

HAMLIN UNIVERSITY OF MINNESOTA
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

**HAMLIN UNIVERSITY OF MINNESOTA
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YEARS ENDED JUNE 30, 2016 AND 2015**

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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, 2016 and 2015, 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 of Minnesota

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, 2016 and 2015, 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
October 5, 2016

**HAMLIN UNIVERSITY OF MINNESOTA
BALANCE SHEETS
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 2,086,654	\$ 5,877,340
Restricted Cash	3,947,683	4,955,290
Accounts Receivable (Net)	5,719,908	5,286,664
Prepaid Expenses and Other Assets	1,262,386	1,232,685
Contributions Receivable	1,257,865	1,635,172
Student Loans Receivable (Net)	6,688,404	6,986,798
Assets Related to Discontinued Operations	-	8,866,462
Investments	83,009,251	91,902,504
Property, Plant and Equipment (Net)	94,338,937	95,722,617
Construction in Progress	140,396	94,815
Beneficial Interest in Trusts	1,621,860	1,694,557
	\$ 200,073,344	\$ 224,254,904
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 7,042,098	\$ 5,847,664
Deposits and Deferred Revenue	3,615,980	3,611,310
Annuities and Unitrusts Payable	1,492,424	1,609,644
Liabilities Related to Discontinued Operations	-	2,167,141
Perkins Loans Refundable to Government	7,001,972	9,185,392
Long-Term Debt	45,811,001	49,888,859
Total Liabilities	64,963,475	72,310,010
Net Assets:		
Unrestricted	38,618,697	44,569,858
Temporarily Restricted	31,913,906	40,017,256
Permanently Restricted	64,577,266	67,357,780
Total Net Assets	135,109,869	151,944,894
Total Liabilities and Net Assets	\$ 200,073,344	\$ 224,254,904

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Tuition and Fees	\$ 95,558,728	\$ -	\$ -	\$ 95,558,728
Less:				
Unfunded Student Aid	35,232,402	-	-	35,232,402
Funded Student Aid	2,124,887	-	-	2,124,887
Net Student Tuition and Fees	<u>58,201,439</u>	<u>-</u>	<u>-</u>	<u>58,201,439</u>
Government Grants	2,893,086	-	-	2,893,086
Contributions	1,290,496	1,971,216	873,246	4,134,958
Investment Income, Net	1,165,967	3,390,758	(147,780)	4,408,945
Sale and Services of Educational Activities	136,023	451,554	-	587,577
Change in Value of Split-Interest Agreements	-	(32,450)	89,559	57,109
Other Sources	1,260,190	(784,633)	(170,854)	304,703
Auxiliary Enterprises	9,330,441	-	-	9,330,441
Net Assets Released from Restrictions	5,417,903	(5,417,903)	-	-
Total Revenue	<u>79,695,545</u>	<u>(421,458)</u>	<u>644,171</u>	<u>79,918,258</u>
EXPENSES				
Instruction	27,728,639	-	-	27,728,639
Academic Support	12,203,159	-	-	12,203,159
Research	146,812	-	-	146,812
Public Service	1,395,448	-	-	1,395,448
Student Services	13,778,424	-	-	13,778,424
Institutional Support	14,734,097	-	-	14,734,097
Auxiliary Enterprises	11,496,734	-	-	11,496,734
Total Expenses	<u>81,483,313</u>	<u>-</u>	<u>-</u>	<u>81,483,313</u>
CHANGE IN OPERATING NET ASSETS BEFORE TRANSFERS	(1,787,768)	(421,458)	644,171	(1,565,055)
Transfers from Designated Unrestricted Net Assets	1,400,000	-	-	1,400,000
CHANGE IN OPERATING NET ASSETS AFTER TRANSFERS	(387,768)	(421,458)	644,171	(165,055)
Endowment Income (Loss)	2,176,430	(6,773,386)	-	(4,596,956)
Appropriation of Endowment Assets for Expenditure	(4,261,584)	-	-	(4,261,584)
Combination/Discontinued Operations	(1,974,655)	(84,000)	(105,000)	(2,163,655)
Fund Transfer to Another Organization	(71,162)	(819,256)	(3,319,685)	(4,210,103)
Restructuring, Collective Bargaining, and Other	15,699	(5,250)	-	10,449
Board Designated Unrestricted Spending	(1,448,121)	-	-	(1,448,121)
Pledge Adjustment	-	-	-	-
CHANGE IN NET ASSETS	(5,951,161)	(8,103,350)	(2,780,514)	(16,835,025)
Net Assets - Beginning of Year	44,569,858	40,017,256	67,357,780	151,944,894
NET ASSETS - END OF YEAR	<u>\$ 38,618,697</u>	<u>\$ 31,913,906</u>	<u>\$ 64,577,266</u>	<u>\$ 135,109,869</u>

