETS
JUNE 30, 2010 AND 2009**

	2010	2009
ASSETS		
Cash and Cash Equivalents	\$ 10,246,965	\$ 8,645,885
Restricted Cash	1,483,197	888,730
Accounts Receivable (Net)	4,259,536	3,712,317
Prepaid Expenses and Other Assets	620,519	693,998
Inventories	223,193	171,125
Contributions Receivable	9,576,477	6,011,887
Student Loans Receivable (Net)	8,208,190	8,310,330
Investments	68,485,355	62,774,057
Property, Plant and Equipment (Net)	77,222,941	79,048,618
Construction in Progress	2,141,965	645,212
Beneficial Interest in Trusts	1,480,707	1,420,537
	\$ 183,949,045	\$ 172,322,696
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 11,767,581	\$ 12,146,214
Deposits and Deferred Revenue	4,365,506	3,842,900
Annuities and Unitrusts Payable	2,183,886	2,160,194
Perkins Loans Refundable to Government	8,721,131	8,619,067
Long-Term Debt	30,845,143	31,201,352
Total Liabilities	57,883,247	57,969,727
Net Assets:		
Unrestricted	48,870,307	46,188,550
Temporarily Restricted	17,194,547	11,663,269
Permanently Restricted	60,000,944	56,501,150
Total Net Assets	126,065,798	114,352,969
Total Liabilities and Net Assets	\$ 183,949,045	\$ 172,322,696

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Tuition and Fees	\$ 94,185,202	\$ -	\$ -	\$ 94,185,202
Less:				
Unfunded Student Aid	24,211,852	-	-	24,211,852
Funded Student Aid	2,325,246	-	-	2,325,246
Net Student Tuition and Fees	<u>67,648,104</u>	<u>-</u>	<u>-</u>	<u>67,648,104</u>
Government Grants	117,496	3,001,354	-	3,118,850
Contributions	2,884,469	5,368,003	4,755,723	13,008,195
Investment Income, Net	1,086,860	2,462,134	(95,711)	3,453,283
Sale and Services of Educational Activities	376,188	259,425	-	635,613
Change in Value of Split-Interest Agreements	-	63,128	909,521	972,649
Other Sources	1,075,937	1,522,989	(2,069,739)	529,187
Auxiliary Enterprises	7,192,294	-	-	7,192,294
Net Assets Released from Restrictions	7,791,466	(7,791,466)	-	-
Total Revenue	<u>88,172,814</u>	<u>4,885,567</u>	<u>3,499,794</u>	<u>96,558,175</u>
EXPENSES				
Instruction	34,303,192	-	-	34,303,192
Academic Support	15,084,822	-	-	15,084,822
Research	288,117	-	-	288,117
Public Service	1,326,486	-	-	1,326,486
Student Services	13,076,179	-	-	13,076,179
Institutional Support	14,001,989	-	-	14,001,989
Auxiliary Enterprises	9,354,759	-	-	9,354,759
Total Expenses	<u>87,435,544</u>	<u>-</u>	<u>-</u>	<u>87,435,544</u>
CHANGE IN OPERATING NET ASSETS	737,270	4,885,567	3,499,794	9,122,631
Endowment Income (Loss)	7,067,798	645,711	-	7,713,509
Appropriation of Endowment Assets for Expenditure	(3,168,576)	-	-	(3,168,576)
Restructuring Costs	(1,684,496)	-	-	(1,684,496)
Board Designated Unrestricted Spending	<u>(270,239)</u>	<u>-</u>	<u>-</u>	<u>(270,239)</u>
CHANGE IN NET ASSETS BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,681,757	5,531,278	3,499,794	11,712,829
Change in Accounting Principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	2,681,757	5,531,278	3,499,794	11,712,829
Net Assets - Beginning of Year	<u>46,188,550</u>	<u>11,663,269</u>	<u>56,501,150</u>	<u>114,352,969</u>
NET ASSETS - END OF YEAR	<u>\$ 48,870,307</u>	<u>\$ 17,194,547</u>	<u>\$ 60,000,944</u>	<u>\$ 126,065,798</u>

See accompanying Notes to Financial Statements.

