

**LINCOLN UNIVERSITY OF THE COMMONWEALTH
SYSTEM OF HIGHER EDUCATION**

**Financial Statements Together with
Report of Independent Public Accountants**

For the Years Ended June 30, 2019 and 2018



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2019 AND 2018

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Trustees
Lincoln University of the Commonwealth System of Higher Education

Report on the Financial Statements

We have audited the accompanying statements of financial position of Lincoln University of the Commonwealth System of Higher Education, Inc. (the University), of as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 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.

Owings Mills, Maryland
November 21, 2019

SB & Company, LLC

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Statements of Financial Position
As of June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 20,603,883	\$ 20,022,470
Student receivables, net of allowance of \$6,466,894 and \$5,326,757, respectively	5,163,154	4,938,382
Federal and state government receivables	2,503,903	1,988,420
Other receivables	300,841	1,114,487
Prepaid expenses	1,449,541	378,978
Inventories	318,614	266,297
Loans receivable, net of allowance of \$1,918,250 and \$1,712,612, respectively	663,877	1,033,928
Investments	44,003,726	41,535,635
Funds held in trust	894,035	888,216
Funds held in escrow	-	445,560
Property and equipment, net	231,078,653	224,119,599
Total Assets	<u>\$ 306,980,227</u>	<u>\$ 296,731,972</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 6,032,970	\$ 3,616,795
Student deposits	371,375	1,097,824
Deferred revenue	2,417,407	339,983
Line of credit	7,000,000	5,000,000
Loans payable	2,423,596	3,145,804
Bonds payable, net	29,175,155	30,426,946
Asset retirement obligation	565,946	534,000
Government advances for student loans	1,203,708	1,301,297
Total Liabilities	<u>49,190,157</u>	<u>45,462,649</u>
Net Assets		
Without donor restrictions	43,876,676	42,898,545
With donor restrictions	213,913,394	208,370,778
Total Net Assets	<u>257,790,070</u>	<u>251,269,323</u>
Total Liabilities and Net Assets	<u>\$ 306,980,227</u>	<u>\$ 296,731,972</u>

The accompanying notes are an integral part of these financial statements.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2019 with Comparative Totals for 2018**

	2019			Total 2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenue				
Tuition and fees	\$ 30,955,846	\$ -	\$ 30,955,846	\$ 29,829,635
Room and board	16,988,947	-	16,988,947	16,403,796
Less: student aid	(14,936,907)	-	(14,936,907)	(16,227,677)
Net tuition and fees	33,007,886	-	33,007,886	30,005,754
Government appropriations	14,869,000	-	14,869,000	14,436,000
Pell grant	6,841,338	-	6,841,338	6,369,617
Contracts and sponsored activities	5,024,304	-	5,024,304	4,697,182
Private gifts and grants	652,959	564,003	1,216,962	1,623,872
Endowment income, net	69,456	655,375	724,831	529,654
Other investment income, net	55,432	-	55,432	37,552
Other	2,221,350	-	2,221,350	785,725
Net assets released from restriction	1,730,061	(1,730,061)	-	-
Total Operating Revenue	64,471,786	(510,683)	63,961,103	58,485,356
Operating Expenses				
Program Services				
Instruction	18,567,629	-	18,567,629	17,226,012
Research	4,351,489	-	4,351,489	3,871,306
Student services	7,798,449	-	7,798,449	6,669,939
Auxiliary enterprises	18,419,317	-	18,419,317	18,158,146
Total Program expenses	49,136,884	-	49,136,884	45,925,403
Supporting Services				
Academic Support	3,087,060	-	3,087,060	2,276,129
Administration and institutional support	10,815,870	-	10,815,870	9,937,496
Fundraising	850,380	-	850,380	738,777
Total Supporting expenses	14,753,310	-	14,753,310	12,952,402
Total Operating Expenses	63,890,194	-	63,890,194	58,877,805
Change in net assets from operations	581,592	(510,683)	70,909	(392,449)
Non-operating items				
State contribution for capital projects	-	9,093,021	9,093,021	1,104,872
Contributions - endowment	100,000	255,070	355,070	503,991
Realized and unrealized gains on Investments	296,539	2,536,302	2,832,841	3,181,359
Depreciation of State contributed assets	-	(5,831,094)	(5,831,094)	(5,906,837)
Total Non-operating items	396,539	6,053,299	6,449,838	(1,116,615)
Changes in Net Assets	978,131	5,542,616	6,520,747	(1,509,064)
Net assets, beginning of year	42,898,545	208,370,778	251,269,323	252,778,387
Net Assets, End of Year	\$ 43,876,676	\$ 213,913,394	\$ 257,790,070	\$ 251,269,323

