

HAMLIN UNIVERSITY OF MINNESOTA
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**HAMLIN UNIVERSITY OF MINNESOTA
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Hamline University of Minnesota which comprise the balance sheets as of June 30, 2019 and 2018, 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, 2019 and 2018, 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 22, 2019

**HAMLIN UNIVERSITY OF MINNESOTA
BALANCE SHEETS
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 1,990,019	\$ 1,338,967
Restricted Cash	2,675,555	3,485,572
Accounts Receivable (Net)	5,641,793	4,872,082
Prepaid Expenses and Other Assets	4,628,335	3,976,345
Contributions Receivable	10,674,562	1,126,070
Student Loans Receivable (Net)	4,503,808	5,629,600
Investments	97,788,428	95,099,638
Property, Plant, and Equipment (Net)	90,899,311	93,475,368
Construction in Progress	85,442	517,450
Beneficial Interest in Trusts	1,508,036	1,627,568
	<u>\$ 220,395,289</u>	<u>\$ 211,148,660</u>
Total Assets	<u>\$ 220,395,289</u>	<u>\$ 211,148,660</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 5,851,769	\$ 6,531,075
Deposits and Deferred Revenue	2,467,403	2,684,792
Annuities and Unitrusts Payable	1,197,639	1,214,277
Perkins Loans Refundable to Government	5,247,141	5,091,993
Long-Term Debt	47,540,904	49,418,958
Total Liabilities	<u>62,304,856</u>	<u>64,941,095</u>
NET ASSETS		
Without Donor Restrictions	61,111,351	52,443,143
With Donor Restrictions	96,979,082	93,764,422
Total Net Assets	<u>158,090,433</u>	<u>146,207,565</u>
Total Liabilities and Net Assets	<u>\$ 220,395,289</u>	<u>\$ 211,148,660</u>

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
OPERATING ACTIVITIES			
REVENUE			
Tuition and Fees, Net of Discount of \$41,500,616 in 2019 and \$40,186,491 in 2018	\$ 55,867,599	\$ -	\$ 55,867,599
Government Grants	2,673,461	-	2,673,461
Contributions	10,853,085	1,411,215	12,264,300
Investment Income, Net	392,799	258,573	651,372
Sale and Services of Educational Activities	758,195	9,135	767,330
Other Sources	4,593,566	200,902	4,794,468
Auxiliary Enterprises	8,525,059	1,786	8,526,845
Subtotal Revenue	<u>27,796,165</u>	<u>1,881,611</u>	<u>29,677,776</u>
Appropriation of Endowment Assets for Expenditure	757,670	3,282,541	4,040,211
Net Assets Released from Restrictions	4,249,495	(4,249,495)	-
Total Operating Revenue and Other Additions	<u>88,670,929</u>	<u>914,657</u>	<u>89,585,586</u>
EXPENSES			
Instruction	24,181,255	-	24,181,255
Academic Support	9,873,164	-	9,873,164
Research	94,723	-	94,723
Public Service	3,522,055	-	3,522,055
Student Services	13,654,990	-	13,654,990
Institutional Support	15,916,002	-	15,916,002
Auxiliary Enterprises	12,612,909	-	12,612,909
Total Expenses	<u>79,855,098</u>	<u>-</u>	<u>79,855,098</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	8,815,831	914,657	9,730,488
NONOPERATING ACTIVITIES			
Contributions	68,724	2,422,993	2,491,717
Net Investment Return	3,997,059	(199,681)	3,797,378
Appropriation of Endowment Assets for Expenditure	(4,040,212)	-	(4,040,212)
Change in Value of Split-Interest Agreements	-	114,637	114,637
Loss on Debt Restructure	-	-	-
Reclassification of Net Assets	37,946	(37,946)	-
Board Designated Unrestricted Spending	(211,140)	-	(211,140)
Total Nonoperating Activity	<u>(147,623)</u>	<u>2,300,003</u>	<u>2,152,380</u>
CHANGE IN NET ASSETS	8,668,208	3,214,660	11,882,868
Net Assets - Beginning of Year	52,443,143	93,764,422	146,207,565
NET ASSETS - END OF YEAR	<u>\$ 61,111,351</u>	<u>\$ 96,979,082</u>	<u>\$ 158,090,433</u>