2009

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 92,068,031	\$ -	\$ -	\$ 92,068,031
22,387,047	-	-	22,387,047
2,417,360	-	-	2,417,360
<u>67,263,624</u>	<u>-</u>	<u>-</u>	<u>67,263,624</u>
133,007	3,275,067	-	3,408,074
1,855,404	2,082,933	1,332,513	5,270,850
1,035,641	2,278,635	(311,814)	3,002,462
396,905	484,885	-	881,790
-	(454,735)	(143,115)	(597,850)
1,017,554	(64,354)	(503,127)	450,073
7,233,617	-	-	7,233,617
7,616,111	(7,616,111)	-	-
<u>86,551,863</u>	<u>(13,680)</u>	<u>374,457</u>	<u>86,912,640</u>
32,869,052	-	-	32,869,052
16,578,851	-	-	16,578,851
198,325	-	-	198,325
1,318,784	-	-	1,318,784
13,031,327	-	-	13,031,327
13,101,376	-	-	13,101,376
9,081,786	-	-	9,081,786
<u>86,179,501</u>	<u>-</u>	<u>-</u>	<u>86,179,501</u>
372,362	(13,680)	374,457	733,139
(14,856,223)	-	-	(14,856,223)
(3,291,122)	-	-	(3,291,122)
-	-	-	-
<u>(383,226)</u>	<u>-</u>	<u>-</u>	<u>(383,226)</u>
(18,158,209)	(13,680)	374,457	(17,797,432)
<u>(4,300,436)</u>	<u>3,790,954</u>	<u>509,482</u>	<u>-</u>
(22,458,645)	3,777,274	883,939	(17,797,432)
68,647,195	7,885,995	55,617,211	132,150,401
<u>\$ 46,188,550</u>	<u>\$ 11,663,269</u>	<u>\$ 56,501,150</u>	<u>\$ 114,352,969</u>

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 11,712,829	\$ (17,797,432)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Loss on Disposal of Assets	6,816,208	6,684,083
Net Realized and Unrealized (Gain) Loss on Investments	(6,409,240)	16,436,547
Contributions Restricted for Long-Term Investment	(6,206,301)	(1,746,805)
Adjustment of Actuarial Liability for Annuities Payable	539,960	312,561
Change in Value of Beneficial Interest in Trusts	(60,170)	687,176
Change in Assets and Liabilities:		
Student Accounts Receivable	(547,219)	(198,247)
Prepaid Expenses and Other Assets	73,479	257,293
Inventories	(52,068)	33,954
Contributions Receivable	(4,692,728)	(413,049)
Student Loans Receivable	102,140	(535,080)
Accounts Payable and Accrued Expenses	(378,633)	2,223,731
Deposits and Deferred Revenue	522,606	881,126
Net Cash Provided by Operating Activities	<u>1,420,863</u>	<u>6,825,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property, Plant, and Equipment	(6,487,283)	(8,388,332)
Purchases of Investments	(27,223,281)	(54,217,371)
Proceeds from Sale of Investments	<u>27,921,221</u>	<u>54,187,308</u>
Net Cash Used by Investing Activities	<u>(5,789,343)</u>	<u>(8,418,395)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	15,000,144	3,600,000
Proceeds from Contributions Restricted for Long-Term Investment	7,334,439	1,549,934
Grants Refundable to Government	102,064	153,584
Payments on Long-Term Debt	(15,356,352)	(1,718,838)
Payments on Annuities Payable	<u>(516,268)</u>	<u>(401,888)</u>
Net Cash Provided by Financing Activities	<u>6,564,027</u>	<u>3,182,792</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,195,547	1,590,255
Cash and Cash Equivalents - Beginning of Year	9,534,615	7,944,360
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,730,162</u>	<u>\$ 9,534,615</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 10,246,965	\$ 8,645,885
Restricted Cash	1,483,197	888,730
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,730,162</u>	<u>\$ 9,534,615</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	<u>\$ 1,091,803</u>	<u>\$ 1,086,885</u>

