

HAMLIN UNIVERSITY OF MINNESOTA
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

**HAMLIN UNIVERSITY OF MINNESOTA
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YEARS ENDED JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, 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 audits 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, 2018 and 2017, 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 11, 2018

**HAMLIN UNIVERSITY OF MINNESOTA
BALANCE SHEETS
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 1,338,967	\$ 2,695,653
Restricted Cash	3,485,572	3,695,791
Accounts Receivable (Net)	4,872,082	5,276,681
Prepaid Expenses and Other Assets	1,495,056	1,377,704
Contributions Receivable	1,126,070	1,112,089
Student Loans Receivable (Net)	5,629,600	6,153,530
Investments	95,099,638	90,500,669
Property, Plant, and Equipment (Net)	93,475,368	91,967,088
Construction in Progress	2,998,739	470,639
Beneficial Interest in Trusts	1,627,568	1,749,150
	\$ 211,148,660	\$ 204,998,994
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 6,531,075	\$ 6,981,808
Deposits and Deferred Revenue	2,684,792	3,130,728
Annuities and Unitrusts Payable	1,214,277	1,285,594
Perkins Loans Refundable to Government	5,091,993	6,183,166
Long-Term Debt	49,418,958	42,366,907
Total Liabilities	64,941,095	59,948,203
NET ASSETS		
Unrestricted	37,764,553	40,349,732
Temporarily Restricted	39,106,749	36,595,410
Permanently Restricted	69,336,263	68,105,649
Total Net Assets	146,207,565	145,050,791
Total Liabilities and Net Assets	\$ 211,148,660	\$ 204,998,994

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Tuition and Fees	\$ 97,751,492	\$ -	\$ -	\$ 97,751,492
Less:				
Unfunded Student Aid	38,079,067	-	-	38,079,067
Funded Student Aid	2,107,424	-	-	2,107,424
Net Student Tuition and Fees	<u>57,565,001</u>	<u>-</u>	<u>-</u>	<u>57,565,001</u>
Government Grants	3,387,533	-	-	3,387,533
Contributions	2,032,094	1,455,712	1,166,303	4,654,109
Investment Income, Net	1,092,577	3,209,785	114,502	4,416,864
Sale and Services of Educational Activities	107,203	495,703	-	602,906
Change in Value of Split-Interest Agreements	-	(137,342)	87,077	(50,265)
Other Sources	1,679,642	(634,848)	(137,268)	907,526
Auxiliary Enterprises	8,689,039	-	-	8,689,039
Net Assets Released from Restrictions	4,827,729	(4,827,729)	-	-
Total Revenue	<u>79,380,818</u>	<u>(438,719)</u>	<u>1,230,614</u>	<u>80,172,713</u>
EXPENSES				
Instruction	25,779,752	-	-	25,779,752
Academic Support	10,133,735	-	-	10,133,735
Research	75,848	-	-	75,848
Public Service	1,361,429	-	-	1,361,429
Student Services	14,325,261	-	-	14,325,261
Institutional Support	14,961,518	-	-	14,961,518
Auxiliary Enterprises	11,964,663	-	-	11,964,663
Total Expenses	<u>78,602,206</u>	<u>-</u>	<u>-</u>	<u>78,602,206</u>
CHANGE IN OPERATING NET ASSETS	778,612	(438,719)	1,230,614	1,570,507
Endowment Income	4,703,658	2,950,058	-	7,653,716
Appropriation of Endowment Assets for Expenditure	(3,992,638)	-	-	(3,992,638)
Loss on Debt Restructure	(4,081,742)	-	-	(4,081,742)
Restructuring Costs, Collective Bargaining, and Other	21,316	-	-	21,316
Board Designated Unrestricted Spending	<u>(14,385)</u>	<u>-</u>	<u>-</u>	<u>(14,385)</u>
CHANGE IN NET ASSETS	(2,585,179)	2,511,339	1,230,614	1,156,774
Net Assets - Beginning of Year	<u>40,349,732</u>	<u>36,595,410</u>	<u>68,105,649</u>	<u>145,050,791</u>
NET ASSETS - END OF YEAR	<u>\$ 37,764,553</u>	<u>\$ 39,106,749</u>	<u>\$ 69,336,263</u>	<u>\$ 146,207,565</u>

See accompanying Notes to Financial Statements.

