

HAMLIN UNIVERSITY OF MINNESOTA
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

**HAMLIN UNIVERSITY OF MINNESOTA
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YEARS ENDED JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hamline University of Minnesota which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Hamline University

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamline University of Minnesota as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 30, 2013

**HAMLIN UNIVERSITY OF MINNESOTA
BALANCE SHEETS
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 9,603,342	\$ 9,974,370
Restricted Cash	7,871,241	11,909,914
Accounts Receivable (Net)	4,655,857	4,512,714
Prepaid Expenses and Other Assets	1,382,048	1,742,931
Inventories	182,071	204,049
Contributions Receivable	7,599,727	7,608,131
Student Loans Receivable (Net)	7,526,909	7,789,936
Investments	84,397,258	77,237,059
Property, Plant and Equipment (Net)	107,474,075	73,380,455
Construction in Progress	305,579	34,149,805
Beneficial Interest in Trusts	1,540,599	1,196,018
	\$ 232,538,706	\$ 229,705,382
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 10,737,518	\$ 16,513,042
Deposits and Deferred Revenue	3,273,268	3,468,629
Annuities and Unitrusts Payable	1,762,703	1,927,288
Perkins Loans Refundable to Government	9,272,053	9,197,936
Long-Term Debt	59,590,571	58,475,225
Total Liabilities	84,636,113	89,582,120
Net Assets:		
Unrestricted	50,026,069	49,768,035
Temporarily Restricted	33,433,083	29,165,040
Permanently Restricted	64,443,441	61,190,187
Total Net Assets	147,902,593	140,123,262
Total Liabilities and Net Assets	\$ 232,538,706	\$ 229,705,382

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Tuition and Fees	\$ 102,917,430	\$ -	\$ -	\$ 102,917,430
Less:				
Unfunded Student Aid	34,145,296	-	-	34,145,296
Funded Student Aid	1,883,642	-	-	1,883,642
Net Student Tuition and Fees	<u>66,888,492</u>	<u>-</u>	<u>-</u>	<u>66,888,492</u>
Government Grants	105,266	2,136,597	-	2,241,863
Contributions	2,270,381	3,434,187	3,316,016	9,020,584
Investment Income, Net	899,119	2,393,324	330,702	3,623,145
Sale and Services of Educational Activities	320,949	201,480	-	522,429
Change in Value of Split-Interest Agreements	-	313,770	251,451	565,221
Other Sources	1,298,818	(437,800)	(644,915)	216,103
Auxiliary Enterprises	8,536,763	-	-	8,536,763
Net Assets Released from Restrictions	7,173,344	(7,173,344)	-	-
Total Revenue	<u>87,493,132</u>	<u>868,214</u>	<u>3,253,254</u>	<u>91,614,600</u>
EXPENSES				
Instruction	33,037,790	-	-	33,037,790
Academic Support	14,928,597	-	-	14,928,597
Research	178,717	-	-	178,717
Public Service	1,429,026	-	-	1,429,026
Student Services	13,775,201	-	-	13,775,201
Institutional Support	14,114,290	-	-	14,114,290
Auxiliary Enterprises	11,329,426	-	-	11,329,426
Total Expenses	<u>88,793,047</u>	<u>-</u>	<u>-</u>	<u>88,793,047</u>
CHANGE IN OPERATING NET ASSETS BEFORE TRANSFERS	(1,299,915)	868,214	3,253,254	2,821,553
Transfers from Designated Unrestricted Net Assets	1,963,811	-	-	1,963,811
CHANGE IN OPERATING NET ASSETS AFTER TRANSFERS	663,896	868,214	3,253,254	4,785,364
Endowment Income (Loss)	5,172,490	3,399,829	-	8,572,319
Appropriation of Endowment Assets for Expenditure	(3,028,651)	-	-	(3,028,651)
Restructuring Costs	(585,890)	-	-	(585,890)
Board Designated Unrestricted Spending	(1,963,811)	-	-	(1,963,811)
CHANGE IN NET ASSETS	258,034	4,268,043	3,253,254	7,779,331
Net Assets - Beginning of Year	49,768,035	29,165,040	61,190,187	140,123,262
NET ASSETS - END OF YEAR	<u>\$ 50,026,069</u>	<u>\$33,433,083</u>	<u>\$64,443,441</u>	<u>\$ 147,902,593</u>

See accompanying Notes to Financial Statements.

