

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

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

For the Years Ended June 30, 2020 and 2019



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

JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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 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 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.



SB & COMPANY, LLC
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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, 2020 and 2019, 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, MD
November 21, 2020

SB + Company, LLC

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

**Statements of Financial Position
As of June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 21,474,532	\$ 20,603,883
Student receivables, net of allowance of \$7,557,808 and \$6,466,894, respectively	6,157,289	5,163,154
Federal and state government receivables	1,797,680	2,503,903
Other receivables	292,416	300,841
Prepaid expenses	1,303,082	1,449,541
Inventories	262,284	318,614
Loans receivable, net of allowance of \$1,958,729 and \$1,918,250, respectively	496,556	663,877
Investments	44,389,394	44,003,726
Funds held in trust	857,777	894,035
Property and equipment, net	227,892,002	231,078,653
Total Assets	\$ 304,923,012	\$ 306,980,227
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 5,803,092	\$ 6,032,970
Student deposits	257,891	371,375
Deferred revenue	2,450,687	2,417,407
Capital lease obligations	267,563	-
Line of credit	10,000,000	7,000,000
Loans payable	2,139,344	2,423,596
Bonds payable, net	27,870,139	29,175,155
Asset retirement obligation	582,025	565,946
Government advances for student loans	583,513	1,203,708
Total Liabilities	49,954,254	49,190,157
Net Assets		
Without donor restrictions	44,154,984	43,876,676
With donor restrictions	210,813,774	213,913,394
Total Net Assets	254,968,758	257,790,070
Total Liabilities and Net Assets	\$ 304,923,012	\$ 306,980,227

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, 2020 with Comparative Totals for 2019**

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenue				
Tuition and fees	\$ 29,447,540	\$ -	\$ 29,447,540	\$ 30,955,846
Room and board	14,183,317	-	14,183,317	16,988,947
Less: student aid	(14,125,876)	-	(14,125,876)	(14,936,907)
Net tuition and fees	29,504,981	-	29,504,981	33,007,886
Government appropriations	15,166,000	-	15,166,000	14,869,000
Pell grant	6,560,919	-	6,560,919	6,841,338
Contracts and sponsored activities	11,134,591	-	11,134,591	5,024,304
Private gifts and grants	680,507	745,942	1,426,449	1,216,962
Endowment income, net	(79,178)	196,176	116,998	724,831
Other investment (expense)/ income, net	25,820	-	25,820	55,432
Other	1,084,486	-	1,084,486	2,221,350
Net assets released from restriction	1,045,342	(1,045,342)	-	-
Total Operating Revenue	65,123,468	(103,224)	65,020,244	63,961,103
Operating Expenses				
Program Services				
Instruction	18,495,378	-	18,495,378	18,567,629
Research	4,469,723	-	4,469,723	4,351,489
Student services	8,569,656	-	8,569,656	7,798,449
Auxiliary enterprises	18,582,310	-	18,582,310	18,419,317
Total Program expenses	50,117,067	-	50,117,067	49,136,884
Supporting Services				
Academic support	3,001,877	-	3,001,877	3,087,060
Administration and institutional support	10,496,954	-	10,496,954	10,815,870
Fundraising	1,404,340	-	1,404,340	850,380
Total Supporting expenses	14,903,171	-	14,903,171	14,753,310
Total Operating Expenses	65,020,238	-	65,020,238	63,890,194
Change in net assets from operations	103,230	(103,224)	6	70,909
Non-operating items				
State contribution for capital projects	-	2,025,029	2,025,029	9,093,021
Contributions - endowment	100,000	222,491	322,491	355,070
Realized and unrealized gains on investments	75,078	654,204	729,282	2,832,841
Depreciation of State contributed assets	-	(5,898,120)	(5,898,120)	(5,831,094)
Total Non-operating items	175,078	(2,996,396)	(2,821,318)	6,449,838
Changes in Net Assets	278,308	(3,099,620)	(2,821,312)	6,520,747
Net assets, beginning of year	43,876,676	213,913,394	257,790,070	251,269,323
Net Assets, End of Year	\$ 44,154,984	\$ 210,813,774	\$ 254,968,758	\$ 257,790,070