The accompanying notes are an integral part of this financial statement.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Tuition and fees	\$ 29,829,635	\$ -	\$ 29,829,635
Room and board	16,403,796	-	16,403,796
Less: student aid	(16,227,677)	-	(16,227,677)
Net tuition and fees	30,005,754	-	30,005,754
Government appropriations	14,436,000	-	14,436,000
Pell grant	6,369,617	-	6,369,617
Contracts and sponsored activities	4,697,182	-	4,697,182
Private gifts and grants	1,022,728	601,144	1,623,872
Endowment income, net	52,633	477,021	529,654
Other investment income, net	37,552	-	37,552
Other	785,725	-	785,725
Net assets released from restriction	1,614,860	(1,614,860)	-
Total Operating Revenue	59,022,051	(536,695)	58,485,356
Operating Expenses			
Program Services			
Instruction	17,226,012	-	17,226,012
Research	3,871,306	-	3,871,306
Student services	6,669,939	-	6,669,939
Auxiliary enterprises	18,158,146	-	18,158,146
Total Program expenses	45,925,403	-	45,925,403
Supporting Services			
Academic Support	2,276,129	-	2,276,129
Administration and institutional support	9,937,496	-	9,937,496
Fundraising	738,777	-	738,777
Total Supporting expenses	12,952,402	-	12,952,402
Total Operating Expenses	58,877,805	-	58,877,805
Change in net assets from operations	144,246	(536,695)	(392,449)
Non-operating items			
State contribution for capital projects	-	1,104,872	1,104,872
Contributions - endowment	100,000	403,991	503,991
Realized and unrealized gains (losses) on Investments	286,509	2,894,850	3,181,359
Depreciation of State contributed assets	-	(5,906,837)	(5,906,837)
Changes in Net Assets	530,755	(2,039,819)	(1,509,064)
Net assets, beginning of year	42,367,790	210,410,597	252,778,387
Net Assets, End of Year	\$ 42,898,545	\$ 208,370,778	\$ 251,269,323

The accompanying notes are an integral part of this financial statement.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Statement of Functional Expenses
For the Year Ended June 30, 2019 With Comparative Totals For 2018**

	For the Year Ended June 30, 2019							Total	2018
	Program Services				Supporting Services				
	Instruction	Research	Student Services	Auxiliary Enterprises	Academic Support	Administrative & Institutional Support	Fundraising		
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,550	\$ -	\$ 81,550	\$ 98,004
Advertising and promotion	22,094	3,673	36,481	-	3,220	171,538	7,805	244,811	184,603
Auxiliary	10,950	-	-	7,175	-	-	-	18,125	242,818
Conferences	21,281	40,122	6,176	-	3,514	2,340	6,050	79,483	75,516
Contracted services	1,415,183	373,457	479,149	6,786,037	213,621	917,942	27,554	10,212,943	10,210,899
Depreciation	-	-	-	5,167,973	-	-	-	5,167,973	4,833,006
Grants	-	213,299	-	-	-	-	-	213,299	255,354
Information technology	42,225	295,738	10,445	-	-	5,986	-	354,394	169,470
Insurance	-	-	-	-	-	835,035	-	835,035	800,108
Interest expense	-	-	-	8,877	-	2,481,276	-	2,490,153	2,628,516
Legal	-	-	-	-	4,773	211,815	-	216,588	219,360
Maintenance	32,324	349	30,264	533,000	3,475	9,882	-	609,294	231,502
Meals	14,468	64,815	60,097	3,693,759	2,471	32,413	191	3,868,214	3,782,689
Occupancy	43,087	-	-	1,578,557	-	-	-	1,621,644	1,803,761
Office expenses	827,455	146,181	65,316	124,828	16,882	158,701	15,967	1,355,330	1,341,710
Other	-	-	5,113	-	-	102,255	4,953	112,321	-
Pension plan contributions	901,890	92,831	325,724	5,230	192,446	337,537	35,821	1,891,479	1,756,890
Professional development	8,757	434,623	63,393	500	25,220	40,584	3,785	576,862	460,753
Program activities	1,165,477	94,378	667,255	402,846	36,338	261,957	48,608	2,676,859	2,313,031
Salaries and benefits	13,778,012	2,409,430	4,820,099	103,822	2,370,475	5,031,902	609,902	29,123,642	25,885,590
Student salaries	35,041	2,447	423,604	6,550	135,755	8,951	8,512	620,860	263,501
Travel and transportation	249,385	180,146	805,333	163	78,870	124,206	81,232	1,519,335	1,320,724
TOTAL EXPENSES	\$ 18,567,629	\$ 4,351,489	\$ 7,798,449	\$ 18,419,317	\$ 3,087,060	\$ 10,815,870	\$ 850,380	\$ 63,890,194	\$ 58,877,805

The accompanying notes are an integral part of this financial statement.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Statement of Functional Expenses
For the Year Ended June 30, 2018**

	For the Year Ended June 30, 2018							
	Program Services				Supporting Services			
	Instruction	Research	Student Services	Auxiliary Enterprises	Academic Support	Administrative & Institutional Support	Fundraising	Total
Accounting	\$ -	\$ -	\$ 9,731	\$ -	\$ -	\$ 88,273	\$ -	\$ 98,004
Advertising and promotion	7,845	5,203	37,814	-	225	107,537	25,979	184,603
Auxiliary	21,900	-	2,008	218,910	-	-	-	242,818
Conferences	15,028	41,335	9,589	-	1,753	6,191	1,620	75,516
Contracted services	1,178,644	599,660	343,202	6,869,446	89,192	1,015,054	115,701	10,210,899
Depreciation	-	-	-	4,738,198	-	94,808	-	4,833,006
Grants	-	252,753	1,601	-	1,000	-	-	255,354
Information technology	2,133	164,843	743	-	238	1,513	-	169,470
Insurance	-	-	-	-	-	800,108	-	800,108
Interest expense	-	-	-	7,661	-	2,620,855	-	2,628,516
Legal	-	-	-	-	4,653	214,707	-	219,360
Maintenance	11,251	400	10,988	195,454	729	12,680	-	231,502
Meals	2,178	41,929	44,989	3,645,041	7,668	37,219	3,665	3,782,689
Occupancy	38,632	-	-	1,765,129	-	-	-	1,803,761
Office expenses	404,251	200,426	94,117	359,737	42,310	205,553	35,316	1,341,710
Other	-	-	-	-	-	-	-	-
Pension plan contributions	906,738	75,933	282,800	2,716	138,152	326,266	24,285	1,756,890
Professional development	6,306	335,709	60,075	500	11,985	39,800	6,378	460,753
Program activities	1,104,958	102,188	577,055	285,030	71,601	96,959	75,240	2,313,031
Salaries and benefits	13,246,363	1,798,946	4,344,463	68,270	1,800,332	4,195,233	431,983	25,885,590
Student salaries	18,189	-	154,477	1,665	89,144	26	-	263,501
Travel and transportation	261,596	251,981	696,287	389	17,147	74,714	18,610	1,320,724
TOTAL EXPENSES	\$ 17,226,012	\$ 3,871,306	\$ 6,669,939	\$ 18,158,146	\$ 2,276,129	\$ 9,937,496	\$ 738,777	\$ 58,877,805