2012

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 100,467,638	\$ -	\$ -	\$ 100,467,638
31,188,166	-	-	31,188,166
1,827,471	-	-	1,827,471
67,452,001	-	-	67,452,001
98,313	2,021,517	-	2,119,830
1,786,013	8,638,031	1,177,496	11,601,540
802,668	2,367,500	(184,757)	2,985,411
465,399	354,475	-	819,874
-	(528,895)	105,820	(423,075)
1,333,078	(483,888)	(502,284)	346,906
8,010,408	-	-	8,010,408
6,897,955	(6,897,955)	-	-
86,845,835	5,470,785	596,275	92,912,895
34,102,230	-	-	34,102,230
15,588,271	-	-	15,588,271
189,643	-	-	189,643
1,653,880	-	-	1,653,880
13,092,600	-	-	13,092,600
12,966,389	-	-	12,966,389
9,533,062	-	-	9,533,062
87,126,075	-	-	87,126,075
(280,240)	5,470,785	596,275	5,786,820
-	-	-	-
(280,240)	5,470,785	596,275	5,786,820
2,151,275	(1,106,027)	-	1,045,248
(2,971,488)	-	-	(2,971,488)
(2,360,803)	-	-	(2,360,803)
(270,830)	-	-	(270,830)
(3,732,086)	4,364,758	596,275	1,228,947
53,500,121	24,800,282	60,593,912	138,894,315
<u>\$ 49,768,035</u>	<u>\$29,165,040</u>	<u>\$61,190,187</u>	<u>\$ 140,123,262</u>

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 7,779,331	\$ 1,228,947
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Gain on Disposal of Assets	6,976,234	6,954,727
Net Realized and Unrealized (Gain) Loss on Investments	(8,055,641)	134,042
Contributions Restricted for Long-Term Investment	(4,301,394)	(7,062,374)
Adjustment of Actuarial Liability for Annuities Payable	167,582	356,853
Change in Value of Beneficial Interest in Trusts	(344,581)	533,231
Change in Assets and Liabilities:		
Student Accounts Receivable	(143,143)	(268,932)
Prepaid Expenses and Other Assets	360,883	(146,620)
Inventories	21,978	(35,817)
Contributions Receivable	353,971	1,023,469
Student Loans Receivable	263,027	371,418
Accounts Payable and Accrued Expenses	(5,775,524)	1,533,267
Deposits and Deferred Revenue	(195,361)	(523,016)
Net Cash Provided (Used) by Operating Activities	(2,892,638)	4,099,195
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property, Plant, and Equipment	(7,225,628)	(31,495,902)
Purchases of Investments	(8,073,454)	(18,510,863)
Proceeds from Sale of Investments	8,968,896	21,044,791
Net Cash Used by Investing Activities	(6,330,186)	(28,961,974)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	4,000,000	-
Proceeds from Contributions Restricted for Long-Term Investment	3,955,826	6,848,454
Grants Refundable to Government	74,117	95,977
Payments on Long-Term Debt	(2,884,653)	(1,705,507)
Payments on Annuities Payable	(332,167)	(428,265)
Net Cash Provided by Financing Activities	4,813,123	4,810,659
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,409,701)	(20,052,120)
Cash and Cash Equivalents - Beginning of Year	21,884,284	41,936,404
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 17,474,583	\$ 21,884,284
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 9,603,342	\$ 9,974,370
Restricted Cash	7,871,241	11,909,914
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 17,474,583	\$ 21,884,284
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest (Includes Capitalized Interest Paid of \$253,507 and \$1,570,131 in 2013 and 2012, Respectively)	\$ 2,459,888	\$ 2,422,951

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 159 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 283 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 twelve consecutive years. Hamline is ranked first in Minnesota and fourteenth 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 fourth 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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
- 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accounts Receivable

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 collectability. 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, 2013 and 2012, the allowance was \$667,000 and \$462,000, respectively.