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 96,568,707	\$ -	\$ -	\$ 96,568,707
36,976,543	-	-	36,976,543
1,778,009	-	-	1,778,009
57,814,155	-	-	57,814,155
2,893,803	-	-	2,893,803
1,528,626	1,568,151	3,375,474	6,472,251
1,396,928	3,167,385	13,654	4,577,967
114,841	360,089	-	474,930
-	67,656	304,424	372,080
1,578,282	(665,264)	(165,169)	747,849
8,932,935	-	-	8,932,935
4,682,037	(4,682,037)	-	-
78,941,607	(184,020)	3,528,383	82,285,970
27,242,794	-	-	27,242,794
9,778,072	-	-	9,778,072
146,188	-	-	146,188
1,340,972	-	-	1,340,972
13,747,290	-	-	13,747,290
14,625,227	-	-	14,625,227
12,020,931	-	-	12,020,931
78,901,474	-	-	78,901,474
40,133	(184,020)	3,528,383	3,384,496
5,564,395	4,865,524	-	10,429,919
(3,876,295)	-	-	(3,876,295)
-	-	-	-
(5,221)	-	-	(5,221)
8,023	-	-	8,023
1,731,035	4,681,504	3,528,383	9,940,922
38,618,697	31,913,906	64,577,266	135,109,869
<u>\$ 40,349,732</u>	<u>\$ 36,595,410</u>	<u>\$ 68,105,649</u>	<u>\$ 145,050,791</u>

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,156,774	\$ 9,940,922
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Loss on Disposal of Assets	6,164,773	6,183,218
Net Realized and Unrealized Gain on Investments	(6,330,512)	(9,303,682)
Contributions Restricted for Long-Term Investment	(1,238,318)	(3,141,193)
Adjustment of Actuarial Liability for Annuities Payable	142,947	93,113
Change in Value of Beneficial Interest in Trusts	121,582	(127,290)
(Increase) Decrease in Assets:		
Accounts Receivable	404,599	443,227
Prepaid Expenses and Other Assets	(117,352)	(115,318)
Contributions Receivable	127,846	(130,370)
Student Loans Receivable	523,930	534,874
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(450,733)	555,095
Deposits and Deferred Revenue	(445,936)	(485,252)
Net Cash Provided by Operating Activities	59,600	4,447,344
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property, Plant, and Equipment	(10,201,154)	(4,756,995)
Purchases of Investments	(13,778,883)	(19,500,428)
Proceeds from Sale of Investments	15,510,426	21,312,692
Net Cash Used by Investing Activities	(8,469,611)	(2,944,731)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	9,198,806	3,911,453
Proceeds from Contributions Restricted for Long-Term Investment	1,096,491	3,417,340
Grants Refundable to Government	(1,091,173)	(818,807)
Payments on Long-Term Debt	(2,146,754)	(7,355,550)
Payments on Annuities Payable	(214,264)	(299,942)
Net Cash Provided (Used) by Financing Activities	6,843,106	(1,145,506)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,566,905)	357,107
Cash and Cash Equivalents - Beginning of Year	6,391,444	6,034,337
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,824,539	\$ 6,391,444

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents	\$ 1,338,967	\$ 2,695,653
Restricted Cash	3,485,572	3,695,791
Cash and Cash Equivalents - End of Year	<u>\$ 4,824,539</u>	<u>\$ 6,391,444</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Cash Paid During the Year for Interest	<u>\$ 2,023,802</u>	<u>\$ 2,166,194</u>
Accrued Expenses Relating to Construction in Process	<u>\$ 644,783</u>	<u>\$ 615,385</u>
Issuance of Long-Term Debt Related to Debt Refunding and Defeseance	<u>\$ 34,185,000</u>	<u>\$ 2,755,000</u>