See accompanying Notes to Financial Statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 93,508,201	\$ -	\$ -	\$ 93,508,201
34,474,291	-	-	34,474,291
1,986,403	-	-	1,986,403
<u>57,047,507</u>	<u>-</u>	<u>-</u>	<u>57,047,507</u>
2,768,113	-	-	2,768,113
1,407,602	1,754,484	1,160,860	4,322,946
1,367,330	3,235,791	(85,655)	4,517,466
252,805	519,085	-	771,890
-	51,454	105,986	157,440
1,283,948	(882,900)	(234,566)	166,482
9,201,933	-	-	9,201,933
4,786,928	(4,786,928)	-	-
<u>78,116,166</u>	<u>(109,014)</u>	<u>946,625</u>	<u>78,953,777</u>
27,679,471	-	-	27,679,471
13,215,475	-	-	13,215,475
147,476	-	-	147,476
1,068,951	-	-	1,068,951
13,502,149	-	-	13,502,149
13,602,009	-	-	13,602,009
11,098,432	-	-	11,098,432
<u>80,313,963</u>	<u>-</u>	<u>-</u>	<u>80,313,963</u>
(2,197,797)	(109,014)	946,625	(1,360,186)
<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>1,800,000</u>
(397,797)	(109,014)	946,625	439,814
3,838,414	(675,400)	-	3,163,014
(3,958,730)	-	-	(3,958,730)
(921,561)	-	-	(921,561)
-	(148,160)	-	(148,160)
(480,604)	-	-	(480,604)
(2,143,069)	-	-	(2,143,069)
<u>-</u>	<u>-</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
(4,063,347)	(932,574)	(53,375)	(5,049,296)
<u>48,633,205</u>	<u>40,949,830</u>	<u>67,411,155</u>	<u>156,994,190</u>
<u>\$ 44,569,858</u>	<u>\$ 40,017,256</u>	<u>\$ 67,357,780</u>	<u>\$ 151,944,894</u>

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (16,835,025)	\$ (5,049,296)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Loss on Disposal of Assets	6,124,028	6,248,785
Net Realized and Unrealized (Gain) Loss on Investments	6,524,286	(1,624,920)
Contributions Restricted for Long-Term Investment	(902,683)	(319,741)
Adjustment of Actuarial Liability for Annuities Payable	195,155	182,345
Change in Value of Beneficial Interest in Trusts	72,697	(17,408)
(Increase) Decrease in Assets:		
Accounts Receivable	(433,244)	(992,159)
Prepaid Expenses and Other Assets	7,095	(1,328)
Contributions Receivable	117,892	2,509,767
Student Loans Receivable	298,394	243,246
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	1,194,434	(396,856)
Deposits and Deferred Revenue	4,670	138,152
Net Cash Provided (Used) by Operating Activities from Continuing Operations	(3,632,301)	920,587
Net Cash Provided by Operating Activities from Discontinued Operations	6,699,321	1,070,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property, Plant, and Equipment	(4,785,929)	(2,859,806)
Purchases of Investments	(14,918,521)	(29,185,560)
Proceeds from Sale of Investments	13,676,540	30,327,963
Net Cash Used by Investing Activities from Continuing Operations	(6,027,910)	(1,717,403)
Net Cash Provided (Used) by Investing Activities from Discontinued Operations	3,610,946	(267,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Long-Term Investment	1,162,099	413,872
Grants Refundable to Government	(2,183,420)	(13,383)
Payments on Long-Term Debt	(4,114,653)	(4,004,653)
Payments on Annuities Payable	(312,375)	(316,209)
Net Cash Used by Financing Activities from Continuing Operations	(5,448,349)	(3,920,373)
Net Cash Used by Financing Activities from Discontinued Operations	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,798,293)	(3,913,564)
Cash and Cash Equivalents - Beginning of Year	10,832,630	14,746,194
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,034,337	\$ 10,832,630
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 2,086,654	\$ 5,877,340
Restricted Cash	3,947,683	4,955,290
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,034,337	\$ 10,832,630
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 2,166,194	\$ 2,274,128

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hamline University of Minnesota (University) is a nationally ranked university serving 4,500 students in its three schools: the College of Liberal Arts, School of Education, and School of Business. The School of Law operated through December 2015 after which it was combined with William Mitchell School of Law to become Mitchell Hamline School of Law. See Note 19.

The University offers undergraduate, masters, doctorate and professional degrees, as well as certificate and continuing studies programs. Founded in 1854, Hamline University of Minnesota was the first institution of higher learning in Minnesota.

During the past 162 years, the University has established a national reputation for academic quality, as well as providing students with personal attention and exceptional experiences. It 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 fifteen consecutive years. Hamline is ranked first in Minnesota and twenty-second in the nation by *Washington Monthly's* College Rankings of service-oriented schools. The Princeton Review named Hamline among the 2016 Best Colleges: Region by Region. Forbes.com ranks Hamline University of Minnesota 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 St. 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, 2016 AND 2015**

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, 2016 AND 2015

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, 2016 and 2015, the allowance was \$590,513 and \$579,691 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.

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification

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

The University's endowment consists of over 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, 2016 AND 2015

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, 2016 AND 2015**

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, 2016 and 2015 was \$1,001,194 and \$1,116,571, 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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.

Changes in Non Operating Net Assets

Certain items are listed below the Change in Operating Net Assets after Transfers and before the Change in Net Assets. These items have been deemed nonoperating, extraordinary or unusual transactions and thus are not considered part of the change in operating net assets. The transactions include the endowment income, the distribution from the endowment, expenses from designated funds, and other non recurring transactions.