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013. 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, 2013. 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, 2013 and 2012.

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

	2013		2012	
	Carry Amount	Fair Value	Carry Amount	Fair Value
Student Loans Receivable	\$ 7,526,909	\$ 7,526,909	\$ 7,789,936	\$ 7,789,936
Contribution Receivable	7,599,727	7,599,727	7,608,131	7,608,131
Investments	84,397,258	84,397,258	77,237,059	77,237,059
Beneficial Interest in Trusts	1,540,599	1,540,599	1,196,018	1,196,018
Perkins Loans Refundable to Government	9,272,053	9,272,053	9,197,936	9,197,936
Long-Term Debt	59,590,571	62,355,951	58,475,225	62,940,988
Annuities and Unitrusts Payable	1,762,703	1,762,703	1,927,288	1,927,288
Interest Rate Swap	212,849	212,849	327,840	327,840

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013 and 2012 was \$1,454,307 and \$975,734, 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 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 2012 amounts in the accompanying financial statement have been reclassified to conform to the 2013 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, 2013 and 2012, contributions receivable included two significant pledges that represented 38% of the receivable balance in both years. Contributions receivable are summarized as follows at June 30:

	2013	2012
Unconditional Promises Expected to be Collected in:		
Less Than One Year	\$ 3,982,236	\$ 1,367,693
One to Five Years	3,859,046	6,438,923
More than Five Years	30,000	100,000
Total Contributions	7,871,282	7,906,616
Allowance	(99,000)	(99,000)
Discount (0.99% and 1.00% for 2013 and 2012, Respectively)	(172,555)	(199,485)
Total Contributions, Net of Discount and Allowance	\$ 7,599,727	\$ 7,608,131

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, 2013, and 2012 was \$-0-. At June 30, 2013 and 2012, student loans represented 3.2% and 3.4% of total assets, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 3 STUDENT LOANS RECEIVABLE (CONTINUED)

At June 30, student loans consisted of the following:

	<u>2013</u>	<u>2012</u>
Federal Government Programs	\$ 7,513,786	\$ 7,776,179
Institutional Programs	13,123	13,758
Student Loan Receivable, Net	<u>\$ 7,526,909</u>	<u>\$ 7,789,937</u>

Funds advanced by the Federal government of \$9,272,053 and \$9,197,936 at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities in the balance sheet.

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

<u>June 30,</u>	<u>1-60 Days Past Due</u>	<u>60-90 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Past Due</u>
2013	\$ 125,734	\$ 108,472	\$ 1,199,339	\$ 1,433,544
2012	\$ 142,206	\$ 51,846	\$ 1,028,196	\$ 1,222,249

NOTE 4 INVESTMENTS

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

	<u>Fair Value</u>	
	<u>2013</u>	<u>2012</u>
Equities:		
Domestic	\$ 31,694,477	\$ 27,136,174
International	13,036,498	10,939,546
Subtotal Equities	<u>44,730,975</u>	<u>38,075,720</u>
Multi-Faceted Bonds	13,899,960	13,746,219
Private Equity, Hedge Funds and Real Assets	24,666,364	24,484,608
Cash and Short-Term Investments	461,083	318,075
Other	638,876	612,437
Total Investments	<u>\$ 84,397,258</u>	<u>\$ 77,237,059</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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 4 INVESTMENTS (CONTINUED)

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 University's portfolio consist of the following at June 30:

	Fair Value	
	2013	2012
Private Equity	\$ 6,979,777	\$ 7,620,497
Hedge Funds	11,815,708	11,076,487
Real Assets	5,870,879	5,787,624
Total Private Equity, Hedge Funds and Real Assets	24,666,364	24,484,608
U.S. Equities	49,814	39,480
Total Publicly Traded Investments Held in Private Funds	49,814	39,480
Total Alternative Investments	\$ 24,716,178	\$ 24,524,088

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, 2013 and 2012, the amount of pooled funds that include the University's assets was \$29,596,031 and \$25,266,209, respectively.