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hamline University is a nationally ranked comprehensive university serving 5,000 students in its five schools: the college of liberal arts, School of Law, School of Education, School of Business, and Graduate School of Liberal Studies. 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 156 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 276 Phi Beta Kappa institutions in the United States. Among comprehensive regional universities, *U.S. News and World Report* ranks Hamline first in Minnesota, one of the top ten in the Midwest for the past ten consecutive years. The Hamline University School of Law's Alternative Dispute Resolution program is ranked second in the nation by *U.S. News and World Report*.

Hamline is recognized as a diverse, learning-centered university that is rooted in a tradition of liberal arts; 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;
- 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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

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 certain 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 assessed for collectibility and are written off against the related allowance. At June 30, 2010 and 2009, the allowance was \$967,237 and \$762,488, respectively. All accounts, notes, and other receivables are collectible 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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	20-50 Years
Land Improvements	10-20 Years
Building Improvements	20 Years
Equipment	3-20 Years
Library Materials	15 Years

Depreciation expense includes the amortization of capital lease assets.

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 received in advance for the summer term and other University programs to be held substantially after year-end.

Perkins 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification

Effective July 1, 2008, the University adopted 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 of the Topic is a requirement for expanded disclosures about all endowment funds whether or not the organization is subject to UPMIFA.

The State of Minnesota adopted UPMIFA effective August 1, 2008 and accordingly, the University adopted this policy for the year ending June 30, 2009 and reclassified certain net assets to conform with required presentation.

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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 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 3, 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 of 2010, Series Seven E, are fixed rate bonds and carrying value approximates fair value at June 30, 2010 due to the timing of issuance near year end. 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 fair value approximates fair value at June 30, 2010 and 2009.

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

	2010		2009	
	Carry Amount	Fair Value	Carry Amount	Fair Value
Student Loans Receivable	\$ 8,208,190	\$ 8,208,190	\$ 8,310,330	\$ 8,310,330
Contribution Receivable	9,576,477	9,576,477	6,011,887	6,011,887
Long-Term Investments	68,485,355	68,485,355	62,774,057	62,774,057
Beneficial Interest in Trusts	1,480,707	1,480,707	1,420,537	1,420,537
Government Grant Repayable	8,721,131	8,721,131	8,619,067	8,619,067
Notes, Bonds and Mortgages Payable	30,845,143	30,845,143	31,201,352	31,201,352
Annuities and Unitrusts Payable	2,183,886	2,183,886	2,160,194	2,160,194
Interest Rate Swap	405,105	405,105	299,696	299,696

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses

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

Instructional 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.

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 Services 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 14 for more information on allocated expenses.

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expense

Advertising expenses are expensed as incurred. Advertising expense for the years ended June 30, 2010 and 2009 was \$994,828 and \$838,605, 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 2005 through 2009.

Fair Value Measurement

Effective July 1, 2008, the University adopted 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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.

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 2009 amounts in the accompanying financial statement have been classified to conform to the 2010 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, 2010 and 2009, contributions receivable included two significant pledges that represented 37% and 55% of the receivable balance, respectively. Contributions receivable are summarized as follows at June 30:

	2009	2009
Unconditional Promises Expected to be Collected in:		
Less Than One Year	\$ 2,350,896	\$ 1,543,429
One to Five Years	6,528,693	4,782,880
More than Five Years	1,010,394	-
Total Contributions	9,889,983	6,326,309
Allowance	(99,000)	(52,000)
Discount (0.32% and 0.56% for 2010 and 2009, Respectively)	(214,506)	(262,422)
Total Contributions, Net of Discount and Allowance	\$ 9,576,477	\$ 6,011,887

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 INVESTMENTS

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

	Fair Value	
	2010	2009
Bonds	\$ 14,999,156	\$ 10,530,071
Equities	35,176,276	32,897,622
Private Equity, Hedge Funds and Real Assets	17,431,670	18,378,711
Cash and Short-Term Investments	307,535	429,147
Other	570,718	538,506
Total Investments	<u>\$ 68,485,355</u>	<u>\$ 62,774,057</u>

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.