Reclassifications

Certain 2015 amounts in the accompanying financial statement have been reclassified to conform to the 2016 presentation. Specifically, government grants were reclassified in 2015 and 2016 from Temporarily Restricted Net Assets to Unrestricted Net Assets. This has no impact on total net assets; it only impacts the classification. Any other reclassifications had no impact on net assets or the change in net assets.

NOTE 2 CONTRIBUTIONS RECEIVABLE

For the years ended June 30, 2016 and 2015, contributions receivable included one significant pledge that represented 36% and 24% of the receivable balance, respectively. Contributions receivable are summarized as follows at June 30:

	2016	2015
Unconditional Promises Expected to be Collected in:		
Less Than One Year	\$ 1,112,321	\$ 846,656
One to Five Years	259,859	920,275
Total Contributions	1,372,180	1,766,931
Allowance	(99,000)	(99,000)
Discount (1.00% and 1.00% for 2016 and 2015, Respectively)	(15,315)	(32,759)
Total Contributions, Net of Discount and Allowance	\$ 1,257,865	\$ 1,635,172

Discontinued operations contribution receivable balances of \$-0- and \$332,756 as of June 30, 2016 and 2015, respectively, is not included above and is reflected in Assets Related to Discontinued Operations. In 2015 an endowment pledge was adjusted downward. The adjustment is reflected above.

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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. Perkins loans are assignable to the Federal Government when proper due diligence procedures are performed. At June 30, 2016 and 2015, student loans represented 3.4% and 3.1% of total assets, respectively.

At June 30, student loans consisted of the following:

	2016	2015
Federal Government Programs	\$ 6,680,581	\$ 6,977,589
Institutional Programs	7,823	9,209
Student Loan Receivable, Net	<u>\$ 6,688,404</u>	<u>\$ 6,986,798</u>

Funds advanced by the Federal government of \$7,000,686 and \$9,184,106 at June 30, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as liabilities in the balance sheet. During 2016, the University returned excess cash on hand to the federal government and returned a proportional University-contributed amount to the University's operational cash accounts.

At June 30, 2016 and 2015, the following amounts were past due under student loan programs:

June 30	1-60 days past due	60-90 days past due	90+ days past due	Total past due
2016	\$ 1,186	\$ 5,062	\$ 1,309,423	\$ 1,315,671
2015	6,603	3,703	1,498,411	1,508,717

NOTE 4 INVESTMENTS

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

	Fair Value	
	2016	2015
Equities:		
Domestic	\$ 35,258,664	\$ 40,766,999
International	13,910,300	17,494,562
Subtotal Equities	<u>49,168,964</u>	<u>58,261,561</u>
Multifaceted Bonds	13,360,871	13,879,596
Private Equity, Hedge Funds and Real Assets	19,540,430	22,735,185
Cash and Short-Term Investments	333,415	342,287
Other	605,571	610,972
Total Investments	<u>83,009,251</u>	<u>95,829,601</u>
Less Investments in Discontinued Operations	-	(3,927,097)
Total Investments in Continuing Operations	<u>\$ 83,009,251</u>	<u>\$ 91,902,504</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 INVESTMENTS (CONTINUED)

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

	Fair Value	
	2016	2015
Private Equity	\$ 4,189,012	\$ 5,431,697
Hedge Funds	11,279,225	12,171,992
Real Assets	4,072,193	5,131,496
Total Alternative Investments	<u>\$ 19,540,430</u>	<u>\$ 22,735,185</u>

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.

A certain portion of the U.S. Equities and Non U.S. Equities are in pooled funds. At June 30, 2016 and 2015, the amount of pooled funds that include the University's assets was \$34,398,747 and \$38,185,839, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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:

	2016	2015
Endowment Funds	\$ 80,598,769	\$ 89,108,506
Split-Interest Agreements	2,216,925	2,645,136
Unrestricted Investments	193,557	148,862
Total Investments	<u>\$ 83,009,251</u>	<u>\$ 91,902,504</u>

Discontinued operations endowment balances of \$-0- and \$3,927,097 as of June 30, 2016 and 2015, respectively, are not included above and are reflected in Assets Related to Discontinued Operations.

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.

In 2016, the University adopted ASU No. 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share expedient. This has been applied retrospectively.