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018**

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
OPERATING ACTIVITIES			
REVENUE			
Tuition and Fees, Net of Discount of \$41,500,616 in 2019 and \$40,186,491 in 2018	\$ 57,565,001	\$ -	\$ 57,565,001
Government Grants	3,387,533	-	3,387,533
Contributions	2,032,094	1,366,001	3,398,095
Investment Income, Net	333,219	115,963	449,182
Sale and Services of Educational Activities	107,203	495,703	602,906
Other Sources	1,679,642	(772,116)	907,526
Auxiliary Enterprises	8,689,039	-	8,689,039
Subtotal Revenue	<u>16,228,730</u>	<u>1,205,551</u>	<u>17,434,281</u>
Appropriation of Endowment Assets for Expenditure	759,358	3,208,324	3,967,682
Net Assets Released from Restrictions	4,827,729	(4,827,729)	-
Total Operating Revenue and Other Additions	<u>79,380,818</u>	<u>(413,854)</u>	<u>78,966,964</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>78,602,206</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	778,612	(413,854)	364,758
NONOPERATING ACTIVITIES			
Contributions	21,316	1,256,014	1,277,330
Net Investment Return	4,488,757	3,164,959	7,653,716
Appropriation of Endowment Assets for Expenditure	(3,992,638)	-	(3,992,638)
Change in Value of Split-Interest Agreements	-	(50,265)	(50,265)
Loss on Debt Restructure	(4,081,742)	-	(4,081,742)
Reclassification of Net Assets	-	-	-
Board Designated Unrestricted Spending	(14,385)	-	(14,385)
Total Nonoperating Activity	<u>(3,578,692)</u>	<u>4,370,708</u>	<u>792,016</u>
CHANGE IN NET ASSETS	(2,800,080)	3,956,854	1,156,774
Net Assets - Beginning of Year	<u>55,243,223</u>	<u>89,807,568</u>	<u>145,050,791</u>
NET ASSETS - END OF YEAR	<u>\$ 52,443,143</u>	<u>\$ 93,764,422</u>	<u>\$ 146,207,565</u>

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 11,882,868	\$ 1,156,774
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Loss on Disposal of Assets	6,279,992	6,164,773
Net Realized and Unrealized Gain on Investments	(2,378,099)	(6,330,512)
Contributions Restricted for Long-Term Investment	(2,510,039)	(1,238,318)
Adjustment of Actuarial Liability for Annuities Payable	198,426	142,947
Change in Value of Beneficial Interest in Trusts	119,532	121,582
(Increase) Decrease in Assets:		
Accounts Receivable	(769,711)	404,599
Prepaid Expenses and Other Assets	(616,251)	(117,352)
Contributions Receivable	(9,548,492)	127,846
Student Loans Receivable	1,125,792	523,930
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(679,306)	(450,733)
Deposits and Deferred Revenue	(217,389)	(445,936)
Net Cash Provided by Operating Activities	2,887,323	59,600
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property, Plant, and Equipment	(3,271,926)	(10,201,154)
Purchases of Investments	(20,544,843)	(13,778,883)
Proceeds from Sale of Investments	20,234,151	15,510,426
Net Cash Used by Investing Activities	(3,582,618)	(8,469,611)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	-	9,198,806
Proceeds from Contributions Restricted for Long-Term Investment	2,510,039	1,096,491
Grants Refundable to Government	155,148	(1,091,173)
Payments on Long-Term Debt	(1,913,793)	(2,146,754)
Payments on Annuities Payable	(215,064)	(214,264)
Net Cash Provided by Financing Activities	536,330	6,843,106
NET DECREASE IN CASH AND CASH EQUIVALENTS	(158,965)	(1,566,905)
Cash and Cash Equivalents - Beginning of Year	4,824,539	6,391,444
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,665,574	\$ 4,824,539
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 1,990,019	\$ 1,338,967
Restricted Cash	2,675,555	3,485,572
Cash and Cash Equivalents - End of Year	\$ 4,665,574	\$ 4,824,539
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 2,029,621	\$ 2,023,802
Accrued Expenses Relating to Construction in Process	\$ -	\$ 644,783
Issuance of Long-Term Debt Related to Debt Refunding and Defeasance	\$ -	\$ 34,185,000

See accompanying Notes to Financial Statements.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hamline University (University) is a nationally ranked university serving 4,000 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 165 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 18 consecutive years. Hamline is ranked first in Minnesota and 26th in the nation by *Washington Monthly's* College Rankings of service-oriented schools. The Princeton Review named Hamline among the 2018 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.