The accompanying notes are an integral part of this financial statement.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 6,520,747	\$ (1,509,064)
Operating activities:		
Amortization	9,607	9,607
Depreciation	10,361,939	10,629,668
Accretion	31,946	(50,000)
Net realized and unrealized gains on investments	(2,827,022)	(3,181,359)
Net gain on funds held in trust by others	(5,819)	-
Contributions restricted for capital project costs paid by state	(9,093,021)	(1,104,872)
Contributions restricted for endowment	(255,070)	(403,991)
Effects of changes in non-cash operating assets and liabilities:		
Student receivables, net	(224,772)	543,167
Federal and State government receivables	(515,483)	(282,847)
Other receivables	813,646	(660,583)
Prepaid expenses	(1,070,563)	(205,520)
Inventories	(52,317)	(15,533)
Accounts payable and accrued expenses	2,416,175	355,826
Student deposits	(726,449)	105,800
Deferred revenue	2,077,424	(185,028)
Government advances for student loans	(97,589)	(49,878)
Net cash from operating activities	7,363,379	3,995,393
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions restricted for capital project costs paid by state	9,093,021	1,104,872
Purchases of property and equipment	(17,320,993)	(6,778,196)
Proceeds from sale of investments	1,851,265	5,694,211
Purchase of investments	(1,492,332)	(5,566,247)
Funds held in escrow	445,560	1,351,815
Disbursements of loans to students	-	(118,385)
Repayments of loans from students	370,050	220,604
Net cash from investing activities	(7,053,429)	(4,091,326)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	255,070	403,991
Principal payments on capital lease obligations	-	(39,916)
Principal payments on bonds payable	(1,261,399)	(1,220,850)
Payments on loans payable	(722,208)	(307,022)
Proceeds (borrowings) from line of credit, net	2,000,000	5,000,000
Net cash from financing activities	271,463	3,836,203
Net change in cash and cash equivalents	581,413	3,740,270
Cash and cash equivalents, beginning of year	20,022,470	16,282,200
Cash and Cash Equivalents, End of Year	\$ 20,603,883	\$ 20,022,470
Supplemental information:		
Interest paid	\$ 1,009,371	\$ 1,055,915

The accompanying notes are an integral part of these financial statements.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2019 and 2018

1. BACKGROUND

Nature of Operations

Lincoln University of the Commonwealth System of Higher Education (the University) is a state-related, nonsectarian, coeducational, four-year institution of higher education with an Undergraduate campus located in southern Chester County, Pennsylvania and a School of Adult Continuing Education (SACE) located in Philadelphia, Pennsylvania. Under the Lincoln University Act of the General Assembly of the Commonwealth of Pennsylvania, 12 of the University's 39 board members are appointed by elected officials of the Commonwealth of Pennsylvania.

Enrollment

Total undergraduate and graduate student billing equivalents (BE's) were increased from 2,125 in fiscal year 2018 to 2,242 in fiscal year 2019. Starting with the 2014/2015 school year, Lincoln introduced a fixed tuition policy. Incoming freshman are guaranteed no increases in tuition for four years from their start date. After four years, any remaining semesters are charged at the current rate. Undergraduate tuition was increased by 2.5% from fiscal year 2018 to fiscal year 2019 for incoming freshman and senior classes. Tuition for the sophomore class is fixed at the 2017/2018 tuition rate. Tuition for the junior class is fixed at the 2016/2017 rate. Tuition for the senior class is fixed at the 2015/2016 rate. Graduate tuition did not increase. Student tuition, and room and board revenues before student aid in fiscal year 2019 increased by \$1,892,641 compared to fiscal year 2018.

Accreditation

Since 1922, the University has been a member of, and is accredited by, the Middle States Commission on Higher Education (MSCHE). Lincoln University was last reaffirmed on June 27, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred, without regard to the date of receipt or payment of cash.

Student Tuition Revenue

Student tuition revenue is recorded at the established rates net of student aid provided directly by the University, endowed scholarships, and certain federal grants. The University recognizes tuition revenue in the semester that it is earned.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Student Tuition Revenue (continued)

Any payments received in advance for the subsequent year are classified as deferred revenue and student deposits in the statements of financial position.

Title IV Requirements

The University participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2019 and 2018 are dependent upon the University's continued participation in the Title IV programs.

Student Receivables

Student receivables are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the University's historical losses and periodic review of individual accounts. Student receivables are written off when they are determined to be uncollectible based on management's assessment of individual accounts.

Student Loans

The student loans receivable primarily represents loans to students funded by advances to the University by the Federal government under the Federal Perkins Loan Program (the Program). In the event that the University ceases to participate in the Program, the amounts are refundable to the Federal government. The Federal government's portion of these funds as of June 30, 2019 and 2018 was \$1,203,708 and \$1,301,297, respectively.