Assets measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	No Level	Total
Investments:					
Fixed Income - Multifaceted Bonds	\$ 616,290	\$ -	\$ -	\$ -	\$ 616,290
Fixed Income Collective Funds Measured at Net Asset Value	-	-	-	12,744,581	12,744,581
Equities - Domestic	7,914,445	-	-	-	7,914,445
Equity Collective Funds Measured at Net Asset Value	-	-	-	28,784,290	28,784,290
Equity Long/Short Fund of Funds Measured at Net Asset Value	-	-	-	13,745,575	13,745,575
Liquid Alternative Investments Measured at Net Asset Value	-	-	-	11,279,225	11,279,225
Alternative Strategies in Illiquid Structures Measured at Net Asset Value	-	-	-	6,985,858	6,985,858
Other	134,763	-	-	-	134,763
Total Investments	<u>8,665,498</u>	<u>-</u>	<u>-</u>	<u>73,539,529</u>	<u>82,205,027</u>
Beneficial Interest in Trusts	-	-	1,621,860	-	1,621,860
Other Assets - Interest Rate Swap	-	(10,004)	-	-	(10,004)
Total	<u>\$ 8,665,498</u>	<u>\$ (10,004)</u>	<u>\$ 1,621,860</u>	<u>\$ 73,539,529</u>	<u>\$ 83,816,883</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	No Level	Total
Investments:					
Fixed Income - Multifaceted Bonds	\$ 783,423	\$ -	\$ -	\$ -	\$ 783,423
Funds measured at					
Net Asset Value	-	-	-	13,096,173	13,096,173
Equities - Domestic	10,987,485	-	-	-	10,987,485
Equity Collective Funds Measured at Net					
Asset Value	-	-	-	33,157,254	33,157,254
Equity Long/Short Fund of Funds Measured					
at Net Asset Value	-	-	-	15,628,025	15,628,025
Liquid Alternative Investments Measured					
at Net Asset Value	-	-	-	12,171,992	12,171,992
Alternative Strategies in Illiquid Structures					
Measured at Net Asset Value	-	-	-	9,051,990	9,051,990
Other	123,166	-	-	-	123,166
Total Investments	11,894,074	-	-	83,105,434	94,999,508
Less Investments in Discontinued					
Operations	-	-	-	-	(3,927,097)
Total Investments in Continuing					
Operations	11,894,074	-	-	83,105,434	91,072,411
Beneficial Interest in Trusts	-	-	1,694,557	-	1,694,557
Other Assets - Interest Rate Swap	-	(53,575)	-	-	(53,575)
Total	<u>\$ 11,894,074</u>	<u>\$ (53,575)</u>	<u>\$ 1,694,557</u>	<u>\$ 83,105,434</u>	<u>\$ 92,713,393</u>

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

	2016	2015
Total Investments	\$ 83,009,251	\$ 91,902,504
Investments Not Measured at Fair Value on a		
Recurring Basis:		
Cash and Cash Equivalents	(333,415)	(342,287)
Cash Surrender Value of Life Insurance Policies	(470,809)	(487,806)
Total Investments Measured at Fair Value on a		
Recurring Basis	<u>\$ 82,205,027</u>	<u>\$ 91,072,411</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 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, 2016:

	<u>Beneficial Int.</u>
Balances - July 1, 2015	\$ 1,694,557
Net Realized and Unrealized	
Losses on Investments	(72,697)
Investment Income	-
Purchases of Investments	-
Proceeds from Sales of Investments	-
	<hr/>
Balances - June 30, 2016	<u>\$ 1,621,860</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, 2015:

	<u>Beneficial Int.</u>
Balances - July 1, 2014	\$ 1,677,149
Net Realized and Unrealized	
Gains on Investments	17,408
Investment Income	-
Purchases of Investments	-
Proceeds from Sales of Investments	-
	<hr/>
Balances - June 30, 2015	<u>\$ 1,694,557</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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Net Asset Value

Fair Value Measurements of Investments that calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2016:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 28,784,290	\$ -	Monthly/Annually	2 - 60 Days
Fixed Income Collective Funds	12,744,581	-	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	11,279,225	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	13,745,575	-	Annually	75 Days
Private Equity	4,189,012	483,250	Not Available	Not Available
Real Estate Funds	2,796,846	1,687,790	Not Available	Not Available

Fair Value Measurements of Investments that calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2015:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 33,157,254	\$ -	Monthly/Annually	2 - 60 Days
Fixed Income Collective Funds	13,096,173	-	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	12,171,992	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	15,628,025	-	Annually	75 Days
Private Equity	5,431,697	505,750	Not Available	Not Available
Real Estate Funds	3,620,293	1,687,790	Not Available	Not Available

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.

Fixed Income Collective Funds includes investments in fixed income securities and derivative securities. 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Net Asset Value (Continued)

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.

Private equity funds include funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Redemption is not available and these investments are held for long term purposes.

Real Estate Funds include mutual funds that primarily focus on investing in securities offered by public real estate companies. Redemption is not available and these investments are held for long term purposes.

NOTE 6 INVESTMENT INCOME

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

	2016	2015
Dividend and Interest	\$ 2,019,523	\$ 1,959,525
Advisory Fees	(369,893)	(494,739)
Net Realized and Unrealized Gains	(6,404,673)	1,665,375
Gain (Loss) on Assets Held for Investment	(4,755,043)	3,130,161
Investment Income on Short-Term Investments	357,405	605,690
Total Net Gain (Loss) on Investments	(4,397,638)	3,735,851
Investment Loss Designated for Current Operations	199,318	572,837
Investment Gain (Loss) in Excess of Amount Designated for Current Operations	\$ (4,596,956)	\$ 3,163,014

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2016 and 2015:

	2016	2015
Land	\$ 3,028,079	\$ 3,028,079
Land Improvements	8,271,184	8,207,770
Buildings and Building Improvements	142,736,696	141,293,287
Equipment	38,458,404	37,297,094
Academic Collection	10,222,504	7,462,541
Property, Plant, and Equipment	<u>202,716,867</u>	<u>197,288,771</u>
Less: Accumulated Depreciation		
Property, Plant, and Equipment, Net of Accumulated Depreciation	<u>(108,377,930)</u>	<u>(101,566,154)</u>
Subtotal	<u>94,338,937</u>	<u>95,722,617</u>
Construction in Process	140,396	94,815
Total	<u>\$ 94,479,333</u>	<u>\$ 95,817,432</u>

The net book value of discontinued operations property, plant, and equipment balances of \$-0- and \$3,969,446 as of June 30, 2016 and 2015, respectively, is not included above and is reflected in Assets Related to Discontinued Operations. Total depreciation expense was \$6,124,028 and \$6,248,785 for the years ended June 30, 2016 and 2015, respectively. Discontinued operations depreciation expense of \$375,820 and \$561,046 for the years ended June 30, 2016 and 2015, respectively, are not included in depreciation expense noted above and are reflected in the discontinued operations activity in the statement of activities.

NOTE 8 RESTRUCTURING COSTS

In 2013, 2012 and 2010, the University offered voluntary early retirement incentive programs. These 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 discount rate for the 2010 program was changed to 0.5% for 2015 and after.

The restructuring liability was \$-0- and \$108,725 as of June 30, 2016 and 2015, respectively, for the 2013 program. The restructuring liability was \$21,513 and \$70,011 at June 30, 2016 and 2015, respectively, for the 2012 program. The restructuring liability was \$5,614 and \$39,119 at June 30, 2016 and 2015, respectively, for the 2010 program. The liabilities for all programs are included in accrued expenses on the accompanying balance sheet.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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.

When a split interest gift 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, 2016 and 2015 in making the calculation.

Investments held by the University under split-interest agreements totaled \$2,216,925 and \$2,645,136 at June 30, 2016 and 2015, 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, 2016 and 2015 in making the calculation.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 LONG-TERM DEBT

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

<u>Description</u>	<u>2016</u>	<u>2015</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 are being used for the construction of the University Center. Interest is payable semiannually on April 1 and October 1 of each year. The principal amounts are delayed until October 1, 2027. Deposits with the trustees under the bond indenture are pledged as collateral and reported in the statement of financial position as restricted cash. The balance includes \$260,490 and \$271,344 of bond original issue discount in 2016 and 2015. The bonds are secured by a reserve account in the amount of \$2,351,728 at June 30, 2016.	\$ 18,069,510	\$ 18,058,657
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 \$77,101 and \$82,608 of bond premium in 2016 and 2015, respectively. The bonds are secured by a reserve account in the amount of \$1,424,883 at June 30, 2016.	13,452,101	13,717,608
MHEFA Bonds of 2013, Series Seven Y2, Bearing Interest at 1.47%, Interest is payable monthly beginning November 1, 2013 to October 1, 2025 (Original Amount of \$6,210,000) The proceeds were used for refunding the Series Six E2 bonds.	5,420,000	5,820,000
MHEFA Revenue Bonds of 2011, Series Seven K1, Bearing Interest at 3.75%, Payable in Varying Installments to October 1, 2019 (Original Amount of \$8,810,000). The proceeds are being used for a bridge loan for construction of the University Center. Payments will be made from pledge payments. Interest is payable semiannually on April 1 and October 1 of each year. Deposits with the trustees under the bond indenture are pledged as collateral and reported in the statement of financial position as restricted cash.	4,050,000	5,300,000
US Bank Private Placement Loan Series Seven L Note, Variable Interest Rate Debt is based on 1.8% plus 1-month LIBOR. Interest is payable monthly beginning March 31, 2011. (Original Amount of \$4,000,000) The proceeds are being used for the construction of the University Center. An additional \$4,000,000 loan was available when necessary for the construction of the University Center 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.	4,000,000	5,000,000
MHEFA Bonds of 2013, Series Seven Y1, Variable Interest Rate Debt reset monthly using a formula based on 1 month LIBOR, Interest is payable monthly beginning November 1, 2013 to October 1, 2016 (Original Amount of \$2,900,000) The proceeds were used for refunding the Series Six E1 bonds. 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.	1,005,000	1,970,000
MHEFA Bonds of 2013, Series Seven Y3, Bearing interest at 1.28%. Interest is payable monthly beginning November 1, 2013 to October 1, 2016 (Original Amount of \$730,000). The proceeds were used for refunding the Series Six E3.	250,000	495,000
	46,246,611	50,361,265
	(435,610)	(472,406)
Less: Unamortized bond issuance costs		
Total	<u>\$ 45,811,001</u>	<u>\$ 49,888,859</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 LONG-TERM DEBT (CONTINUED)

In conjunction with refunding the Series Six E1, Six E2 and Six E3 bonds in the year ended June 30, 2015, \$117,803 of remaining bond issuance costs were written off and are included in restructuring costs on the statement of activity.

As of June 30, 2016, 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>
2017	\$ 3,990,000
2018	4,345,000
2019	4,245,000
2020	2,950,000
2021	4,055,000
After 2021	26,845,000
Total Long-Term Debt	<u>\$ 46,430,000</u>

Total interest expense on debt was \$2,148,586 and \$2,232,096 for the years ended June 30, 2016 and 2015, respectively.