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 as follows:

Net Assets Without Donor Restriction – Net assets that are not subject to donor-imposed restrictions. Net assets may be designated for specific purposes by action of the board of trustees.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Net Assets With Donor Restrictions – Net assets whose use by the University is subject to donor-imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time. Net assets may be subject to donor-imposed restrictions that they be maintained permanently by the University, 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 net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Net assets with donor restrictions which are met in the current period are reclassified to net assets without donor restriction and reported as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restriction.

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

Cash and Cash Equivalents

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

Restricted Cash

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

Concentrations

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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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's 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, 2019 and 2018, the allowance was \$816,046 and \$926,631, respectively.

Prepaid and Other Assets

Prepaid expenses include payments made on cloud-based software projects that are amortized over the life of the contract once the project is complete. Other expenses include inventories which 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 with donor restriction support. In the absence of such stipulation, contributions of property and equipment are recorded as without donor restriction.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment (Continued)

Depreciation is computed monthly on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 to 75 Years
Land Improvements	10 to 20 Years
Building Improvements	20 Years
Equipment	3 to 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 net assets without donor restriction in the year in which the items are acquired or as donor-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.

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

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification (Continued)

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 net assets with donor restriction invested in perpetuity as net assets with donor restriction invested for a purpose 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 net assets with donor restrictions invested in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 net assets with donor restriction invested in perpetuity as net assets with donor restriction invested for a purpose 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

Revenue from Academic Programs

For both the campus and online programs, tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who officially withdraw before the 10th day of the term will not be responsible for any tuition charges. After that date, the student receives a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. The University offers various fall, spring, winter, and summer sessions that vary in length based on program. Payments for services are due the first day of classes for each respective semester or term.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from Academic Programs (Continued)

The University also provides services, such as housing and food services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the University before the 10th day of the term may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized.

Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition, fees, and auxiliary services:

	Balance at June 30, 2018	Revenue Recognized included in June 30, 2019 balance	Cash Received in Advance of Performance	Balance at June 30, 2019
Deposits	\$ 332,348	\$ 2,413,926	\$ 2,396,915	\$ 315,337
Deferred Programs Revenue	325,258	74,341	5,139	256,056
Deferred Summer Revenue	2,123,465	2,325,196	2,237,157	2,035,426
Deferred Study Abroad Program	(128,423)	381,318	339,210	(170,531)
Total Deferred Revenue	<u>\$ 2,652,648</u>	<u>\$ 5,194,781</u>	<u>\$ 4,978,421</u>	<u>\$ 2,436,288</u>

The balance of deferred revenue at June 30, 2019 less any refunds will be recognized as revenue over the academic term as services are rendered. The University applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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.

Advertising Expense

Advertising expenses are expensed as incurred. Advertising expense for the years ended June 30, 2019 and 2018 was \$1,305,474 and \$948,376, 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, 2019 AND 2018**

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.

Measure of Operations

The University's change in net assets from operating activities includes all operating revenue and expense that are an integral part of its programs and supporting activities including net asset released from donor restrictions to support operating expenditures, as well as investment returns allocated by the board of trustees to support operations as established by the endowment spending policy.

The measure of operations includes support for operating activities without donor restriction and with donor restrictions that are not long-term in nature.

The measure of operations excludes support for nonoperating activities including investment returns in excess of amounts allocated to support current operations, changes in the market value of trusts held by others and other changes in split-interest agreements, and private gifts restricted for long-term investment and capital projects.

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.