The prescribed practices for the Programs do not provide for accrual of interest on student loans receivable or for a provision of allowance on accrual of interest on student loans receivable. Accordingly, interest on loans is recorded as received and is reinvested to support additional loans. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions, including unconditional promises to give (contributions receivable), are recognized as revenues in the period received. Contributions received for capital projects or perpetual endowment funds are reported as non-operating revenue. All other contributions are reported as operating revenue. Contributions and other revenue with donor-imposed restrictions that are met in the same period are reported as revenue without donor restrictions. If restrictions are not met in the same period, then such revenue are reported as revenue with donor restrictions. Conditional promises to give are not recognized until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift, except that contributions of works of art, historical treasures and similar assets held as part of collections are not recognized or capitalized. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue. An allowance is made for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Expenses are reported as decreases in net assets without donor restrictions. Expiration of restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Revenue from sources other than contributions and related endowment income are reported as increases in net assets without donor restrictions in the period earned. Revenue under grants, contracts and similar agreements with sponsoring organizations are recognized as allowable expenditures are incurred.

Non-operating revenue include contributions of assets to be held in perpetuity as well as realized and unrealized gains from investments, state contributions for capital assets and corresponding depreciation.

Certain accumulated realized and unrealized gains on endowments are considered restricted based on a Pennsylvania law that limits the use of accumulated gains on endowment assets. The law permits a not-for-profit organization to spend a portion of such gains on endowment under a spending formula (see Note 4).

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Asset Classifications

The University is subject to the Bylaws of Lincoln University of the Commonwealth System of Higher Education adopted on November 20, 1999. Under the Bylaws, the Board of Trustees is charged with the stewardship of all University contributions. Certain contributions are received subject to other gift instruments or are subject to specific agreements with the University under the terms of the Bylaws. The Board of Trustees has the ability to distribute so much of the earnings on the corpus of any trust or separate gift, devise, bequest, or fund, in its sole discretion. All contributions not classified with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

Net assets and revenue, expenses, gains and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

Net assets with donor restrictions are those whose use by the University have been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net assets with donor restrictions also consist of funds that are restricted by donors to be maintained by the University in perpetuity. Those assets represent endowment and scholarship funds, the principal portion of which is not available for use by the University.

Net assets without donor restrictions are assets and contributions that are not restricted by donors or for which restrictions have expired. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.

Inventories

Inventories consist of supplies and are stated at the lower of cost or market.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investments in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Land, buildings and equipment are stated at cost or, if donated, at fair market value at the date of gift less accumulated depreciation. Depreciation of buildings and equipment is computed over the estimated economic lives of the assets using the straight-line method and recorded as an operating expense. Depreciation for donated capital assets is recorded as a non-operating expense since the related revenue is recorded as non-operating revenue.

The estimated useful lives of depreciable assets are:

Building and improvements	5 to 50 years
Furniture, fixtures and equipment	3 to 5 years

Repairs and maintenance are expensed as incurred. Management's policy is to capitalize property and equipment acquisitions having a cost exceeding \$500.

The General State Authority of the Commonwealth of Pennsylvania (the Authority) has made available to the University, with nominal cost, certain buildings and other improvements that it has constructed on campus. In connection with such construction, the University has deeded to the Authority tracts of land as sites for certain projects. The projects have been financed by the Authority. The buildings and improvements have been recorded in the financial statements at the construction cost incurred per the Authority. The land is then returned to the University.

Collections and Works of Art

The University maintains collections of art and literature. The collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets in the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as net assets with donor restrictions, if the assets used to purchase the items are restricted by donors. Contributed items are not reflected in the accompanying financial statements. Proceeds from the deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

The University's collections are made up of artifacts of historical significance, scientific specimens and art objects that are held for educational, research, scientific and curatorial purposes. Each of the items is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Retirement Obligations

Asset Retirement Obligations (ARO) are initially recorded at fair value and the related asset retirement costs are capitalized. Uncertainty about the timing of an obligation's settlement is factored into the measurement of the liability.

Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the ARO's liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The University reduces ARO liabilities when the related obligations are settled.

Bond Issuance Costs and Discounts

Costs related to the issuance of bonds and the bond discounts are amortized over the life of the related debt on a straight-line basis, which approximates the effective yield method. As of June 30, 2019 and 2018, accumulated amortization of bond issuance costs was \$54,423 and \$44,816, respectively, and are reported net of the bonds payable.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. The costs providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services that benefit from those costs. Administrative & institutional support expenses include those expenses that are not directly identified with any other specific function, but provide for the overall support and direction of the University. Salaries and related expenses are allocated to their corresponding departmental functions. Equipment costs, depreciation and insurance related expenses are also allocated by departmental function.

Income Taxes

The University is generally exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Income which is not related to exempt purposes, less applicable deductions, may be subject to Federal and state corporate income taxes (unrelated business income).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The University performed an evaluation of uncertain tax positions for the year ended June 30, 2019, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of June 30, 2019, the statute of limitations for fiscal years 2016 through 2019, remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the University files tax returns.

The University's policy is to recognize interest related to unrecognized tax benefits in interest income and penalties in operating expenses.

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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Funds Held in Trust

Fair value of the funds held in trust is based on the University's interest in the fair value of the underlying assets, which approximate the present value of estimated future cash flows to be received from the trusts.

Grants and Contracts

The University receives grants and contracts from Federal, state and private agencies for various purposes. Grant receipts not yet received are accrued to the extent that unreimbursed expenses have been incurred for the purposes specified by an approved grant.