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

During the past 164 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 286 Phi Beta Kappa institutions in the United States. In the Best Regional Universities category, *U.S. News and World Report* ranks Hamline one of the top-ranked Minnesota universities for the past 17 consecutive years. Hamline is ranked first in Minnesota and 27th in the nation by *Washington Monthly's* College Rankings of service-oriented schools. The Princeton Review named Hamline among the 2017 Best Colleges: Region by Region. 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, 2018 AND 2017**

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.

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017, the allowance was \$926,631 and \$756,093, respectively.

Inventories

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

Contributions Receivable

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

Investments

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

Property, Plant, and Equipment

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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment (Continued)

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

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

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

Collections

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

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

Deferred Revenue

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

Loans Refundable to Government

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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018 AND 2017

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, 2018 AND 2017**

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 noninstructional 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, 2018 and 2017 was \$948,376 and \$866,528, 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, 2018 AND 2017**

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 Nonoperating 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 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 nonrecurring transactions.

NOTE 2 CONTRIBUTIONS RECEIVABLE

For the years ended June 30, 2018 and 2017, contributions receivable included one significant pledge that represented 41% and 41% of the receivable balance, respectively. Contributions receivable are summarized as follows at June 30:

	2018	2017
Unconditional Promises Expected to be Collected in:		
Less Than One Year	\$ 208,945	\$ 464,952
One to Five Years	927,021	805,356
More than Five Years	60,000	-
Total Contributions	1,195,966	1,270,308
Allowance	-	(99,000)
Discount (2.63% and 1.55% for 2018 and 2017, Respectively)	(69,896)	(59,219)
Total Contributions, Net of Discount and Allowance	\$ 1,126,070	\$ 1,112,089

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, 2018 and 2017, student loans represented 2.7% and 3.1% of total assets, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 STUDENT LOANS RECEIVABLE (CONTINUED)

At June 30, student loans consisted of the following:

	<u>2018</u>	<u>2017</u>
Federal Government Programs	\$ 5,629,100	\$ 6,152,030
Institutional Programs	500	1,500
	<u>5,629,600</u>	<u>6,153,530</u>
Student Loan Receivable, Net	<u>\$ 5,629,600</u>	<u>\$ 6,153,530</u>

Funds advanced by the federal government of \$5,629,600 and \$6,183,166 at June 30, 2018 and 2017, respectively, are ultimately refundable to the government and are classified as liabilities in the balance sheet. During 2018 and 2017 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, 2018 and 2017, 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>
2018	\$ 127,796	\$ 47,601	\$ 1,343,526	\$ 1,518,923
2017	90,630	40,712	1,342,036	1,473,378

NOTE 4 INVESTMENTS

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

	<u>Fair Value</u>	
	<u>2018</u>	<u>2017</u>
Equities:		
Domestic	\$ 48,052,179	\$ 42,427,461
International	20,176,234	18,861,640
Subtotal Equities	<u>68,228,413</u>	<u>61,289,102</u>
Multi-Faceted bonds	21,211,268	20,957,540
Private Equity, Hedge Funds, and Real Assets	4,504,178	7,171,285
Cash and Short-Term Investments	608,976	495,376
Other	546,803	587,366
Total Investments	<u>\$ 95,099,638</u>	<u>\$ 90,500,669</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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	
	2018	2017
Private Equity	\$ 2,618,444	\$ 3,485,882
Hedge Funds	-	19,434
Real Assets	1,885,734	3,665,970
Total Alternative Investments	\$ 4,504,178	\$ 7,171,285

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, 2018 and 2017, the amount of pooled funds that include the University's assets was \$45,152,848 and \$40,404,147, respectively.