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 INVESTMENTS (CONTINUED)

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:

	2013	2012
Endowment Funds	\$ 81,424,411	\$ 74,058,462
Split-Interest Agreements	2,831,634	3,031,485
Unrestricted Investments	141,213	147,112
Total Investments	<u>\$ 84,397,258</u>	<u>\$ 77,237,059</u>

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, 2013:

	Level 1	Level 2	Level 3	Total
Investments:				
Bonds - Multifaceted Bonds	\$ 7,539,390	\$ 6,360,570	\$ -	\$ 13,899,960
Equities - Domestic	9,555,983	22,138,494	-	31,694,477
Equities - International	5,578,961	7,457,537	-	13,036,498
Hedge Funds	-	13,560,607	-	13,560,607
Private Equity and Real Assets	-	-	11,105,757	11,105,757
Other	136,572	-	-	136,572
Total Investments	<u>22,810,906</u>	<u>49,517,208</u>	<u>11,105,757</u>	<u>83,433,871</u>
Beneficial Interest in Trusts	-	-	1,540,599	1,540,599
Other Assets - Interest Rate Swap	-	(212,849)	-	(212,849)
Total	<u>\$ 22,810,906</u>	<u>\$ 49,304,359</u>	<u>\$ 12,646,356</u>	<u>\$ 84,761,621</u>

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	<u>20,407,953</u>	<u>44,512,253</u>	<u>11,547,052</u>	<u>76,467,258</u>
Beneficial Interest in Trusts	-	-	1,196,018	1,196,018
Other Assets - Interest Rate Swap	-	(327,840)	-	(327,840)
Total	<u>\$ 20,407,953</u>	<u>\$ 44,184,413</u>	<u>\$ 12,743,070</u>	<u>\$ 77,335,436</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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:

	2013	2012
Total Investments	\$ 84,397,258	\$ 77,237,061
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(461,083)	(318,075)
Cash Surrender Value of Life Insurance Policies	(502,304)	(451,728)
Total Investments Measured at Fair Value on a Recurring Basis	\$ 83,433,871	\$ 76,467,258

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, 2013:

	Private Equity, Etc.	Beneficial Int.	Total
Balances as of July 1, 2012	\$ 11,547,052	\$ 1,196,018	\$ 12,743,070
Net Realized and Unrealized			
Gains on Investments	(82,594)	115,402	32,808
Investment Income	644,774	-	644,774
Purchases of Investments	692,471	229,179	921,650
Proceeds from Sales of Investments	(1,695,946)	-	(1,695,946)
Balances as of June 30, 2013	\$ 11,105,757	\$ 1,540,599	\$ 12,646,356

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	(83,282)	226,947
Investment Income	576,801	-	576,801
Purchases of Investments	1,540,948	145,359	1,686,307
Proceeds from Sales of Investments	(1,144,311)	(595,308)	(1,739,619)
Balances as of June 30, 2012	\$ 11,547,052	\$ 1,196,018	\$ 12,743,070

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets (Continued)

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.