Deferred Revenue

Deferred revenue for tuition represents monies received from students that the University collected but did not earn. Advances received under the contracts are deferred until earned.

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**Notes to the Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The University evaluated subsequent events through November 21, 2019, which is the date these financial statements were available for issuance, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

Pronouncements Implemented

In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment returns, expenses, liquidity and availability of resources, and presentation of operating cashflows. The University implemented ASU No. 2016-14 for the fiscal year 2019. Due to the adoption, the presentation of these financial statements and footnotes were updated accordingly. Certain prior-year amounts have been reclassified to conform to the current presentation. These reclassifications have no impact on the financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements in Topic 820. Early adoption is permitted. This ASU is effective for fiscal years beginning after December 15, 2019.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprise. This ASU is effective for periods beginning after December 15, 2019.

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**Notes to the Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Standards Not Yet Adopted (continued)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU provides clarity on the treatment of eight specifically defined types of cash inflows and outflows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with an option for early adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This ASU will require the entity to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provide further clarity and transition options for adoption of FASB ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows that an entity recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. These ASUs will be effective for periods beginning after December 15, 2019 and December 15, 2020.

Management is evaluating the effects of these pronouncements on the financial statements and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

Liquidity and Availability of Resources

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of instruction as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources (continued)

Refer to the statement of cash flows which identifies the sources and uses of the University's cash and shows positive cash generated by operations for fiscal years 2019 and 2018.

As of June 30, 2019, the following table shows the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets to meet general expenditures over the next 12 months

Cash and cash equivalents	\$ 20,603,883
Accounts receivable:	
Federal and state government receivables	2,503,903
Other receivables	300,841
Total financial assets to meet general expenditures over the next 12 months	<u><u>\$ 23,408,627</u></u>

3. CASH AND CASH EQUIVALENTS

Cash equivalents are investments with an original maturity of three months or less and consists of money market fund. As of June 30, 2019 and 2018, cash and cash equivalents was \$20,603,883 and \$20,022,470, respectively.

4. INVESTMENTS

Accounting Standards for fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Quoted prices in markets that are not active, quoted prices for similar securities, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

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**Notes to the Financial Statements
June 30, 2019 and 2018**

4. INVESTMENTS (continued)

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

A financial asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodology used for investments measured at fair value.

Commonfund multi-strategy equity fund, multi-strategy bond funds, funds held in trust and money market: Valued based on underlying assets of the fund as valued by the fund's management.

There have been no changes in the methodology used as of June 30, 2019.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the University believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of June 30, 2019 and 2018, were as follows:

	As of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Multi-Strategy Equity Fund	\$ -	\$ 31,742,915	\$ -	\$ 31,742,915
State Street Inst US Govt				
Money Mkt Fund	-	5,933	-	5,933
Multi-Strategy Bond Fund	-	12,254,878	-	12,254,878
Funds held in trust	-	-	894,035	894,035
Total	\$ -	\$ 44,003,726	\$ 894,035	\$ 44,897,761

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Multi-Strategy Equity Fund	\$ 28,608	\$ 29,819,020	\$ -	\$ 29,847,628
State Street Inst US Govt				
Money Mkt Fund	-	5,667	-	5,667
Multi-Strategy Bond Fund	-	11,682,340	-	11,682,340
Funds held in trust	-	-	888,216	888,216
Total	\$ 28,608	\$ 41,507,027	\$ 888,216	\$ 42,423,851

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**Notes to the Financial Statements
June 30, 2019 and 2018**

4. INVESTMENTS (continued)

The investment category represents the following:

The Commonfund Multi-Strategy Equity Fund is a multi-strategy program which allocates assets across a broad spectrum of public equity strategies. The majority of the program's assets generally are directly or indirectly invested in a portfolio of common stocks, and securities convertible into common stocks, of U.S. companies. As of June 30, 2019 and 2018, the fair value of the University's investment was \$31,742,915 and \$29,819,020, respectively. The fund has a redemption period requiring five business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

The Commonfund Multi-Strategy Bond Fund is a multi-strategy program which allocates assets across a broad spectrum of fixed income sectors. The majority of the program's assets generally are directly or indirectly invested in dollar-denominated investment grade bonds and other fixed income securities in an attempt to outperform the broad U.S. bond market. Under normal circumstances, at least 80 percent of the net assets of the program are invested directly or indirectly in fixed income securities or cash. As of June 30, 2019 and 2018, the fair value of the University's investment was \$12,254,878 and \$11,682,340, respectively. The fund has a redemption period requiring five business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

Commonfund Treasury Access is an electronic cash investment platform designed to help nonprofit institutional investors manage operating reserves and working capital balances. It is a Web-based platform that enables the investor to distribute liquidity among multiple providers and to select from a menu of investment options. Options range from treasury-only funds to more diversified money funds to prime money market funds. As of June 30, 2019 and 2018, the fair value of the University's investment was \$5,933 and \$5,667, respectively. The fund has a redemption period requiring five business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
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4. INVESTMENTS (continued)

A summary of investments at cost and fair value is as follows as of June 30:

	2019	
	<u>Cost</u>	<u>Fair Value</u>
Pooled investments	\$ 12,883,246	\$ 44,003,726
Funds held in trust	874,043	894,035
	<u>\$ 13,757,289</u>	<u>\$ 44,897,761</u>

	2018	
	<u>Cost</u>	<u>Fair Value</u>
Pooled investments	\$ 13,242,176	\$ 41,535,635
Funds held in trust	815,375	888,216
	<u>\$ 14,057,551</u>	<u>\$ 42,423,851</u>

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

	<u>2019</u>	<u>2018</u>
Dividends and interest, endowment	\$ 822,381	\$ 622,098
Other investment income	63,598	46,029
Net realized and unrealized gains on investments, net	2,832,840	3,181,359
Investment fees	(105,715)	(100,921)
Total Investment Income, Net	<u>\$ 3,613,104</u>	<u>\$ 3,748,565</u>

Investment fees were \$105,715 and \$100,921 for the years ended June 30, 2019 and 2018, respectively.