The Alternative Investments within the above portfolio consist of the following at June 30:

	Fair Value	
	2010	2009
Private Equity	\$ 6,304,041	\$ 5,238,580
Hedge Funds	8,927,078	11,479,099
Real Assets	2,200,796	1,661,276
Total Private Equity, Hedge Funds and Real Assets	<u>17,431,915</u>	<u>18,378,955</u>
U.S. Equities	53,976	39,571
Non-U.S. Equities	406,915	538,003
Total Publicly Traded Investments Held in Private Funds	<u>460,891</u>	<u>577,574</u>
Total Alternative Investments	<u>\$ 17,892,805</u>	<u>\$ 18,956,529</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 INVESTMENTS (CONTINUED)

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 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, 2010 and 2009, the amount of pooled funds that include the University's assets was \$15,389,180 and \$18,134,866, 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:

	<u>2010</u>	<u>2009</u>
Pooled Endowment Funds	64,800,047	59,412,281
Split-Interest Agreements	3,520,786	3,202,808
Unrestricted Investments	164,523	158,968
Total Investments	<u>\$ 68,485,355</u>	<u>\$ 62,774,057</u>

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 4 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, 2010:

	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 14,999,156	\$ -	\$ -	\$ 14,999,156
Equities	7,113,052	28,063,224	-	35,176,276
Private Equity, Hedge Funds and Real Assets	-	8,927,078	8,504,592	17,431,670
Cash and Short-Term Investments	189,628	-	-	189,628
Other	83,007	-	-	83,007
Beneficial Interest in Trusts	-	-	1,480,707	1,480,707
Other Assets - Interest Rate Swap	-	(405,105)	-	(405,105)
Total	<u>\$ 22,384,843</u>	<u>\$ 36,585,197</u>	<u>\$ 9,985,299</u>	<u>\$ 68,955,339</u>

Assets measured at fair value on a recurring basis as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 10,530,071	\$ -	\$ -	\$ 10,530,071
Equities	7,664,249	18,134,866	7,098,507	32,897,622
Private Equity, Hedge Funds and Real Assets	-	-	18,378,711	18,378,711
Cash and Short-Term Investments	311,233	-	-	311,233
Other	73,822	-	-	73,822
Beneficial Interest in Trusts	-	-	1,420,537	1,420,537
Other Assets - Interest Rate Swap	-	(299,696)	-	(299,696)
Total	<u>\$ 18,579,375</u>	<u>\$ 17,835,170</u>	<u>\$ 26,897,755</u>	<u>\$ 63,312,300</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2010:

	<u>Equities</u>	<u>Private Equity, Etc.</u>	<u>Beneficial Int.</u>	<u>Total</u>
Balances as of July 1, 2009	\$ 7,098,507	\$ 18,378,711	\$ 1,420,537	\$ 26,897,755
Net Realized and Unrealized				
Gains on Investments	575,537	1,551,258	60,170	2,186,965
Investment Income	-	170,721	-	170,721
Purchases of Investments	5,000,000	876,701	-	5,876,701
Proceeds from Sales of Investments	-	(3,545,754)	-	(3,545,754)
Transfer of Level 2 Assets	(12,674,044)	(8,927,045)	-	(21,601,089)
Balances as of June 30, 2010	<u>\$ -</u>	<u>\$ 8,504,592</u>	<u>\$ 1,480,707</u>	<u>\$ 9,985,299</u>