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

	2018	2017
Endowment Funds	\$ 92,988,042	\$ 88,250,751
Split-Interest Agreements	1,962,257	2,096,677
Unrestricted Investments	149,339	153,241
Total Investments	\$ 95,099,638	\$ 90,500,669

HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017:

June 30, 2018	Level 1	Level 2	Level 3	No Level	Total
Investments:					
Fixed Income - Multifaceted Bonds	\$ 495,702	\$ -	\$ -	\$ -	\$ 495,702
Fixed Income Collective Funds					
Measured at Net Asset Value	-	-	-	20,715,566	20,715,566
Equities - Domestic	11,837,980	-	-	-	11,837,980
Equity Collective Funds Measured					
at Net Asset Value	-	-	-	38,886,620	38,886,620
Equity Long/Short Fund of Funds					
Measured at Net Asset Value	-	-	-	17,503,813	17,503,813
Liquid Alternative Investments					
Measured at Net Asset Value	-	-	-	-	-
Alternative Strategies in Illiquid Structures					
Measured at Net Asset Value	-	-	-	4,504,178	4,504,178
Other	136,211	-	-	-	136,211
Total Investments	12,469,893	-	-	81,610,177	94,080,070
Beneficial Interest in Trusts	-	-	1,627,568	-	1,627,568
Total	<u>\$ 12,469,893</u>	<u>\$ -</u>	<u>\$ 1,627,568</u>	<u>\$ 81,610,177</u>	<u>\$ 95,707,638</u>
June 30, 2017	Level 1	Level 2	Level 3	No Level	Total
Investments:					
Fixed Income - Multifaceted Bonds	\$ 562,543	\$ -	\$ -	\$ -	\$ 562,543
Fixed Income Collective Funds Measured					
at Net Asset Value	-	-	-	20,394,997	20,394,997
Equities - Domestic	10,647,117	-	-	-	10,647,117
Equity Collective Funds Measured at Net					
Asset Value	-	-	-	36,312,755	36,312,755
Equity Long/Short Fund of Funds					
Measured at Net Asset Value	-	-	-	15,490,619	15,490,619
Liquid Alternative Investments Measured					
at Net Asset Value	-	-	-	19,434	19,434
Alternative Strategies in Illiquid Structures					
Measured at Net Asset Value	-	-	-	5,990,462	5,990,462
Other	137,211	-	-	-	137,211
Total Investments	11,346,871	-	-	78,208,267	89,555,138
Beneficial Interest in Trusts	-	-	1,749,150	-	1,749,150
Total	<u>\$ 11,346,871</u>	<u>\$ -</u>	<u>\$ 1,749,150</u>	<u>\$ 78,208,267</u>	<u>\$ 91,304,288</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

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:

	<u>2018</u>	<u>2017</u>
Total Investments	\$ 95,099,638	\$ 90,500,669
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(608,975)	(495,376)
Cash Surrender Value of Life Insurance Policies	<u>(410,593)</u>	<u>(450,155)</u>
Total Investments Measured at Fair Value on a Recurring Basis	<u>\$ 94,080,070</u>	<u>\$ 89,555,138</u>

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, 2018:

Balances as of July 1, 2017	\$ 1,749,150
Net Realized and Unrealized	
Losses on Investments	(121,582)
Investment Income	-
Purchases of Investments	-
Proceeds from Sales of Investments	-
Balances as of June 30, 2018	<u>\$ 1,627,568</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, 2017:

	<u>Beneficial Int.</u>
Balances as of July 1, 2016	\$ 1,621,860
Net Realized and Unrealized	
Gains on Investments	127,290
Investment Income	-
Purchases of Investments	-
Proceeds from Sales of Investments	-
Balances as of June 30, 2017	<u>\$ 1,749,150</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, 2018 AND 2017**