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. When the University refunded the Series Six-E1, it was deemed financially beneficial to maintain this swap agreement with the Series Seven-Y1 issue.

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, 2016, the notional amount of the swap agreement was \$1,005,000. At June 30, 2016 and 2015, the fair value of the swap agreement liability was \$(10,004) and \$(53,575), 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, 2016 and 2015 was \$43,571 and \$69,824, 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 \$100,000 at June 30, 2016 and 2015 and is reported as part of cash and cash equivalents on the balance sheets.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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>
2017	\$ 1,603,366
2018	1,427,800
2019	1,201,960
2020	872,711
2021	875,694
Thereafter	3,001,013
Total Future Minimum Lease Payments	<u>\$ 8,982,543</u>

Rental expense for the years ended June 30, 2016 and 2015 was \$1,397,988 and \$1,396,991, respectively. Included in those amounts was \$829,464 and \$808,169 of rental expense for office space for the years ended June 30, 2016 and 2015, respectively.

NOTE 12 LINE OF CREDIT

The University has an unsecured line of credit totaling \$7,000,000 with a bank. Interest is payable monthly at 1.85% plus the one-month LIBOR rate and 1.60% plus the one-month LIBOR rate in 2016 and 2015, respectively. Principal is repayable on April 18, 2017, which is the expiration date of the agreement. At June 30, 2016 and 2015, the University had no borrowings under this agreement. The interest rate on this line of credit was 2.32% at June 30, 2016 and 1.79% at June 30, 2015.

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, 2017, which is the expiration date of the agreement. At June 30, 2016 and 2015, 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 13 ENDOWMENT (CONTINUED)

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. The board approved an upward departure to 5.0% for fiscal 2016 and 2015. During fiscal 2016 and 2015, the University endowment appropriation designated for current operations was \$4,261,584 and \$3,958,730, 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 \$1,016,620 and \$108,701 as of June 30, 2016 and 2015, respectively. Deficiencies result 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.

During 2016, the fair value of sixty endowment funds was transferred from the University to another university due to the discontinued operations of the University School of Law (Note 19). The fair value and book value of these funds when transferred were \$3,605,696 and \$3,364,635, respectively. In addition, seventy-six temporarily restricted funds totaling \$604,407 were transferred. These funds represented prior year's excess appropriations from the endowment funds or law school program specific funds. The endowment fund transfers are represented as transfer to other nonprofit in the changes in endowment net assets. The total transfer attributable to the endowment funds are represented by the Fund Transfer to Another Organization in the statement of activity.

During 2015, the fair value of two endowment funds was legally transferred from the University to another university due to the dissolution of the program at the University to which the endowments were restricted. The fair value and book value of these funds when transferred were \$122,042 and \$90,300, respectively. In addition, two temporarily restricted funds totaling \$26,118 were transferred. These funds represented prior year's excess appropriations from the endowment funds. The endowment fund transfers are represented as negative contributions in the changes in endowment net assets. The total transfer attributable to the endowment funds are represented by the fund transfer to another organization in the statement of activity.

Endowment by Net Asset Class

	2016			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ (1,016,620)	\$ 10,142,095	\$ 62,270,348	\$ 71,395,823
Board-Designated Endowment Funds	11,695,786	-	-	11,695,786
Total Funds	<u>\$ 10,679,166</u>	<u>\$ 10,142,095</u>	<u>\$ 62,270,348</u>	<u>\$ 83,091,609</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 13 ENDOWMENT (CONTINUED)

Endowment by Net Asset Class (Continued)

	2015			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ (108,701)	\$ 17,130,331	\$ 60,903,213	\$ 77,924,843
Board-Designated Endowment Funds	12,766,321	-	-	12,766,321
Total Funds	<u>\$ 12,657,620</u>	<u>\$ 17,130,331</u>	<u>\$ 60,903,213</u>	<u>\$ 90,691,164</u>

Changes in Endowment Net Assets

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 12,736,711	\$ 17,130,330	\$ 64,751,220	\$ 94,618,261
Investment Return	(4,640,527)	-	-	(4,640,527)
Net Appreciation (Depreciation)	6,773,386	(6,773,386)	-	-
Contributions	3,000	-	760,833	763,833
Appropriation of Endowment Assets for Expenditure	(4,261,584)	-	-	(4,261,584)
Fund Transfer to Another Organization	(71,162)	(214,849)	(3,319,685)	(3,605,696)
Other	139,342	-	77,980	217,322
Endowment Net Assets - End of Year	<u>\$ 10,679,166</u>	<u>\$ 10,142,095</u>	<u>\$ 62,270,348</u>	<u>\$ 83,091,609</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 12,925,806	\$ 17,805,730	\$ 64,550,314	\$ 95,281,850
Investment Return	3,093,190	-	-	3,093,190
Net Appreciation (Depreciation)	675,400	(675,400)	-	-
Contributions	-	-	157,029	157,029
Appropriation of Endowment Assets for Expenditure	(3,958,730)	-	-	(3,958,730)
Other	1,045	-	43,877	44,922
Endowment Net Assets - End of Year	<u>\$ 12,736,711</u>	<u>\$ 17,130,330</u>	<u>\$ 64,751,220</u>	<u>\$ 94,618,261</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 13 ENDOWMENT (CONTINUED)

The total endowment net assets contains \$3,927,097 and \$3,896,988 as of June 30, 2016 and June 30, 2015, respectively, that relate to discontinued operations.

NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2016	2015
Temporarily Restricted:		
Restricted for Programs	\$ 5,361,121	\$ 5,779,086
Gains on Permanently Restricted Endowment Funds	10,142,095	16,563,126
Gifts Designated for Plant Expenditures	15,930,101	16,009,572
Beneficial Interest in Trust	480,589	551,864
Total Temporarily Restricted Net Assets in Continuing Operations	31,913,906	38,903,648
Temporarily Restricted Net Assets in Discontinued Operations	-	1,113,608
Total	\$ 31,913,906	\$ 40,017,256
Permanently Restricted:		
Permanent Endowment	\$ 62,270,348	\$ 61,403,725
Beneficial Interest in Trust	2,264,374	2,564,016
Gifts Designated for Student Loans	42,544	42,544
Total Permanently Restricted Net Assets in Continuing Operations	64,577,266	64,010,285
Less Permanently Restricted Net Assets in Discontinued Operations	-	3,347,495
Total	\$ 64,577,266	\$ 67,357,780

The temporarily restricted net assets released from restrictions of \$5,417,903 and \$4,786,928 for the years ended June 30, 2016 and 2015, respectively, were from gifts and pledges restricted for a particular purpose.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 FUNCTIONAL EXPENSES

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

	<u>2016</u>	<u>2015</u>
Program Services	\$ 66,697,144	\$ 66,485,954
Supporting Activities:		
Management and General	12,700,707	12,073,188
Fundraising	<u>2,085,462</u>	<u>1,754,821</u>
Total	<u>\$ 81,483,313</u>	<u>\$ 80,313,963</u>

The University allocated interest expense of \$2,106,147, amortization expense of \$42,142, depreciation expense of \$6,124,028, and facility operation and maintenance expense of \$7,925,006 to program and support functions for the year ended June 30, 2016. Discontinued operations depreciation expense of \$375,820 for the year ended June 30, 2016 is not included in depreciation expense noted above and is reflected in the discontinued operations activity in the statement of activities.

The University allocated interest expense of \$2,189,953 amortization expense of \$42,142 depreciation expense of \$6,248,785 and facility operation and maintenance expense of \$8,105,363 to program and support functions for the year ended June 30, 2015. Discontinued operations depreciation expense of \$561,046 for the year ended June 30, 2015 is not included in depreciation expense noted above and is reflected in the discontinued operations activity in the statement of activities.

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:

	<u>2016</u>	<u>2015</u>
Balance - Beginning of Year	\$ 389,801	\$ 732,870
Additions	1,400,000	1,800,000
Expense	<u>(1,448,121)</u>	<u>(2,143,069)</u>
Balance - End of Year	<u>\$ 341,680</u>	<u>\$ 389,801</u>

The unrestricted net asset activity reported in the financial statements for June 30, 2016 and June 30, 2015 reflects the board-approved financial restructuring plan to reduce capital spending through a transfer to operating activities.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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 \$2,224,739 and \$2,330,807 for the years ended June 30, 2016 and 2015, respectively.

NOTE 17 OTHER POSTRETIREMENT BENEFITS

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

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

	<u>2016</u>	<u>2015</u>
Accumulated Postretirement Benefit Obligation:		
Retirees	\$ 1,102,584	\$ 1,135,146
Fully Eligible Active Plan Participants	-	-
Accrued Postretirement Benefit Cost Included in Accounts Payable and Accrued Expenses	<u>\$ 1,102,584</u>	<u>\$ 1,135,146</u>

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

	<u>2016</u>	<u>2015</u>
Service Cost of Benefits Earned During the Period	\$ -	\$ -
Interest Cost on Accumulated Postretirement Benefit Obligation	39,308	38,123
Amortization of Prior Service Cost	-	-
Amortization of Gain	-	(5,869)
Net Periodic Postretirement Benefit Cost	<u>\$ 39,308</u>	<u>\$ 32,254</u>

The discount rate used in determining the accumulated postretirement benefit obligation (APBO) was 2.88% and 3.67% in 2016 and 2015, respectively. The assumed increase in health-care costs used in measuring the APBO was 8% for the first year decreasing to 5% for future years. The health-care cost trend rate assumption has an effect on the amounts reported.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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 \$728,848 and \$1,373,738 for the years ended June 30, 2016 and 2015, 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 \$498,297 and \$629,103 for the years ended June 30, 2016 and 2015, respectively. Accounts payable at June 30, 2016 and 2015 totaled \$84,179 and \$30,613, respectively.

See Note 19 for a description of the related party relationship between the University and the Mitchell Hamline School of Law.