Change in Accounting Principle

The University has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-04, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities in 2019*. These changes were applied retroactively to ensure comparability with the prior year with the exception of the liquidity footnote. The update changes presentation and disclosure requirement of nonprofit entities to provide more relevant information about their resources (and the changes to those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. It was the University's policy to imply a time restriction over contributions restricted for long-lived assets. The University had previously reported these contributions as temporarily restricted and implied a time restriction over the useful life of the related asset. This accounting is no longer permitted under ASU 2016-04.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle (Continued)

The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by \$14,657,775 and decreased net assets with donor restrictions by \$14,657,775 as of July 1, 2017, resulting from the reclassification of net assets restricted by long-lived assets. Total net assets did not change at June 30, 2018.

The University has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers, as amended* in 2019. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. There was no material impact to the financial statements as a result of adoption.

The University adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. There was no material impact to the financial statements as a result of adoption.

NOTE 2 CONTRIBUTIONS RECEIVABLE

For the year ended June 30, 2019 contributions receivable included one receivable from a matured bequest that represented 77% of the receivable balance. For the year ended June 30, 2018, contributions receivable included one significant pledge that represented 41% of the receivable balance. Contributions receivable are summarized as follows at June 30:

	2019	2018
Unconditional Promises Expected to be Collected in:		
Less Than One Year	\$ 9,069,152	\$ 208,945
One to Five Years	1,205,480	927,021
More than Five Years	487,500	60,000
Total Contributions	10,762,132	1,195,966
Allowance	-	-
Discount (1.71% and 2.63% for 2019 and 2018, Respectively)	(87,570)	(69,896)
Total Contributions, Net of Discount and Allowance	\$ 10,674,562	\$ 1,126,070

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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, 2019 and 2018, student loans represented 2.0% and 2.7% of total assets, respectively.

At June 30, student loans consisted of the following:

	2019	2018
Federal Government Programs	\$ 4,495,808	\$ 5,629,100
Institutional Programs	8,000	500
Student Loan Receivable, Net	<u>\$ 4,503,808</u>	<u>\$ 5,629,600</u>

Funds advanced by the federal government of \$4,503,808 and \$5,629,600 at June 30, 2019 and 2018, 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, 2019 and 2018, 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
2019	\$ 149,110	\$ 35,896	\$ 1,129,103	\$ 1,314,109
2018	127,796	47,601	1,343,526	1,518,923

NOTE 4 INVESTMENTS

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

	Fair Value	
	2019	2018
Equities:		
Domestic	\$ 50,961,000	\$ 48,052,179
International	19,826,237	20,176,234
Subtotal Equities	<u>70,787,237</u>	<u>68,228,413</u>
Multi-Faceted bonds	22,471,275	21,211,268
Private Equity, Hedge Funds, and Real Assets	3,907,511	4,504,178
Cash and Short-Term Investments	446,888	608,976
Other	175,517	546,803
Total Investments	<u>\$ 97,788,428</u>	<u>\$ 95,099,638</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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	
	2019	2018
Private Equity	\$ 2,313,436	\$ 2,618,444
Real Assets	1,594,075	1,885,734
Total Alternative Investments	\$ 3,907,511	\$ 4,504,178

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, 2019 and 2018, the amount of pooled funds that include the University's assets was \$47,586,401 and \$45,152,848, respectively.

Investments include funds traditionally considered the endowment of the University, as well as assets of split-interest agreements and net assets without donor restriction. As of June 30, the allocations shown at fair value are as follows:

	2019	2018
Endowment Funds	\$ 95,710,215	\$ 92,988,042
Split-Interest Agreements	1,920,752	1,962,257
Without Donor Restriction Investments	157,461	149,339
Total Investments	\$ 97,788,428	\$ 95,099,638

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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:

June 30, 2019	Level 1	Level 2	Level 3	No Level	Total
Investments:					
Fixed Income - Multifaceted Bonds	\$ 529,766	\$ -	\$ -	\$ -	\$ 529,766
Fixed Income Collective Funds					
Measured at Net Asset Value	-	-	-	21,941,509	21,941,509
Equities - Domestic	11,991,483	-	-	-	11,991,483
Equity Collective Funds Measured at Net Asset Value	-	-	-	40,784,392	40,784,392
Equity Long/Short Fund of Funds Measured at Net Asset Value	-	-	-	18,011,362	18,011,362
Alternative Strategies in Illiquid Structures Measured at Net Asset Value	-	-	-	3,907,511	3,907,511
Other	142,121	-	-	-	142,121
Total Investments	12,663,370	-	-	84,644,774	97,308,144
Beneficial Interest in Trusts	-	-	1,508,036	-	1,508,036
Total	<u>\$ 12,663,370</u>	<u>\$ -</u>	<u>\$ 1,508,036</u>	<u>\$ 84,644,774</u>	<u>\$ 98,816,180</u>
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
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>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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>2019</u>	<u>2018</u>
Total Investments	\$ 97,788,428	\$ 95,099,638
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(446,888)	(608,975)
Cash Surrender Value of Life Insurance Policies	<u>(33,396)</u>	<u>(410,593)</u>
Total Investments Measured at Fair Value on a Recurring Basis	<u>\$ 97,308,144</u>	<u>\$ 94,080,070</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, 2019:

Balances as of July 1, 2018	\$ 1,627,568
Net Realized and Unrealized	
Gains on Investments	36,533
Investment Income	-
Purchases of Investments	-
Proceeds from Sales of Investments	(156,065)
Balances as of June 30, 2019	<u>\$ 1,508,036</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, 2018:

Balances as of July 1, 2017	\$ 1,749,150
Net Realized and Unrealized	
Gains 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 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, 2019 AND 2018**

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, 2019:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity Collective Funds	\$ 40,784,392	\$ -	Monthly/Annually	2 to 60 Days
Fixed Income Collective Funds	21,941,509	-	Monthly/Annually	2 to 60 Days
Equity Long/Short Fund of Funds	18,011,362	-	Annually	75 Days
Private Equity	2,313,436	504,467	Not Available	Not Available
Real Estate Funds	1,594,075	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, 2018:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity Collective Funds	\$ 38,886,620	\$ -	Monthly/Annually	2 to 60 Days
Fixed Income Collective Funds	20,715,566	-	Monthly/Annually	2 to 60 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

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.

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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Net Asset Value (Continued)

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:

	2019	2018
Dividend and Interest	\$ 1,974,819	\$ 1,882,982
Advisory Fees	(537,078)	(497,885)
Net Realized and Unrealized Gains	<u>2,378,099</u>	<u>6,330,512</u>
Gain on Assets Held for Investment	3,815,840	7,715,609
Investment Income on Short-Term Investments	<u>321,358</u>	<u>316,878</u>
Total Net Gain on Investments	4,137,198	8,032,487
Investment Gain Designated for Current Operations	<u>339,820</u>	<u>378,771</u>
Investment Gain in Excess of Amount Designated for Current Operations	<u>\$ 3,797,378</u>	<u>\$ 7,653,716</u>

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

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

	2019	2018
Land	\$ 3,028,079	\$ 3,028,079
Land Improvements	9,026,367	8,919,138
Buildings and Building Improvements	151,687,943	150,353,509
Equipment	37,235,840	35,597,558
Academic Collection	<u>10,862,631</u>	<u>10,536,684</u>
Property, Plant, and Equipment	211,840,860	208,434,968
Less: Accumulated Depreciation	<u>(120,941,549)</u>	<u>(114,959,600)</u>
Subtotal Property, Plant, and Equipment, Net of Accumulated Depreciation	90,899,311	93,475,368
Construction in Process	<u>85,442</u>	<u>517,450</u>
Total	<u>\$ 90,984,753</u>	<u>\$ 93,992,818</u>

Total depreciation expense was \$6,279,992 and \$6,164,773 for the years ended June 30, 2019 and 2018, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 without donor restriction or with donor restriction 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, 2019 and 2018 in making the calculation.