The following table provides summary of changes in fair value of the University's Level 3 financial assets for the year ended June 30, 2009:

	<u>Equities</u>	<u>Private Equity, Etc.</u>	<u>Beneficial Int.</u>	<u>Total</u>
Balances as of July 1, 2008	\$ -	\$ 22,710,754	\$ 2,107,713	\$ 24,818,467
Net Realized and Unrealized				
Losses on Investments	(1,493)	(5,796,989)	(687,176)	(6,485,658)
Investment Income	-	252,460	-	252,460
Purchases of Investments	7,100,000	1,558,465	-	8,658,465
Proceeds from Sales of Investments	-	(345,979)	-	(345,979)
Balances as of June 30, 2009	<u>\$ 7,098,507</u>	<u>\$ 18,378,711</u>	<u>\$ 1,420,537</u>	<u>\$ 26,897,755</u>

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. The University previously classified certain investments that calculate net asset value per share as a Level 3 fair value measurement, and reclassified these investments as a Level 2 fair value measurement during 2010, resulting in a transfer out of \$21,601,089.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets (Continued)

Fair Value Measurements of Investments in Level 2 that calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2010:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 15,389,180	\$ -	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	8,927,078	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	12,674,044	-	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 5 INVESTMENT INCOME

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

	2010	2009
Dividend and Interest	\$ 1,650,114	\$ 1,403,905
Advisory Fees	(433,217)	(384,464)
Net Realized and Unrealized Losses	6,409,240	(16,436,547)
Gain (Loss) on Assets Held for Investment	7,626,137	(15,417,106)
Investment Income on Short-Term Investments	372,110	272,223
Total Net Gain (Loss) on Investments	7,998,247	(15,144,883)
Investment (Gain) Loss Designated for Current Operations	(284,738)	288,660
Investment Gain (Loss) in Excess of Amount Designated for Current Operations	\$ 7,713,509	\$ (14,856,223)

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2010 and 2009:

	2010	2009
Land	\$ 2,926,280	\$ 2,926,280
Land Improvements	7,964,041	7,877,983
Buildings and Building Improvements	100,346,063	99,336,815
Equipment	35,582,472	33,117,858
Library Materials	17,806,939	16,744,187
Property, Plant, and Equipment	<u>164,625,794</u>	<u>160,003,123</u>
Less: Accumulated Depreciation	<u>(87,402,853)</u>	<u>(80,954,505)</u>
Property, Plant, and Equipment, Net of Accumulated Depreciation	77,222,941	79,048,618
Construction in Process	2,141,965	645,212
Total	<u>\$ 79,364,906</u>	<u>\$ 79,693,830</u>

Total depreciation expense was \$6,812,667 and \$6,517,809 for the years ended June 30, 2010 and 2009, respectively.

NOTE 7 RESTRUCTURING COSTS

On April 21, 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. In addition, several positions across campus were eliminated in an effort to realign expenses with revenues. The liability represents the present value of the expenses to be paid to or on behalf of these individuals over the next two to three years. The long-term portion of the payout was discounted using a rate of 2.5%. As of June 30, 2010, the restructuring liability was \$1,684,496 and is included in accrued expenses on the accompanying balance sheet.

NOTE 8 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 8 SPLIT- INTEREST AGREEMENTS (CONTINUED)

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.

When a split interest gift noted above 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, 2010 and 2009 in making the calculation.