Net Asset Value

Fair Value Measurements of Investments that calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2013:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 25,525,818	\$ -	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	11,815,708	-	Monthly	30 - 90 Days
Funds	12,175,682	-	Annually	75 Days

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

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 INVESTMENT INCOME

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

	2013	2012
Dividend and Interest	\$ 1,288,032	\$ 1,397,599
Advisory Fees	(430,981)	(357,471)
Net Realized and Unrealized Gains	8,056,966	26,457
Gain on Assets Held for Investment	8,914,016	1,066,585
Investment Income on Short-Term Investments	278,808	180,708
Total Net Gain on Investments	9,192,825	1,247,293
Investment Loss Designated for Current Operations	620,506	202,045
Investment Gain in Excess of Amount Designated for Current Operations	\$ 8,572,319	\$ 1,045,248

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2013 and 2012:

	2013	2012
Land	\$ 2,998,980	\$ 2,998,980
Land Improvements	8,212,900	8,045,103
Buildings and Building Improvements	141,037,722	104,173,426
Equipment	37,271,739	33,933,720
Library Materials	20,684,630	20,030,797
Property, Plant, and Equipment	210,205,971	169,182,026
Less: Accumulated Depreciation		
Property, Plant, and Equipment, Net of Accumulated Depreciation	(102,731,896)	(95,801,571)
Subtotal	107,474,075	73,380,455
Construction in Process	305,579	34,149,805
Total	\$ 107,779,654	\$ 107,530,260

Total depreciation expense was \$6,976,234 and \$6,954,727 for the years ended June 30, 2013 and 2012, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 RESTRUCTURING COSTS

In 2013, the University offered a Voluntary Early Retirement Program for the School of Law Faculty. It is comprised of a lump sum payment, up to 2 weeks of pay per year of service, subsidized medical coverage and limited tuition waiver benefits. The program was open for those law faculty who were in a 75% or higher appointment at the time of election of participation in the program, and are either 55 years of age or older on or before June 30, 2013 with at least ten years of completed years of service, or 60 years of age or older with at least five completed years of service. Three employees were approved for this program. An average discount rate of 1.5% was used. The restructuring liability was \$586,000 at June 30, 2013 and is included in accrued expenses on the accompanying balance sheet.

In 2012 and 2010, the University offered voluntary early retirement incentive programs. Both programs provided the options of an immediate or phased retirement, and offered pay per years of service and subsidized medical coverage. The programs were open to those faculty and staff members who met certain age limits and certain years of service requirements. The liabilities represent the present value of the remaining expenses to be paid to or on behalf of these individuals approved for the programs. The long-term portion of the payout was discounted using a rate of 1.5% for 2012 and 2.5% for 2010. The restructuring liability was \$852,078 and \$2,401,168 at June 30, 2013 and 2012, respectively, for 2012. The restructuring liability was \$465,032 and \$730,235 at June 30, 2013 and 2012, respectively, for 2010. The liabilities for both programs are 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 9 SPLIT-INTEREST AGREEMENTS (CONTINUED)

When a split interest gift noted on the 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, 2013 and 2012 in making the calculation.

Investments held by the University under split-interest agreements totaled \$2,831,634 and \$3,031,485 at June 30, 2013 and 2012, 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, 2013 and 2012 in making the calculation.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LONG-TERM DEBT

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

<u>Description</u>	<u>2013</u>	<u>2012</u>
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 were 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 \$293,051 of bond original issue discount. The bonds are secured by a reserve account in the amount of \$2,360,524 at June 30, 2013.	\$ 18,036,949	\$ 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 \$93,622 of bond premium in 2013. The bonds are secured by a reserve account in the amount of \$1,424,883 at June 30, 2013.	14,223,622	14,464,130
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 were 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.	7,675,000	8,810,000

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2013</u>	<u>2012</u>
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.	6,585,000	6,945,000
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.	3,800,000	4,665,000
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. The original amount of the loan was \$4,000,000 in 2012. The proceeds were used for the construction of the University Center. An additional \$4,000,000 loan and was drawn in July 2012. 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.	8,000,000	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.	960,000	1,185,000
Note Payable, Dated August, 2006, Bearing Interest at 0%. Payable in annual installments of \$50,000 until August 2016. The note is unsecured.	150,000	200,000
Note Payable, Dated June, 2011, Bearing Interest at 0%. Payable in annual installments of \$20,000 until May 2021. The note is unsecured.	160,000	180,000
Total	<u>\$ 59,590,571</u>	<u>\$ 58,475,225</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LONG-TERM DEBT (CONTINUED)

At June 30, 2013, long-term debt in the above table includes a bond premium on the MHEFA Series Seven E revenue bonds in the amount of \$93,622 and an original issue discount on the MHEFA Series Seven K1 and K2 revenue bonds of \$293,051.