For assets measured on a recurring basis falling within the Level 3 in the fair value hierarchy, the activity recognized during the years ended June 30, was as follows:

	<u>Funds Held in Trust</u>	
	<u>2019</u>	<u>2018</u>
Balance, beginning of period	\$ 888,216	\$ 874,043
Unrealized gain	5,819	21,301
Fund transferred to endowment	-	(7,128)
Balance, end of period	<u>\$ 894,035</u>	<u>\$ 888,216</u>

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**Notes to the Financial Statements
June 30, 2019 and 2018**

5. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30:

	2019	2018
Land and improvements	\$ 1,321,084	\$ 1,158,283
Building and improvements	333,259,918	326,382,145
Furniture, fixtures and equipment	29,440,718	26,559,570
Construction in progress	11,984,808	4,585,537
Total	376,006,528	358,685,535
Less: accumulated depreciation	144,927,875	134,565,936
Property and Equipment, Net	\$ 231,078,653	\$ 224,119,599

Depreciation expense was \$10,361,939 and \$10,629,668, for the years ended June 30, 2019 and 2018, respectively.

Main Campus Revitalization Project

The Commonwealth of Pennsylvania (the Commonwealth) has begun several projects with budgets totaling approximately \$43,300,000 to revitalize the Main Campus of Lincoln University.

Project costs of \$9,093,021 and \$1,104,872, of assets were placed in service during 2019 and 2018, respectively. Each project is considered a contribution with restriction due to the restriction placed on the asset by the Commonwealth. When the assets are placed in service, depreciation expense is recorded until the assets are fully depreciated over their useful lives. The transactions have been recorded as revenue when donated. Depreciation for State contributed capital assets is recorded as a non-operating expense, since the related revenue is recorded as non-operating revenue.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2019 and 2018**

5. PROPERTY AND EQUIPMENT (continued)

Main Campus Revitalization Project (continued)

Assets placed in service during fiscal years 2019 and 2018, were as follows:

Commonwealth of Pennsylvania, Department of General Services		Funded Amount	
		2019	2018
Project Number	Description		
C-1101-0046	Softball Field	\$ -	\$ 25,000
C-1101-0048	Dickey Hall	7,699,942	77,768
C-1101-0050	Azikiwe Nkrumah Hall	594,872	86,105
C-1101-0051	Amos Hall	405,326	-
Q-1101-0027	University Hall	-	43,381
Q-1101-0037	Ware Center	217,973	16,981
Q-1101-0040	Student Union	12,563	-
Q-1101-0041	Nelson Science Center	-	72,376
Q-1101-0044	Library FF&E	144,530	-
Q-1101-0047	Wellness Center	17,815	783,261
Total		\$ 9,093,021	\$ 1,104,872

6. LONG-TERM DEBT AND LEASE OBLIGATIONS

A summary of the University's long-term debt and line of credit as of June 30, 2019 and 2018, was as follows:

Bonds Payable

On October 3, 2013, the University issued \$29,426,858 aggregate principal amount of its Revenue Refunding Notes, Series 2013A (the 2013A Bonds) and \$7,381,175 aggregate principal amount of its Federally Taxable Revenue Refunding Notes, Series 2013B (the 2013B Bonds), together the 2013 Bonds. The 2013 Bonds were issued pursuant to a Bond Purchase and Loan Agreement by and between the University and PNC Bank, National Association. The proceeds of the 2013A Bonds were used to: (I) advance refund the University's Pennsylvania Economic Development Financing Authority Revenue Bonds, Series 2004A (then outstanding in the principal amount of \$27,890,000) by funding a deposit to an escrow account sufficient to pay the redemption price of the 2004A Bonds and accrued interest to the redemption date, and (II) to pay costs associated with the issuance of the 2013A Bonds.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
June 30, 2019 and 2018**

6. LONG-TERM DEBT AND LEASE OBLIGATIONS (continued)

Bonds Payable (continued)

The proceeds of the 2013B Bonds were used to: (I) refund the University’s Pennsylvania Economic Development Financing Authority Federally Taxable Revenue Bonds, Series 2004B (then outstanding in the principal amount of \$6,925,000) by funding a deposit to an escrow account sufficient to pay the redemption price of the 2004B Bonds and accrued interest to the redemption date, and (II) to pay costs associated with the issuance of the 2013B Bonds. As a result of the refinancing, the University received \$2.7 million from the release of the investments restricted for debt service and will realize an actual debt service savings of \$3.4 million from 2013 through 2023 (the period of the interest rate lock).