Investments held by the University under split-interest agreements totaled \$3,520,786 and \$3,202,808 at June 30, 2010 and 2009, 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, 2010 and 2009 in making the calculation.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 LONG-TERM DEBT

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

<u>Description</u>	<u>2010</u>	<u>2009</u>
<p>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 \$110,143 of bond premium. The bonds are secured by a reserve account in the amount of \$1,424,883 at June 30, 2010.</p>	\$ 15,000,143	\$ -
<p>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.</p>	7,635,000	7,960,000
<p>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.</p>	6,300,000	7,075,000
<p>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.</p>	1,610,000	1,815,000

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2010</u>	<u>2009</u>
Note Payable, Dated August, 2006, Bearing Interest at 0%. Payable in annual installments of \$50,000 until August 2016. The note is unsecured.	300,000	350,000
Revolving Line of Credit, Dated July 2006 amended August 2010 to \$5,000,000. Expires on July 6, 2013. Interest at LIBOR plus 100 basis points, ranging between 1.51% and 3.00% at June 30, 2010 and 2009, payable quarterly. Credit is unsecured.	-	7,300,000
MHEFA Revenue Bonds of 1999, Series Five B, Bearing Interest at 4.45% to 6%, Payable in Varying Installments to October 1, 2029 (Original Amount of \$7,750,000). The proceeds were used for the construction of an apartment-style student residence building. Interest is payable semiannually on April 1 and October 1 of each year. The principal amounts due on or after October 1, 2010 are subject to early redemption at the option of MHEFA commencing October 1, 2009. The deposit with the trustees under the bond indenture is pledged as collateral and reported in the statement of financial position as restricted cash.	-	6,680,000
Note Payable, Dated December 19, 2005, Bearing Interest at 7.75%, Payable in Monthly Installments of \$1,865 with the final payment due to May 1, 2010 (Original Amount of \$85,385). The note is unsecured and is related to leasehold improvements.	-	21,352
Total	<u>\$ 30,845,143</u>	<u>\$ 31,201,352</u>

Long-term debt in the above table includes a bond premium on the MHEFA Series Seven E revenue bonds in the amount of \$110,143 at June 30, 2010.

As of June 30, 2010, future debt service requirements (principal payments) on all long-term borrowings are summarized as follows:

<u>Year Ending June 30,</u>	<u>Scheduled Payment Amount</u>	<u>Contractual Payment Amount</u>
2011	\$ 1,695,000	\$ 6,174,375
2012	1,680,000	8,052,500
2013	1,735,000	2,228,125
2014	1,800,000	295,000
2015	1,855,000	300,000
After 2015	21,970,000	13,685,000
Total Long-Term Debt	<u>\$ 30,735,000</u>	<u>\$ 30,735,000</u>

Total interest expense on debt was \$1,253,655 and \$1,356,950 for the years ended June 30, 2010 and 2009, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 LONG-TERM DEBT (CONTINUED)

The contractual payment column in the schedule on the prior page reflects the full value of the Series Six-E revenue bonds to Minnesota Higher Education Funding Authority (MHEFA) as payable by July 7, 2012. These bonds have a letter of credit with Harris Bank, in the amount of \$15,605,411, which expires July 7, 2012. 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 on the prior page reflects the anticipated payment schedule assuming that there are no draws on the letter of credit and the bonds continue to be successfully remarketed.

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, 2010, the notional amount of the swap agreement was \$6,300,000. At June 30, 2010 and 2009, the fair value of the swap agreement liability was \$(405,105) and \$(299,696), respectively. The change in value of the swap agreement for the years ended June 30, 2010 and 2009 was \$(105,409) and \$(205,394), respectively.

NOTE 10 OBLIGATIONS UNDER OPERATING LEASES

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 1,125,661
2012	1,081,480
2013	1,101,699
2014	1,047,782
2015	691,104
Total Future Minimum Lease Payments	<u>\$ 5,047,726</u>

Rental expense for the years ended June 30, 2010 and 2009 was \$911,705 and \$698,851, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 11 LINE OF CREDIT

The University has an unsecured line of credit totaling \$10,000,000 with a bank. Interest is payable monthly at 2.5% plus the one-month LIBOR rate. Principal is repayable at April 30, 2011, expiration date of the agreement. At June 30, 2010 and 2009, the University had no borrowings under this agreement. The interest rate on this line of credit was 2.85% at June 30, 2010 and 3.31% at June 30, 2009.