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, 2018:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 38,886,620	\$ -	Monthly/Annually	2 - 60 Days
Fixed Income Collective Funds	20,715,566	-	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	-	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	17,503,813	-	Annually	75 Days
Private Equity	2,618,444	483,250	Not Available	Not Available
Real Estate Funds	1,885,734	1,722,673	Not Available	Not Available

Fair value measurements of investments that calculate net asset value per Share (or its equivalent) as of June 30, 2017:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 36,312,755	\$ -	Monthly/Annually	2 - 60 Days
Fixed Income Collective Funds	20,394,997	-	Monthly/Annually	2 - 60 Days
Multi-Strategy Hedge Funds	19,434	-	Monthly	30 - 90 Days
Equity Long/Short Fund of Funds	15,490,619	-	Annually	75 Days
Private Equity	3,485,882	483,250	Not Available	Not Available
Real Estate Funds	2,504,580	1,777,673	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 stock. 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.

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, 2018 AND 2017**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Net Asset Value (Continued)

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:

	2018	2017
Dividend and Interest	\$ 1,882,982	\$ 1,718,675
Advisory Fees	(497,885)	(537,929)
Net Realized and Unrealized Gains	6,330,512	9,303,682
Gain on Assets Held for Investment	7,715,609	10,484,428
Investment Income on Short-Term Investments	316,878	647,163
Total Net Gain on Investments	8,032,487	11,131,591
Investment Gain Designated for Current Operations	378,771	701,672
Investment Gain in Excess of Amount Designated for Current Operations	\$ 7,653,716	\$ 10,429,919

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2018 and 2017:

	2018	2017
Land	\$ 3,028,079	\$ 3,028,079
Land Improvements	8,919,138	8,909,665
Buildings and Building Improvements	150,353,509	144,005,712
Equipment	35,597,558	34,625,092
Academic Collection	10,536,684	10,203,471
Property, Plant, and Equipment	208,434,968	200,772,020
Less: Accumulated Depreciation	(114,959,600)	(108,804,932)
Subtotal Property, Plant, and Equipment, Net of Accumulated Depreciation	93,475,368	91,967,088
Construction in Process	2,998,739	470,639
Total	\$ 96,474,107	\$ 92,437,727

Total depreciation expense was \$6,164,773 and \$6,178,963 for the years ended June 30, 2018 and 2017, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 SPLIT-INTEREST AGREEMENTS

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

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, 2018 and 2017 in making the calculation.

Investments held by the University under split-interest agreements totaled \$1,962,257 and \$2,096,677 at June 30, 2018 and 2017, 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, 2018 and 2017 in making the calculation.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 LONG-TERM DEBT

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

<u>Description</u>	<u>2018</u>	<u>2017</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 was payable semiannually on April 1 and October 1 of each year. The principal amounts were delayed until October 1, 2027. Deposits with the trustees under the bond indenture were pledged as collateral and reported in the statement of financial position as restricted cash. On December 7, 2017, the bond principal remaining (\$18,330,000) and remaining interest was defeased through the issuance of Revenue Note Series 2017A.	\$ -	\$ 18,080,364
MEHFA 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 \$71,594 and \$77,101 of bond premium in 2017 and 2016, respectively. The bonds are secured by a reserve account in the amount of \$1,425,701 at June 30, 2017.	-	13,171,594
MHEFA Revenue Note, Series 2017B, bearing interest at 4.20%, interest is payable in varying installments beginning April 1, 2018 to October 1, 2047 (Original amount of \$34,650,000). The proceeds were used to fund the defeasance on an advance basis the Series Seven K2 remaining principal of \$18,330,000 plus remaining interest and the Series Seven E. remaining principal of \$11,335,000 plus remaining interest. In addition the proceeds were used for various capital projects. The balance includes \$4,103,794 of bond premium in 2017. The balance includes \$335,157 of bond issuance costs in 2018. The bonds are secured by a reserve account in the amount of \$2,438,349 at June 30, 2018.	38,673,998	-