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, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenue			
Tuition and fees	\$ 30,955,846	\$ -	\$ 30,955,846
Room and board	16,988,947	-	16,988,947
Less: student aid	<u>(14,936,907)</u>	<u>-</u>	<u>(14,936,907)</u>
Net tuition and fees	33,007,886	-	33,007,886
Government appropriations	14,869,000	-	14,869,000
Pell grant	6,841,338	-	6,841,338
Contracts and sponsored activities	5,024,304	-	5,024,304
Private gifts and grants	652,959	564,003	1,216,962
Endowment income, net	69,456	655,375	724,831
Other investment income, net	55,432	-	55,432
Other	2,221,350	-	2,221,350
Net assets released from restriction	1,730,061	(1,730,061)	-
Total Operating Revenue	<u>64,471,786</u>	<u>(510,683)</u>	<u>63,961,103</u>
Operating Expenses			
Program Services			
Instruction	18,567,629	-	18,567,629
Research	4,351,489	-	4,351,489
Student services	7,798,449	-	7,798,449
Auxiliary enterprises	18,419,317	-	18,419,317
Total Program expenses	<u>49,136,884</u>	<u>-</u>	<u>49,136,884</u>
Supporting Services			
Academic Support	3,087,060	-	3,087,060
Administration and institutional support	10,815,870	-	10,815,870
Fundraising	850,380	-	850,380
Total Supporting expenses	<u>14,753,310</u>	<u>-</u>	<u>14,753,310</u>
Total Operating Expenses	<u>63,890,194</u>	<u>-</u>	<u>63,890,194</u>
Change in net assets from operations	581,592	(510,683)	70,909
Non-operating items			
State contribution for capital projects	-	9,093,021	9,093,021
Contributions - endowment	100,000	255,070	355,070
Realized and unrealized gains (losses) on Investments	296,539	2,536,302	2,832,841
Depreciation of State contributed assets	<u>-</u>	<u>(5,831,094)</u>	<u>(5,831,094)</u>
Changes in Net Assets	978,131	5,542,616	6,520,747
Net assets, beginning of year	42,898,545	208,370,778	251,269,323
Net Assets, End of Year	<u>\$ 43,876,676</u>	<u>\$ 213,913,394</u>	<u>\$ 257,790,070</u>

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, 2020 With Comparative Totals For 2019**

	For the Year Ended June 30, 2020								2019
	Program Services				Supporting Services				
	Instruction	Research	Student Services	Auxiliary Enterprises	Academic Support	Administrative & Institutional Support	Fundraising	Total	
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,268	\$ -	\$ 78,268	\$ 81,550
Advertising and promotion	13,201	39,033	13,040	56	2,784	102,047	87,293	257,454	244,811
Auxiliary	-	-	1,606	-	-	-	-	1,606	18,125
Conferences	10,534	7,940	3,805	-	4,728	8,610	6,480	42,097	79,483
Contracted services	1,659,159	674,108	610,589	6,977,092	166,532	726,089	58,842	10,872,411	10,212,943
Depreciation	-	-	-	5,826,267	-	-	-	5,826,267	5,167,973
Grants	-	172,909	-	-	3,413	-	-	176,322	213,299
Information technology	146,280	229,589	3,425	-	163	9,615	-	389,072	354,394
Insurance	-	-	-	-	-	924,020	-	924,020	835,035
Interest expense	-	-	-	7,370	-	2,176,422	-	2,183,792	2,490,153
Legal	-	-	-	-	3,224	220,925	16,334	240,483	216,588
Maintenance	1,112	-	62,478	382,652	-	3,859	-	450,101	609,294
Meals	36,742	41,726	35,877	2,954,012	709	111,383	2,620	3,183,069	3,868,214
Occupancy	52,854	-	26,741	1,571,322	-	-	-	1,650,917	1,621,644
Office expenses	460,873	232,905	24,630	114,800	19,175	113,235	22,476	988,094	1,355,330
Other	-	-	-	-	328	16,553	7,791	24,672	112,321
Pension plan contributions	923,792	84,419	342,190	7,108	237,524	343,702	56,345	1,995,080	1,891,479
Professional development	19,721	355,111	76,075	-	32,053	47,339	4,431	534,730	576,862
Program activities	1,345,851	166,923	698,306	508,647	27,322	159,412	83,888	2,990,349	2,676,859
Salaries and benefits	13,722,705	2,364,806	5,834,190	103,785	2,353,842	5,322,359	966,683	30,668,370	29,123,642
Student salaries	24,928	3,404	161,695	5,152	110,070	12,996	28,731	346,976	620,860
Travel and transportation	77,626	96,850	675,009	124,047	40,010	120,120	62,426	1,196,088	1,519,335
TOTAL EXPENSES	\$ 18,495,378	\$ 4,469,723	\$ 8,569,656	\$ 18,582,310	\$ 3,001,877	\$ 10,496,954	\$ 1,404,340	\$ 65,020,238	\$ 63,890,194