NOTE 12 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 2010 and 2009, the University endowment appropriation designated for current operations was \$3,168,576 and \$3,291,122, 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 \$5,062,639 and \$8,385,957 as of June 30, 2010 and 2009, 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

	2010			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ (5,062,639)	\$ 4,436,665	\$ 57,305,863	\$ 56,679,889
Board-Designated Endowment Funds	9,860,473	-	-	9,860,473
Total Funds	<u>\$ 4,797,834</u>	<u>\$ 4,436,665</u>	<u>\$ 57,305,863</u>	<u>\$ 66,540,362</u>

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 12 ENDOWMENT (CONTINUED)

Endowment by Net Asset Class (Continued)

	2009			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ (8,385,957)	\$ 3,790,954	\$ 54,088,977	\$ 49,493,974
Board-Designated Endowment Funds	9,087,209	-	-	9,087,209
Total Funds	<u>\$ 701,251</u>	<u>\$ 3,790,954</u>	<u>\$ 54,088,977</u>	<u>\$ 58,581,182</u>

Changes in Endowment Net Assets

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 701,251	\$ 3,790,954	\$ 54,088,977	\$ 58,581,182
Investment Return	7,942,168	-	-	7,942,168
Net Appreciation (Depreciation)	(645,711)	645,711	-	-
Contributions	928	-	3,184,660	3,185,588
Appropriation of Endowment Assets for Expenditure	(3,168,576)	-	-	(3,168,576)
Other	(32,226)	-	32,226	-
Endowment Net Assets, End of Year	<u>\$ 4,797,834</u>	<u>\$ 4,436,665</u>	<u>\$ 57,305,863</u>	<u>\$ 66,540,362</u>

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 22,786,639	\$ -	\$ 52,253,737	\$ 75,040,376
Investment Return	(14,493,830)	-	-	(14,493,830)
Contributions	-	-	1,325,758	1,325,758
Appropriation of Endowment Assets for Expenditure	(3,291,122)	-	-	(3,291,122)
Implementation of FSP 117-1	(4,300,436)	3,790,954	509,482	-
Endowment Net Assets, End of Year	<u>\$ 701,251</u>	<u>\$ 3,790,954</u>	<u>\$ 54,088,977</u>	<u>\$ 58,581,182</u>

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 13 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Temporarily Restricted:		
Restricted for Programs	\$ 6,713,551	\$ 6,617,995
Gains on Permanently Restricted Endowment Funds	4,436,665	3,790,954
Gifts Designated for Plant Expenditures	5,574,464	792,477
Beneficial Interest in Trust	469,867	461,843
Total	<u>\$ 17,194,547</u>	<u>\$ 11,663,269</u>
	<u>2010</u>	<u>2009</u>
Permanently Restricted:		
Permanent Endowment	\$ 57,305,863	\$ 54,088,977
Beneficial Interest in Trust	2,652,537	2,369,629
Gifts Designated for Student Loans	42,544	42,544
Total	<u>\$ 60,000,944</u>	<u>\$ 56,501,150</u>

The temporarily restricted net assets released from restrictions of \$7,791,466 and \$7,616,111 for the years ended June 30, 2010 and 2009, respectively, were from gifts restricted for a particular purpose and from pledges.

NOTE 14 FUNCTIONAL EXPENSES

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

	<u>2010</u>	<u>2009</u>
Program Services	\$ 73,433,555	\$ 73,078,121
Supporting Activities:		
Management and General	11,554,273	10,450,036
Fundraising	2,447,716	2,651,344
Total	<u>\$ 87,435,544</u>	<u>\$ 86,179,501</u>

The University allocated interest expense of \$1,253,655, depreciation expense of \$6,812,667 and facility operation and maintenance expense of \$7,116,664 to program and support functions for the year ended June 30, 2010.

The University allocated interest expense of \$1,356,950, depreciation expense of \$6,517,809 and facility operation and maintenance expense of \$6,506,321 to program and support functions for the year ended June 30, 2009.