NOTE 19 COMBINATION OF UNIVERSITY SCHOOL OF LAW AND WILLIAM MITCHELL SCHOOL OF LAW

In 2015, the University entered into a definitive agreement to combine the Hamline School of Law (HUSL) and William Mitchell College of Law (WMCL). The American Bar Association (ABA) granted acquiescence to combine Hamline University School of Law with William Mitchell College of Law, and to recognize Mitchell Hamline School of Law (MHSL) as a fully ABA-approved law school effective on December 28, 2015. The newly combined school is located primarily on William Mitchell's existing campus. The MHSL is an autonomous, non-profit institution governed by an independent board of trustees, with a strong, visible and long lasting affiliation to Hamline University. The new institution offers more enrollment options than any other school in the country including full-time, weekend and part time programs, as well as hybrid, on-campus/on-line JD option. Students are able to earn dual degrees through the school's affiliation with Hamline University. MHSL is a top law school for dispute resolution and health law and a nationally recognized pioneer in clinical programs. It currently has an alumni network of over 19,000, the largest in the region.

Since acquiescence was not received until December 2015, a plan was implemented in order to preserve the ongoing operations of HUSL and WMCL and enhance viability of MHSL. The two schools operated independently for the fall 2015 term. HUSL operated with a scaled back group of faculty and staff while remaining within the regulations of the ABA.

Major terms of the combination as defined by the Definitive Agreement fall into these categories: transfer of assets and liabilities, fees and expenses of the combination, ongoing financial consideration and governance and leadership.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 19 COMBINATION OF UNIVERSITY SCHOOL OF LAW AND WILLIAM MITCHELL SCHOOL OF LAW (CONTINUED)

Transfer of assets included the HUSL's transfer of permanent and temporarily restricted endowment balances as well as temporarily restricted program funds that were originally designated to HUSL. HUSL also transferred pledge receivables to the same endowment funds. The funds transfers are shown as Fund Transfer to Another Organization on the accompany statement of activities and the pledges, which were written off by the University are shown as a part of combination/discontinued operations in the statement of activity. HUSL transferred certain other assets including intellectual property assets, tuition and fee deposits, historical books and records from the academic collection, tangible personal property and study abroad exchange contracts. The transfer of assets excluded some assets including student accounts receivable from activity prior to the acquiescence, property and fixtures, and all law library assets except those noted as tangible personal property. Transfer of liabilities included tenured employment obligations, current tuition exchange obligations and certain severance obligations. The transfer of liabilities excluded certain tuition exchange programs and severance and retirement obligations from activity prior to acquiescence.

Certain transaction fees and expenses of the combination are split equally between HUSL and WMCL, without reimbursement back to either party. Other specific costs related to the startup of the newly formed MHSL were also shared equally in payout, but are fully reimbursable to the University by MHSL in 8 equal installments, without interest, with the first payment to be made on June 30, 2017. Fees and expenses that were split equally are the cost of all communications, public relations, costs for the initial development of the MHSL History Center, and out of pocket costs of submitting the Application for Acquiescence to the ABA, including the ABA site visit. Fees and expenses that are reimbursable to the University include the reasonable attorney expenses incurred in connection with the endowment transfer and expenses concerning branding, website design and implementation expenses, all qualifying severance costs and mutually agreed upon moving costs. Moving costs constituted the physical move of staff and faculty and the electronic file and data move. The combination resulted in \$-0- and \$1,486,727 of accrued liabilities as of June 30, 2016 and 2015, respectively. The combination also resulted in \$956,651 and \$1,031,103 of accounts receivable as of June 30, 2016 and 2015, respectively. The expenses related to the combination are reflected in combination/discontinued operations in the accompany statement of activities.

Ongoing financial consideration relates to an agreement that MHSL will pay to the University within a designated length of time following each fiscal year end, a percentage of that fiscal year's net tuition revenue as defined by the terms of the combination's Definitive Agreement.

The governance and leadership terms of the combination state that the University shall have the right to nominate to and maintain on, the MHSL Board of Trustees equal to 33% of the total MHSL Trustees, inclusive of the President of the University. All MHSL Board of Trustees, regardless of who nominated them, will have the same terms, rights, privileges and responsibilities in their capacity as trustees.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 19 COMBINATION OF UNIVERSITY SCHOOL OF LAW AND WILLIAM MITCHELL SCHOOL OF LAW (CONTINUED)

In the process of combining operations, it was necessary to write down any remaining assets from the academic collection. The remaining fair market value of \$21,883 of the academic collection is recorded as discontinued operations assets held for sale and is reflected in prepaid expenses and other assets in the accompanying balance sheet. The fiscal year's portion of depreciation prior to the combination and the loss associated with the write down to the fair market value of the academic collection is part of the discontinued operations activity noted below:

	2016	2015
Revenues:		
Net Tuition and Fees	\$ 2,392,697	\$ 7,154,384
Other	95,720	246,984
Total Revenue	2,488,417	7,401,368
Expenses:		
Compensation	1,815,253	5,782,914
Overhead	561,219	1,771,875
Loss on Asset Disposal	2,086,599	-
Total Expenses	4,463,072	7,554,790
Change in Operating Net Assets	(1,974,655)	(153,421)
Restructuring Costs - Combination Transition	-	(768,140)
Change in Net Assets	\$ (1,974,655)	\$ (921,561)

NOTE 20 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, 2016 and 2015, the University had commitments to investment funds in the amount of \$2,171,040 and \$2,193,540, respectively, funded through reallocation of investments.

NOTE 21 SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 5, 2016, the date the financial statements were available to be issued.