Investments held by the University under split-interest agreements totaled \$1,920,815 and \$1,962,257 at June 30, 2019 and 2018, 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, 2019 and 2018 in making the calculation.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 LONG-TERM DEBT

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

<u>Description</u>	<u>2019</u>	<u>2018</u>
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 \$320,033 of bond issuance costs in 2018. The bonds are secured by a reserve account in the amount of \$2,445,671 and \$2,438,349 at June 30, 2019 and 2018.	\$ 37,937,205	\$ 38,673,998
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 \$94,754 of bond issuance costs and a defeased loss of \$55,515 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.	6,049,000	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>4,025,000</u>	<u>4,525,000</u>
Subtotal	48,011,205	49,924,998
Less: Unamortized Bond Issuance Costs and Unamortized Defeased Loss	<u>(470,301)</u>	<u>(506,040)</u>
Total	<u>\$ 47,540,904</u>	<u>\$ 49,418,958</u>

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, 2019 AND 2018**

NOTE 9 LONG-TERM DEBT (CONTINUED)

As of June 30, 2019, 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>
2020	\$ 1,958,000
2021	2,026,000
2022	2,093,000
2023	2,166,000
2024	2,249,000
Thereafter	<u>33,632,000</u>
Total Long-Term Debt	<u>\$ 44,124,000</u>

Total interest expense and amortization on debt was \$1,922,284 and \$2,042,132 for the years ended June 30, 2019 and 2018, respectively.

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>
2020	\$ 1,430,803	\$ 976,742
2021	1,264,100	801,649
2022	2,425,538	1,954,698
2023	929,834	450,604
2024	126,431	81,803
Thereafter	854,842	854,842
Thereafter	-	-
Total Future Minimum Lease Payments	<u>\$ 7,031,549</u>	<u>\$ 5,120,338</u>

Rental expense for the years ended June 30, 2019 and 2018 was \$1,359,206 and \$1,432,200, respectively. Included in those amounts was \$708,463 and \$769,027 of rental expense for office space for the years ended June 30, 2019 and 2018, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 2019 and 2018. Principal is repayable on April 17, 2020, which is the expiration date of the agreement. At June 30, 2019 and 2018, the University had no borrowings under this agreement. The interest rate on this line of credit was 4.29% at June 30, 2019 and 3.94% at June 30, 2018.

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, 2020, which is the expiration date of the agreement. At June 30, 2019 and 2018, the University had no borrowings under this agreement.

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 2019 and 2018, the University endowment appropriation designated for current operations was \$4,040,212 and \$3,992,638, respectively.

From time-to-time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. As of June 30, 2019, funds with original gift values of \$5,271,496, and fair values of \$5,234,235, and deficiencies of \$37,261 were reported in net assets with donor restrictions. As of June 30, 2018, funds with original gift values of \$1,968,111, and fair values of \$1,947,297, and deficiencies of \$20,814 were reported in net assets with donor restrictions. Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new with donor restrictions invested in perpetuity contributions and continued appropriations for certain programs that was deemed prudent by the board of trustees.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 12 ENDOWMENT (CONTINUED)

Endowment by Net Asset Class

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 87,453,456	\$ 87,453,456
Board-Designated Endowment Funds	13,096,395	-	13,096,395
Total Funds	<u>\$ 13,096,395</u>	<u>\$ 87,453,456</u>	<u>\$ 100,549,851</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 84,984,224	\$ 84,984,224
Board-Designated Endowment Funds	13,128,473	-	13,128,473
Total Funds	<u>\$ 13,128,473</u>	<u>\$ 84,984,224</u>	<u>\$ 98,112,697</u>

Changes in Endowment Net Assets

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 13,128,473	\$ 84,984,224	\$ 98,112,697
Investment Return	3,797,378	-	3,797,378
Net Appreciation (Depreciation)	199,681	(199,681)	-
Contributions	10,000	2,422,993	2,432,993
Appropriation of Endowment Assets for Expenditure	(4,040,212)	-	(4,040,212)
Other	1,075	245,920	246,995
Endowment Net Assets, End of Year	<u>\$ 13,096,395</u>	<u>\$ 87,453,456</u>	<u>\$ 100,549,851</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 12,611,036	\$ 80,563,193	\$ 93,174,229
Investment Return	7,653,716	-	7,653,716
Net Appreciation (Depreciation)	(3,164,959)	3,164,959	-
Contributions	20,250	1,166,303	1,186,553
Appropriation of Endowment Assets for Expenditure	(3,992,638)	-	(3,992,638)
Other	1,068	89,769	90,837
Endowment Net Assets, End of Year	<u>\$ 13,128,473</u>	<u>\$ 84,984,224</u>	<u>\$ 98,112,697</u>

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 13 RESTRICTIONS AND LIMITATION ON NET ASSET BALANCES

The board has designated \$13,096,394 of net assets without donor restriction as funds functioning as endowment as of June 30, 2019.