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2018</u>	<u>2017</u>
MHEFA Revenue Note, Series 2017A, bearing interest at 2.41%, interest is payable monthly beginning August 1, 2017 to October 1, 2026 (Original amount of \$6,726,000). The proceeds were used for prepaying the Series Seven L note (\$4,000,000) plus one months accrued interest. In addition to the proceeds were used to fund the defeasance on an advance basis the Series Seven K1 remaining principal of \$2,755,000 plus remaining interest. The balance includes \$118,443 of bond issuance costs and a defeased loss of \$59,547 that will be amortized over the remaining life of the defeased Series Seven K1. The remainder of the transaction proceeds was \$3,853 and reported in the balance sheet as restricted cash.	\$ 6,726,000	\$ 6,726,000
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.	<u>4,525,000</u>	<u>5,005,000</u>
Subtotal	49,924,998	42,982,958
Less: Unamortized Bond Issuance Costs and Unamortized Defeased Loss	<u>(506,040)</u>	<u>(616,051)</u>
Total	<u>\$ 49,418,958</u>	<u>\$ 42,366,907</u>

During 2017, the University restructured a portion of the debt portfolio by refinancing the remaining balances of the Series 7L note and the Series 7K1 bond. The Series 7L note was prepaid while the Series 7K1 was defeased in an advance refunding. The restructure transaction was completed on June 30, 2017 and is the revenue note Series 2017A. The transaction resulted in a \$59,547 loss on the Series 7K1 defeasance. During 2018, the University restructured a portion of the debt portfolio by refinancing the remaining balances of the Series 7E and Series 7K2 bonds. They were defeased in an advance refunding. The restructure transaction was completed on December 7, 2017 and is the revenue note Series 2017B. The transaction resulted in a \$3,549,310 loss on the defeasance and a \$532,432 loss on a write off of the remaining premium and bond issuance costs on the defeased bonds. The restructure losses were considered financially beneficial to smooth the debt service requirements of the University.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 LONG-TERM DEBT (CONTINUED)

As of June 30, 2018, 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>
2019	\$ 1,777,000
2020	1,958,000
2021	2,026,000
2022	2,093,000
2023	2,166,000
Thereafter	35,881,000
Total Long-Term Debt	<u>\$ 45,901,000</u>

Total interest expense and amortization on debt was \$2,042,132 and \$2,099,170 for the years ended June 30, 2018 and 2017, 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.

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 expired on October 1, 2016. The change in value of the swap agreement for the years ended June 30, 2018 and 2017 was \$-0- and \$10,004, respectively, and is reported in the statements of activities.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 OBLIGATIONS UNDER OPERATING LEASES

The University entered into various lease agreements for equipment and office space. In turn, the University sublet significant amounts of office space. The future commitments are summarized as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>	<u>Net of Sublease Payments</u>
2019	\$ 1,551,566	\$ 1,050,702
2020	1,563,093	1,109,032
2021	1,127,521	665,070
2022	2,317,634	1,846,794
2023	912,791	388,933
Thereafter	951,322	951,322
Total Future Minimum Lease Payments	<u>\$ 8,423,926</u>	<u>\$ 6,011,853</u>

Rental expense for the years ended June 30, 2018 and 2017 was \$1,432,200 and \$1,309,182, respectively. Included in those amounts was \$769,027 and \$783,114 of rental expense for office space for the years ended June 30, 2018 and 2017, respectively.

NOTE 11 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 in 2018 and 2017. Principal is repayable on April 17, 2019, which is the expiration date of the agreement. At June 30, 2018 and 2017, the University had no borrowings under this agreement. The interest rate on this line of credit was 3.94% at June 30, 2018 and 2.26% at June 30, 2017.