Future principal payments as of June 30, 2019, were as follows:

<u>For the years ended June 30,</u>	<u>Series 2013 A Bonds</u>	<u>Series 2013 B Bonds</u>	<u>Total</u>
2020	\$ 1,164,169	\$ 150,454	\$ 1,314,623
2021	1,200,538	153,832	1,354,370
2022	1,239,961	162,040	1,402,001
2023	1,282,203	169,965	1,452,168
2024	1,317,012	177,597	1,494,609
2025-2029	7,264,078	996,130	8,260,208
2030-2034	8,508,793	1,203,201	9,711,994
2035-2036	3,796,703	551,142	4,347,845
Total	<u>\$ 25,773,457</u>	<u>\$ 3,564,361</u>	<u>29,337,818</u>
Less: bond issuance cost			<u>162,663</u>
			<u>\$ 29,175,155</u>

Loan Payable- Energy Conservation Project (the Project)

On November 21, 2016, the University entered into an agreement with Aramark and PNC Bank, National Association, to upgrade the University’s facilities via a performance bond. The proceeds of the performance bond were deposited into an escrow account with US Bank who will remit said funds based upon percentage of completion. As of June 30, 2019, the project was completed. As of June 30, 2018, the balance remaining in the escrow account was \$445,560, and reported in the funds held in escrow on the accompanying statement of financial position.

On November 21, 2016, the University entered into a loan agreement with PNC Equipment Lease, LLC, for the amount of \$3,601,959, maturing in November 2026. This loan agreement was subsequently amended on February 5, 2019, for revised payment schedule.

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**Notes to the Financial Statements
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6. LONG-TERM DEBT AND LEASE OBLIGATIONS (continued)

Loan Payable- Energy Conservation Project (continued)

Future principal payments as of June 30, 2019, were as follows:

<u>For the years ended June 30,</u>	<u>Amount</u>
2020	\$ 284,252
2021	295,384
2022	306,952
2023	318,973
2024	331,465
2025-2027	886,570
Total	\$ 2,423,596

Line of Credit

The University currently maintains a \$10,000,000 revolving line of credit for use as working capital or other general business purposes. The line of credit is secured by the gross revenue of the University. The line of credit expires on December 31, 2019. The University had \$7,000,000 outstanding as of June 30, 2019.

7. ASSET RETIREMENT OBLIGATION

The future asset retirement obligation as of June 30, 2019, was estimated by the University based on asbestos abatement cost of University buildings. Based on a new study that was completed during the fiscal year 2019, the University estimated its total undiscounted asset retirement obligation to be \$720,650. As of June 30, 2018, the future asset retirement obligation was \$534,000 and the University used a credit adjusted risk free rate of 6.72% and an inflation rate of 1.00% to calculate the present value of the asset retirement obligation. Settlement of the obligations will be funded from general funds at the time of retirement or removal. As of June 30, 2019 and 2018, no funds have been set aside to settle these obligations.

The following table provides a reconciliation of the University's total asset retirement obligation as of June 30:

	<u>2019</u>	<u>2018</u>
Balance, beginning of period	\$ 534,000	\$ 584,000
Accretion	186,650	-
Abatements	(154,704)	(50,000)
Balance, end of period	\$ 565,946	\$ 534,000

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
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8. NET ASSETS

Net assets with donor restrictions as of June 30, were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Invested in State contributed capital	\$ 169,512,430	\$ 166,250,504
Cumulative endowments earnings	24,075,363	22,187,405
Restricted for scholarships and other purposes	4,442,792	4,210,949
Funds held in trust by others restricted for scholarships	894,035	888,216
Endowment principal restricted for scholarships and other purposes in perpetuity	<u>14,988,774</u>	<u>14,833,704</u>
Total With Donor Restrictions Net Assets	<u><u>\$ 213,913,394</u></u>	<u><u>\$ 208,370,778</u></u>

9. ENDOWMENTS

The University's endowments consist of various individual funds established for a variety of purposes. Its endowments include both a donor-restricted endowment fund and a fund designated by the Board of Trustees to function as an endowment. 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.

Interpretation of Relevant Law

The University's policy is to require 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. The University classifies as net assets with donor restrictions in perpetuity (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 net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions available for appropriation until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the relevant state law.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2019 and 2018

9. ENDOWMENTS (continued)

Interpretation of Relevant Law (continued)

Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the University considers the following factors:

- 1) the duration and preservation of the fund,
- 2) the purposes of the University and the donor-restricted endowment fund,
- 3) general economic conditions,
- 4) the possible effect of inflation and deflation,
- 5) the expected total return from income and appreciation of investments,
- 6) other resources of the University, and
- 7) the investment policies of the University.

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the University to retain as a fund of perpetual duration. These deficiencies are reported as net assets without donor restrictions. There were no such deficiencies reported as of June 30, 2019 and 2018.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Commonwealth of Pennsylvania law (Investment in Trust Funds - 15 Pa. Cons. Stat 5548) permits the University to allocate to income each year, a portion of endowment net realized gains under an endowment spending policy. The University's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The current long-term return objective is to return 5-7% net of investment fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
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9. ENDOWMENTS (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending

The spending policy calculates the amount of money annually distributed from the University's various endowed funds for scholarships and other activities. The current spending policy is to distribute an amount equal to 5% of a moving three-year average. Accordingly, over the long-term, the University expects current spending policy to allow its endowment assets to grow at an average rate of 1.50% annually. This is consistent with the University's objective to maintain the purchasing power of endowment assets, as well as to provide additional real growth through new gifts and investment return.