Net asset with donor restriction are available for the following purposes as of June 30:

	2019	2018
Donor-Restricted Net Assets not invested in Perpetuity:		
Program Support	\$ 5,986,597	\$ 5,185,530
Physical Plant Acquisition	967,142	988,243
Accumulated Earnings from Endowment Funds Subject to Donor Restrictions	17,774,441	17,957,674
Split-Interest Agreements	444,176	317,526
Total Donor-Restricted Net Assets not Invested in Perpetuity	25,172,356	24,448,973
 Donor-Restricted Net Assets Invested in Perpetuity:		
Endowment	69,716,276	67,047,364
Underwater Endowment	(37,261)	(20,814)
Split-Interest Agreements	2,085,167	2,246,355
Gifts designated for Student Loans	42,544	42,544
Total Donor-Restricted Net Assets Invested in Perpetuity	71,806,726	69,315,449
 Total Net Assets with Donor Restrictions	\$ 96,979,082	\$ 93,764,422

Net assets were released from donor restriction as expenses were incurred satisfying the with donor restriction purposes or by the passage of time or the occurrence of other events specified by donors as follows for the years ended June 30:

	2019	2018
RELEASE OF RESTRICTIONS		
Operating:		
Scholarship Support	\$ 2,106,261	\$ 2,107,424
Other Instructional Support	1,805,429	2,418,889
Operating Budget Support	337,805	301,416
Total Operating Net Assets Released from Restriction	4,249,495	4,827,729
 Total Net Assets Released from Restriction	\$ 4,249,495	\$ 4,827,729

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 14 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION

The University reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS). During the year expenses are directly coded to program activities (instruction, research, academic support, student services, and auxiliary enterprises) or support services (institutional services, which includes fundraising). Expenses which are not directly identifiable by program or support service including operation and maintenance of plant expenses are allocated based on depreciation expense, interest expense is allocated based on the programs and/or supporting functions that directly benefit from the related debt issuance.

Expenses are categorized as a functional expense as follows:

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.

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 Support 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 14 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)

All expense categories, except Institutional Support, are considered Program Service expenses. Expenses associated with the operation and maintenance of plant, depreciation and interest expense are allocated across all functional expense categories as follows:

- **Depreciation** expense for buildings and equipment are allocated based on the use of the building.
- **Plant Operation and Maintenance** expenses for the administration, supervision, operation, maintenance, preservation, and protection of the University's physical plant follow depreciation allocations.
- **Interest Expense** follows the depreciation allocations.

Program activities reflect the major activities of the institution for instruction, research, academic support, student services, and auxiliary enterprises. Support activities include institutional support and fundraising.

Expenses reported by function on the statement of activities and changes in net assets are summarized by natural classification for the year ended June 30, 2019:

	Program Activities	Support Activities		Total
		Institutional Support	Fundraising	
Salaries and Wages (incl. students)	\$ 25,985,173	\$ 6,473,839	\$ 956,925	\$ 33,415,937
Employee Benefits	7,005,889	1,653,020	339,856	8,998,765
Professional Services	4,533,910	729,706	59,973	5,323,589
Dining Service	3,575,227	-	-	3,575,227
Advertising and Promotion	1,366,586	728,651	13,612	2,108,849
Office Expenses	3,281,238	689,612	81,799	4,052,649
General, Program, Other Expense	1,290,521	879,768	74,639	2,244,928
Travel	2,408,988	229,138	39,708	2,677,834
Information Technology	983,731	1,899,778	9,040	2,892,549
Facility Overhead Expense	5,799,051	567,901	21,925	6,388,877
Interest	1,780,252	109,058	6,592	1,895,902
Depreciation and Amortization	5,928,530	331,429	20,033	6,279,992
Total Expenses	\$ 63,939,096	\$ 14,291,900	\$ 1,624,102	\$ 79,855,098

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 14 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)

Expenses reported by function on the statement of activities and changes in net assets are summarized by natural classification for the year ended June 30, 2018:

	Program Activities	Support Activities		Total
		Institutional Support	Fundraising	
Salaries and Wages (incl. students)	\$ 26,202,465	\$ 6,244,476	\$ 910,458	\$ 33,357,399
Employee Benefits	7,420,721	1,017,831	190,237	8,628,789
Professional Services	4,251,701	273,897	245,312	4,770,910
Dining Service	3,585,630	-	-	3,585,630
Advertising and Promotion	1,264,208	504,964	10,150	1,779,322
Office Expenses	3,276,414	807,452	169,768	4,253,634
General, Program, and Other Expense	1,002,914	1,333,121	81,850	2,417,885
Travel	2,195,668	220,248	62,268	2,478,184
Information Technology	981,414	1,938,835	14,474	2,934,723
Facility Overhead Expense	5,848,604	340,221	-	6,188,825
Interest	1,917,562	112,033	12,537	2,042,132
Depreciation and Amortization	5,693,387	436,696	34,690	6,164,773
Total Expenses	\$ 63,640,688	\$ 13,229,774	\$ 1,731,744	\$ 78,602,206

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

	2019	2018
Beginning Balance	\$ 335,318	\$ 349,703
Additions	-	-
Expense	(211,140)	(14,385)
Ending Balance	<u>\$ 124,178</u>	<u>\$ 335,318</u>

NOTE 15 LIQUIDITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments. The University considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support general institutional expenditures.

In addition to financial assets available to meet general expenditures, the University operates with a balanced operating budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. As more fully described in Note 11 of the Financial Statements, the University also has committed lines of credit in the amount of \$7,000,000 and \$3,000,000 with banks, which it could draw upon in the event of an unanticipated liquidity need.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 15 LIQUIDITY (CONTINUED)

For purposes of analyzing resources, the University considers various sources of liquidity including cash and cash equivalents, receivables, and investments. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. In addition, the University invests cash in excess of daily requirements in short-term investments. As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and Cash Equivalents	\$ 1,990,019
Contributions for General Expenditures Due in One Year or Less	9,069,152
Accounts Receivable, Net	4,471,698
Investments	13,059,133
Investments Appropriated for Current Use	759,382
Total Financial Assets	<u>\$ 29,349,384</u>

Board-designated endowment in the amount of \$13,096,394 at June 30, 2019 is subject to an annual spending rate as described in Note 12, Endowment footnote. Although the University does not intend to spend from the gift corpus of these funds, these amounts could be made available if deemed necessary.

NOTE 16 RETIREMENT PLAN

The University participates in the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) (the Plan), which covers certain faculty and staff employees. Nonelective discretionary contributions equal to 5% of eligible compensation and discretionary match contributions up to 2.5% of pretax elective deferrals are required under the program. Benefits are based upon amounts accumulated for the account of each individual employee at date of retirement. Contributions by the University for the Plan were \$1,926,060 and \$1,970,768 for the years ended June 30, 2019 and 2018, 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 prefund these costs.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 17 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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>2019</u>	<u>2018</u>
Accumulated Postretirement Benefit Obligation:		
Retirees	\$ 947,170	\$ 982,170
Fully Eligible Active Plan Participants	<u>-</u>	<u>-</u>
Accrued Postretirement Benefit Cost Included in Accounts Payable and Accrued Expenses	<u>\$ 947,170</u>	<u>\$ 982,170</u>

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 \$1,962,500 and \$659,889 for the years ended June 30, 2019 and 2018, 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 \$467,230 and \$0- for the years ended June 30, 2019 and 2018, 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, 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.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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

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.

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 \$514,705 and \$617,646 of accounts receivable as of June 30, 2019 and 2018, 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. That agreement resulted in revenue of \$23,842 and \$-0- for the years ended June 30, 2019 and 2018, respectively.

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 \$3,801 and \$4,792 for the years ended June 30, 2019 and 2018, respectively.

**HAMLIN UNIVERSITY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 20 COMMITMENTS AND CONTINGENCIES

For the years ended June 30, 2019 and 2018, the University had commitments to investment funds in the amount of \$2,227,140 and \$2,205,923, respectively, funded through reallocation of investments.

Legal Claims

In the normal course of business, the University has claims made against them. As of June 30, 2019, 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 21 SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 22, 2019, the date the financial statements were available to be issued.