As of June 30, 2013, future debt service requirements (principal payments), excluding impact of bond premium and discount, 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>
2014	\$ 4,990,000	\$ 13,231,667
2015	4,080,000	4,123,333
2016	4,190,000	2,580,000
2017	4,010,000	2,340,000
2018	4,365,000	3,885,000
After 2018	38,155,000	33,630,000
Total Long-Term Debt	<u>\$ 59,790,000</u>	<u>\$ 59,790,000</u>

Total interest expense on debt was \$2,142,811 and \$1,014,364 for the years ended June 30, 2013 and 2012, 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 \$11,381,438, which expires July 7, 2015. 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013, the notional amount of the swap agreement was \$3,800,000. At June 30, 2013 and 2012, the fair value of the swap agreement liability was \$(212,849) and \$(327,841), 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, 2013 and 2012 was \$114,991 and \$26,226, respectively, and is reported in the statements of activities. The swap agreement is collateralized with a bank account at the Swap Provider. The balance of the collateralized account is \$300,000 and \$410,000 at June 30, 2013 and 2012, respectively, and is reported as part of Cash and Cash Equivalents on the balance sheets.

NOTE 11 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>
2014	\$ 1,156,477
2015	750,904
2016	766,288
2017	754,324
2018	738,761
Total Future Minimum Lease Payments	<u>\$ 4,166,754</u>

Rental expense for the years ended June 30, 2013 and 2012 was \$1,558,600 and \$1,485,441, respectively. Included in those amounts was \$1,028,899 and \$961,748 of rental expense for office space for the years ended June 30, 2013 and 2012, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 on April 30, 2014, which is the expiration date of the agreement. At June 30, 2013 and 2012, the University had no borrowings under this agreement. The interest rate on this line of credit was 2.01% at June 30, 2013 and 1.84% at June 30, 2012.

The University also has an unsecured revolving line of credit totaling \$3,000,000 with another bank. Interest is payable quarterly at 1.0% plus LIBOR. Principal is repayable on July 6, 2014, which is the expiration date of the agreement. At June 30, 2013 and 2012, 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 2013 and 2012, the University endowment appropriation designated for current operations was \$3,028,651 and \$2,971,488, 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 \$940,059 and \$2,207,362 as of June 30, 2013 and 2012, 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 13 ENDOWMENT (CONTINUED)

Endowment by Net Asset Class

	2013			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ (940,059)	\$ 10,543,942	\$ 61,802,572	\$ 71,406,455
Board-Designated Endowment Funds	11,623,116	-	-	11,623,116
Total Funds	<u>\$ 10,683,057</u>	<u>\$ 10,543,942</u>	<u>\$ 61,802,572</u>	<u>\$ 83,029,571</u>

	2012			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 8,650,591</u>	<u>\$ 7,144,113</u>	<u>\$ 58,501,783</u>	<u>\$ 74,296,487</u>

Changes in Endowment Net Assets

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 8,650,591	\$ 7,144,113	\$ 58,501,783	\$ 74,296,487
Investment Return	8,458,653	-	-	8,458,653
Net Appreciation (Depreciation)	(3,399,829)	3,399,829	-	-
Contributions	842	-	3,302,240	3,303,082
Appropriation of Endowment Assets for Expenditure	(3,028,651)	-	-	(3,028,651)
Other	1,451	-	(1,451)	-
Endowment Net Assets, End of Year	<u>\$ 10,683,057</u>	<u>\$ 10,543,942</u>	<u>\$ 61,802,572</u>	<u>\$ 83,029,571</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 13 ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets (Continued)

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 8,650,591</u>	<u>\$ 7,144,113</u>	<u>\$ 58,501,783</u>	<u>\$ 74,296,487</u>

NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2013	2012
Temporarily Restricted:		
Restricted for Programs	\$ 6,350,120	\$ 6,934,617
Gains on Permanently Restricted Endowment Funds	10,543,942	7,144,113
Gifts Designated for Plant Expenditures	16,163,392	14,950,735
Beneficial Interest in Trust	375,629	135,575
Total	<u>\$ 33,433,083</u>	<u>\$ 29,165,040</u>
Permanently Restricted:		
Permanent Endowment	\$ 61,802,572	\$ 58,501,783
Beneficial Interest in Trust	2,598,325	2,645,860
Gifts Designated for Student Loans	42,544	42,544
Total	<u>\$ 64,443,441</u>	<u>\$ 61,190,187</u>

The temporarily restricted net assets released from restrictions of \$7,173,344 and \$6,897,955 for the years ended June 30, 2013 and 2012, respectively, were from gifts restricted for a particular purpose and from pledges.

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 15 FUNCTIONAL EXPENSES

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

	2013	2012
Program Services	\$ 74,678,757	\$ 74,159,686
Supporting Activities:		
Management and General	12,144,862	11,016,782
Fundraising	1,969,428	1,949,607
Total	\$ 88,793,047	\$ 87,126,075

The University allocated interest expense of \$2,142,811, depreciation expense of \$6,976,234 and facility operation and maintenance expense of \$7,498,514 to program and support functions for the year ended June 30, 2013.

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.

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:

	2013	2012
Beginning Balance	\$ -	\$ 70,830
Additions	1,963,811	200,000
Expense	(1,963,811)	(270,830)
Ending Balance	\$ -	\$ -

The unrestricted net asset activity reported in the financial statements for June 30, 2013 reflects the Board-approved financial restructuring plan to reduce capital spending through a transfer to operating activities.

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. Non-elective 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 \$2,392,465 and \$2,488,947 for the years ended June 30, 2013 and 2012, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
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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.

	2013	2012
Accumulated Postretirement Benefit Obligation:		
Retirees	\$ 1,273,095	\$ 1,289,230
Fully Eligible Active Plan Participants	-	-
Accrued Postretirement Benefit Cost Included in Accounts Payable and Accrued Expenses	\$ 1,273,095	\$ 1,289,230

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

	2013	2012
Service Cost of Benefits Earned During the Period	\$ -	\$ -
Interest Cost on Accumulated Postretirement Benefit Obligation	60,588	73,208
Amortization of Prior Service Cost	-	-
Amortization of Gain	(11,067)	(19,178)
Net Periodic Postretirement Benefit Cost	\$ 49,521	\$ 54,030

The discount rate used in determining the accumulated postretirement benefit obligation (APBO) was 4.00% and 5.00% in 2013 and 2012, 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.

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 \$5,709,241 and \$4,586,304 for the years ended June 30, 2013 and 2012, 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 \$4,083,324 and \$24,133,270 for the years ended June 30, 2013 and 2012, respectively. Accounts payable at June 30, 2013 and 2012 totaled \$-0- and \$3,129,691, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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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, 2013 and 2012, the University had commitments to investment funds in the amount of \$2,844,964 and \$3,537,435, 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, is the official entrance to campus, and opened August, 2012. The Anderson Center welcomes visitors, alumni, parents, and the community, and creates a positive first impression of the University as energetic yet modest, down-to-earth yet ambitious. The University Center is 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 is 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, 2013, \$-0- 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 \$2,447,000 related to the Series K1 and K2 bonds and Series L loan is considered restricted cash at June 30, 2013. For the years ended June 30, 2013 and 2012, architectural, engineering and construction fees totaling \$-0- and \$34,021,710, respectively, were capitalized as part of Construction in Progress. Construction period interest in the amount of approximately \$253,507 and \$1,526,727 was capitalized in 2013 and 2012, respectively.

NOTE 21 SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through September 30, 2013, the date the financial statements were available to be issued.