The University also has an unsecured revolving line of credit totaling \$3,000,000 with another bank. Interest is payable quarterly at 1.2% plus LIBOR. Principal is repayable on July 5, 2019, which is the expiration date of the agreement. At June 30, 2018 and 2017, the University had no borrowings under this agreement.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 12 ENDOWMENT

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

It is the policy of the board to spend 4.5% of the rolling three-year market value of the Endowment assets. At its discretion the board may change the targeted spending rate in any one year to achieve the strategic objectives of the University. During fiscal 2018 and 2017, the University endowment appropriation designated for current operations was \$3,992,637 and \$3,876,295, 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 \$20,814 and \$235,716 as of June 30, 2018 and 2017, 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.

Endowment by Net Asset Class

	2018			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Donor-Restricted Endowment Funds	\$ (20,814)	\$ 17,957,677	\$ 67,047,362	\$ 84,984,225
Board-Designated Endowment Funds	13,128,472	-	-	13,128,472
Total Funds	<u>\$ 13,107,658</u>	<u>\$ 17,957,677</u>	<u>\$ 67,047,362</u>	<u>\$ 98,112,697</u>
	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Donor-Restricted Endowment Funds	\$ (235,716)	\$ 15,007,619	\$ 65,791,290	\$ 80,563,193
Board-Designated Endowment Funds	12,611,036	-	-	12,611,036
Total Funds	<u>\$ 12,375,320</u>	<u>\$ 15,007,619</u>	<u>\$ 65,791,290</u>	<u>\$ 93,174,229</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 12 ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 12,375,320	\$ 15,007,619	\$ 65,791,290	\$ 93,174,229
Investment Return	7,653,716	-	-	7,653,716
Net Appreciation (Depreciation)	(2,950,058)	2,950,058	-	-
Contributions	20,250	-	1,166,303	1,186,553
Appropriation of Endowment Assets for Expenditure	(3,992,638)	-	-	(3,992,638)
Other	1,066	-	89,771	90,837
Endowment Net Assets, End of Year	<u>\$ 13,107,656</u>	<u>\$ 17,957,677</u>	<u>\$ 67,047,364</u>	<u>\$ 98,112,697</u>

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 10,679,166	\$ 10,142,095	\$ 62,270,348	\$ 94,618,261
Investment Return	10,419,914	-	-	10,419,914
Net Appreciation (Depreciation)	(4,865,524)	4,865,524	-	-
Contributions	17,000	-	3,238,371	3,255,371
Appropriation of Endowment Assets for Expenditure	(3,876,295)	-	-	(3,876,295)
Transfer to Other Nonprofit	-	-	-	-
Other	1,059	-	282,571	283,630
Endowment Net Assets, End of Year	<u>\$ 12,375,320</u>	<u>\$ 15,007,619</u>	<u>\$ 65,791,290</u>	<u>\$ 93,174,229</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 13 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Temporarily Restricted:		
Restricted for Programs	\$ 5,185,528	\$ 5,423,711
Gains on Permanently Restricted Endowment Funds	17,957,677	15,007,619
Gifts Designated for Plant Expenditures	15,646,018	15,683,367
Beneficial Interest in Trust	317,526	480,713
Total	<u>\$ 39,106,749</u>	<u>\$ 36,595,410</u>
Permanently Restricted:		
Permanent Endowment	\$ 67,047,364	\$ 65,791,290
Beneficial Interest in Trust	2,246,355	2,271,815
Gifts Designated for Student Loans	42,544	42,544
Total	<u>\$ 69,336,263</u>	<u>\$ 68,105,649</u>

The temporarily restricted net assets released from restrictions of \$4,827,729 and \$4,682,037 for the years ended June 30, 2018 and 2017, respectively, were from gifts restricted for a particular purpose and from pledges.