Endowment net assets composition by type of fund as of June 30, 2019 and 2018, are summarized below:

2019				
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Donor designated endowment funds	\$ -	\$ 24,075,363	\$ 14,988,774	\$ 39,064,137
Board designated endowment funds	5,073,378	-	-	5,073,378
Total Endowment funds	\$ 5,073,378	\$ 24,075,363	\$ 14,988,774	\$ 44,137,515

2018				
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Donor designated endowment funds	\$ -	\$ 22,187,405	\$ 14,833,704	\$ 37,021,109
Board designated endowment funds	5,116,218	-	-	5,116,218
Total Endowment funds	\$ 5,116,218	\$ 22,187,405	\$ 14,833,704	\$ 42,137,327

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**Notes to the Financial Statements
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9. ENDOWMENTS (continued)

Changes in endowment net assets for the years ended June 30, 2019 and 2018, are summarized below:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Balance as of June 30, 2018	\$ 5,116,218	\$ 22,187,405	\$ 14,833,704	\$ 42,137,327
Net investment income	69,456	655,375	-	724,831
Net income on investments	296,538	2,536,302	-	2,832,840
Contributions	100,000	100,000	155,070	355,070
Withdrawal of spending allocation	-	(1,403,719)	-	(1,403,719)
Other withdrawals	(105,715)	-	-	(105,715)
Transfers	(403,119)	-	-	(403,119)
Balance as of June 30, 2019	\$ 5,073,378	\$ 24,075,363	\$ 14,988,774	\$ 44,137,515

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Balance as of June 30, 2017	\$ 4,704,742	\$ 20,143,835	\$ 14,429,713	\$ 39,278,290
Net investment income	52,633	477,021	-	529,654
Net income on investments	286,509	2,873,549	-	3,160,058
Contributions	100,000	-	403,991	503,991
Withdrawal of spending allocation	-	(1,307,000)	-	(1,307,000)
Other withdrawals	(93,567)	-	-	(93,567)
Transfers	65,901	-	-	65,901
Balance as of June 30, 2018	\$ 5,116,218	\$ 22,187,405	\$ 14,833,704	\$ 42,137,327

10. GOVERNMENT APPROPRIATIONS

The University received the following appropriations from the Commonwealth of Pennsylvania for the years ended June 30, 2019 and 2018:

	2019	2018
Operations	\$ 14,869,000	\$ 14,436,000
State contributions for capital projects (see Note 5)	9,093,021	1,104,872
Total	\$ 23,962,021	\$ 15,540,872

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11. COMMITMENTS AND CONTINGENCIES

The University has been named in or is an indirect party to a small number of suits, alleging such matters as unfair labor practices and personal injury. The University believes that the resolution of any outstanding claims and litigation will not have a material adverse effect on the University's financial statements.

In December 2013, the University entered into an agreement with Xerox Corporation to provide a range of services related to printing, copying, faxing and scanning. From January 1, 2014 through December 31, 2018 (the term of the agreement), Xerox provided repair services, supplies, maintenance kits and drums for all of the University's laser printing devices as well as for Xerox contracted devices. For the year ended June 30, 2018, the University paid a monthly charge of \$8,553 for the support of non-Xerox equipment. Contracted Xerox equipment was billed at a monthly minimum base price of \$18,877. Included in the price for both Xerox and non-Xerox equipment was a base number of impressions that were included. Impressions above this base amount were billed at a per impression charge. In January 2019, the University extended the agreement with Xerox and their related service company Stewart Business Systems for an additional five-year period. The new minimum base charges are \$3,343 payable to Stewart Business Systems for maintenance and \$13,396 payable to Xerox for the equipment lease per month.

The University employs approximately 325 employees. Approximately 36% of the University's employees are covered by union contracts. Union employees are covered under one of three contracts. The Clerical Union Contract expired on July 1, 2019. The Police Union Contract expired on July 1, 2017. The Facility Union Contract expired on September 1, 2019. All three contracts are currently being re-negotiated.

Operating Leases

The University leases equipment for general operations. All leases as of June 30, 2019 will expire within the next four years. Operating lease expense was \$227,489 for the year ended June 30, 2019.

The following is a schedule, by years, of future minimum lease payments under operating leases of June 30, 2019.

<u>Years ending June 30:</u>	
2020	\$ 123,220
2021	22,723
2022	11,997
2023	11,997
Total	\$ 169,937

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12. MASTER LEASE AGREEMENT

On May 30, 2007, the University entered into a Master Lease agreement for its 3020 Market Street, Philadelphia property it owns. Brandywine Realty Trust is the lessee. For the 75-year term of the lease, the lessee is responsible for all renovations in the building, most taxes and insurance, most operating expenses, utilities, repairs, maintenance and property management, security, and real estate broker services for leasing to commercial tenants.

The University has retained full ownership of the land and building. There is no recourse for any of the debts or liabilities of the lessee resulting from the renovations, and the University has no liability for such improvements.

The University has the right to occupy one floor and a small portion of another for \$1 per year for the entire lease term, the right to occupy a small portion of another floor at commercial market rate, and share in all common tenant expenses. For all other space in the building, the University has assigned all current and future tenants and rents to the lessee. The University has rights to a share of certain future profits, with no guaranteed or minimum amount, from sub-leases by the lessee. The University recorded \$491,272 and \$309,993 in revenue under this lease for the years ended June 30, 2019 and 2018, respectively.

The recorded asset value as of June 30, 2019 and 2018, for this property was \$7,712,086, with accumulated depreciation of \$2,994,956 and \$2,856,138, as of June 30, 2019 and 2018, respectively.

13. RETIREMENT BENEFITS

The University participates in the Teachers' Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF), a multi-employer defined contribution pension plan that is made available to all employees. The University contributes 5% of eligible employees' gross salary and matches employees' contributions up to a maximum of 5%. Retirement benefit expense for the years ended June 30, 2019 and 2018, was \$1,891,479 and \$1,756,890, respectively.

14. RELATED PARTY TRANSACTIONS

The University's By-Laws require full disclosure of any related party matters or conflicts of interest of Board members. Affected Board members are prohibited from participating in such matters without approval in writing from the Board on the terms of their allowed participation. The University believes that this policy is being followed, and that there are no related party transactions to report.