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 14 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:

	2010	2009
Beginning Balance	<u>\$ 353,913</u>	<u>\$ 737,139</u>
Additions	-	-
Expense	<u>(270,239)</u>	<u>(383,226)</u>
Ending Balance	<u><u>\$ 83,674</u></u>	<u><u>\$ 353,913</u></u>

NOTE 15 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. Prior to November 1, 2009, contributions equal to 10% of eligible employees’ salaries were required under the program. Employee contributions were not allowed by the Plan, but were allowed in the University’s Tax Deferred Annuity Plan.

On August 28, 2009, the board of trustees approved the merger of the defined contribution plan with the Plan. On November 1, 2009, the Hamline University Tax Deferred Annuity Plan merged into the Plan and the Plan’s name changed from Hamline University Defined Contribution Plan to Hamline University 403(b) Retirement Plan (the Plan). Effective November 1, 2009, the Plan was amended to make the employer contribution discretionary and to allow for a discretionary match on pre-tax elective deferrals. Effective November 1 2009, the nonelective discretionary contribution was equal to 5% of eligible compensation and the discretionary match was 2.5% of pretax elective deferrals.

The board of trustees waived the employee salary deferral requirement for the months of November and December 2009 and provided the 2.5% match to all employees eligible to receive the employer discretionary contribution.

As of November 1, 2009, existing participants were immediately vested in the salary deferral contributions and employer contributions plus actual earnings thereon. Effective for participants hired on or after November 1, 2009, the Plan was amended to make vesting in the employer discretionary contribution portion of their accounts, plus actual earnings thereon, based upon years of continuous service. As amended, a participant is fully vested after five years of credited service.

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 \$2,690,932 and \$3,102,347 for the years ended June 30, 2010 and 2009, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 16 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.

	<u>2010</u>	<u>2009</u>
Accumulated Postretirement Benefit Obligation:		
Retirees	\$ 1,449,991	\$ 1,526,175
Fully Eligible Active Plan Participants	-	-
Accrued Postretirement Benefit Cost Included in Accounts Payable and Accrued Expenses	<u>\$ 1,449,991</u>	<u>\$ 1,526,175</u>

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

	<u>2,010</u>	<u>2009</u>
Service Cost of Benefits Earned During the Period	\$ -	\$ -
Interest Cost on Accumulated Postretirement Benefit Obligation	89,512	95,397
Amortization of Prior Service Cost	-	-
Amortization of Gain	(14,615)	(14,386)
Net Periodic Postretirement Benefit Cost	<u>\$ 74,897</u>	<u>\$ 81,011</u>

The discount rate used in determining the accumulated postretirement benefit obligation (APBO) was 6.00% in 2010 and 6.25% in 2009. 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 a significant effect on the amounts reported. For example, a 1% increase in the health-care trend rate would increase the APBO by approximately \$1,770 at June 30, 2010 and the net periodic postretirement benefit cost by approximately \$122 for fiscal year 2010. A 1% decrease in the health care trend rate would decrease the APBO by approximately \$2,325 at June 30, 2010 and the net periodic postretirement benefit cost by approximately \$154 for fiscal year 2010.

NOTE 17 RELATED PARTY

Pledges from certain board of trustee members and parents of trustee members are included in the financial statements. The pledges outstanding were \$6,770,342 and \$4,402,940 for the years ended June 30, 2010 and 2009, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 17 RELATED PARTY (CONTINUED)

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 \$328,744 and \$1,696,228 for the years ended June 30, 2010 and 2009, respectively. Accounts payable at June 30, 2010 and 2009 totaled \$21,704 and \$168,517, respectively.

NOTE 18 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 2010 and 2009, the University had commitments to investment funds in the amount of \$5,567,085 and \$6,703,810, respectively, funded through reallocation of investments.

NOTE 19 SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 1, 2010, the date the financial statements were available to be issued.