NOTE 14 FUNCTIONAL EXPENSES

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

	<u>2018</u>	<u>2017</u>
Program Services	\$ 63,626,302	\$ 64,284,270
Supporting Activities:		
Management and General	13,275,673	12,734,648
Fundraising	1,700,231	1,882,556
Total	<u>\$ 78,602,206</u>	<u>\$ 78,901,474</u>

The University allocated interest expense of \$2,003,391, amortization expense of \$38,741, depreciation expense of \$6,614,773, and facility operation and maintenance expense of \$8,264,478 to program and support functions for the year ended June 30, 2018.

The University allocated interest expense of \$2,060,955, amortization expense of \$38,215, depreciation expense of \$6,178,963, and facility operation and maintenance expense of \$8,036,236 to program and support functions for the year ended June 30, 2017.

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

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 14 FUNCTIONAL EXPENSES (CONTINUED)

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

	2018	2017
Beginning Balance	\$ 349,703	\$ 341,680
Additions	-	20,673
Expense	(14,385)	(12,650)
Ending Balance	\$ 335,318	\$ 349,703

NOTE 15 RETIREMENT PLAN

The University participates in the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) (the Plan), which covers certain faculty and staff employees. Nonelective discretionary contributions equal to 5% of eligible compensation and discretionary match contributions up to 2.5% of pretax elective deferrals are required under the program. Benefits are based upon amounts accumulated for the account of each individual employee at date of retirement. Contributions by the University for the Plan were \$1,970,768 and \$2,000,075 for the years ended June 30, 2018 and 2017, respectively.

NOTE 16 OTHER POSTRETIREMENT BENEFITS

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

	2018	2017
Accumulated Postretirement Benefit Obligation:		
Retirees	\$ 982,170	\$ 1,072,170
Fully Eligible Active Plan Participants	-	-
Accrued Postretirement Benefit Cost Included in Accounts Payable and Accrued Expenses	\$ 982,170	\$ 1,072,170

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 17 RELATED PARTY

Pledges from certain board of trustee members and parents of trustee members are included in the financial statements. The pledges outstanding were \$659,889 and \$777,425 for the years ended June 30, 2018 and 2017, 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 \$-0- and \$539,972 for the years ended June 30, 2018 and 2017, respectively. Accounts payable at June 30, 2018 and 2017 totaled \$-0-, respectively.

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

NOTE 18 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, nonprofit 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.

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
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NOTE 18 COMBINATION OF UNIVERSITY SCHOOL OF LAW AND WILLIAM MITCHELL SCHOOL OF LAW (CONTINUED)

Certain transactions fees and expenses of the combination are split 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 eight equal installments, without interest, with the first payment made on June 30, 2017. Fees and expenses that were split equally are the cost of all communications, public relations, and 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 \$617,646 and \$720,587 of accounts receivable as of June 30, 2018 and 2017, respectively.

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.

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 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 discontinued operations assets balances were \$4,792 and \$5,248 for the years ended June 30, 2018 and 2017, respectively.

NOTE 19 COMMITMENTS AND CONTINGENCIES

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

For the years ended June 30, 2018 and 2017, the University had commitments to investment funds in the amount of \$2,205,923 and \$2,260,923, respectively, funded through reallocation of investments.

**HAMLIN UNIVERSITY OF MINNESOTA
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NOTE 19 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The University is in the process of implementing two new ERP systems, Workday and Banner 9. Total costs to date for Workday, which have been capitalized as construction in progress, are \$2,304,211 as of June 30, 2018. The University expects the additional costs to complete the project will be approximately \$768,000. Total costs to date for Banner 9, which have been capitalized as construction in progress, are \$177,078 as of June 30, 2018. The University expects the additional costs to complete the project will be approximately \$223,000. There are also various other construction projects totaling \$694,528, which have been capitalized as construction in progress. The University expects the additional costs to complete these projects to be approximately \$1,247,000.

Legal Claims

In the normal course of business, the University has claims made against them. As of June 30, 2018, the amount and likelihood of loss is not determined. The University believes these claims are without merit and intends to vigorously defend the matters.

NOTE 20 SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 11, 2018, the date the financial statements were available to be issued.