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**

	Program Services				Supporting Services			Total
	Instruction	Research	Student Services	Auxiliary Enterprises	Academic Support	Administrative & Institutional Support	Fundraising	
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,550	\$ -	\$ 81,550
Advertising and promotion	22,094	3,673	36,481	-	3,220	171,538	7,805	244,811
Auxiliary	10,950	-	-	7,175	-	-	-	18,125
Conferences	21,281	40,122	6,176	-	3,514	2,340	6,050	79,483
Contracted services	1,415,183	373,457	479,149	6,786,037	213,621	917,942	27,554	10,212,943
Depreciation	-	-	-	5,167,973	-	-	-	5,167,973
Grants	-	213,299	-	-	-	-	-	213,299
Information technology	42,225	295,738	10,445	-	-	5,986	-	354,394
Insurance	-	-	-	-	-	835,035	-	835,035
Interest expense	-	-	-	8,877	-	2,481,276	-	2,490,153
Legal	-	-	-	-	4,773	211,815	-	216,588
Maintenance	32,324	349	30,264	533,000	3,475	9,882	-	609,294
Meals	14,468	64,815	60,097	3,693,759	2,471	32,413	191	3,868,214
Occupancy	43,087	-	-	1,578,557	-	-	-	1,621,644
Office expenses	827,455	146,181	65,316	124,828	16,882	158,701	15,967	1,355,330
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
Professional development	8,757	434,623	63,393	500	25,220	40,584	3,785	576,862
Program activities	1,165,477	94,378	667,255	402,846	36,338	261,957	48,608	2,676,859
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
Student salaries	35,041	2,447	423,604	6,550	135,755	8,951	8,512	620,860
Travel and transportation	249,385	180,146	805,333	163	78,870	124,206	81,232	1,519,335
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

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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,821,312)	\$ 6,520,747
Operating activities:		
Amortization	9,607	9,607
Depreciation	11,724,387	10,361,939
Accretion	16,079	31,946
Net realized and unrealized gains on investments	(729,282)	(2,827,022)
Net gain/(loss) on funds held in trust by others	36,258	(5,819)
Contributions restricted for capital project costs paid by state	(2,025,029)	(9,093,021)
Contributions restricted for endowment	(222,491)	(255,070)
Effects of changes in non-cash operating assets and liabilities:		
Student receivables, net	(994,135)	(224,772)
Federal and State government receivables	706,223	(515,483)
Other receivables	8,425	813,646
Prepaid expenses	146,459	(1,070,563)
Inventories	56,330	(52,317)
Accounts payable and accrued expenses	(229,878)	2,416,175
Student deposits	(113,484)	(726,449)
Deferred revenue	33,280	2,077,424
Government advances for student loans	(620,195)	(97,589)
Net cash from operating activities	<u>4,981,242</u>	<u>7,363,379</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions restricted for capital project costs paid by state	2,025,029	9,093,021
Purchases of property and equipment	(8,238,554)	(17,320,993)
Proceeds from sale of investments	1,842,404	1,851,265
Purchase of investments	(1,498,791)	(1,492,332)
Funds held in escrow	-	445,560
Repayments of loans from students	167,321	370,050
Net cash from investing activities	<u>(5,702,591)</u>	<u>(7,053,429)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	222,491	255,070
Principal payments on capital lease obligations	(31,619)	-
Principal payments on bonds payable	(1,314,622)	(1,261,399)
Payments on loans payable	(284,252)	(722,208)
Proceeds from line of credit, net	3,000,000	2,000,000
Net cash from financing activities	<u>1,591,998</u>	<u>271,463</u>
Net change in cash and cash equivalents	<u>870,649</u>	<u>581,413</u>
Cash and cash equivalents, beginning of year	<u>20,603,883</u>	<u>20,022,470</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,474,532</u>	<u>\$ 20,603,883</u>
Supplemental information:		
Interest paid	\$ 988,937	\$ 1,009,371
Capital lease	\$ 299,182	\$ -

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, 2020 and 2019

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) decreased from 2,242 in fiscal year 2019 to 2,125 in fiscal year 2020. 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% for Pennsylvania students and 3% for out-of-state students from fiscal year 2019 to fiscal year 2020 for incoming freshman. Tuition for the sophomore class is fixed at the 2019/2019 tuition rate. Tuition for the junior class is fixed at the 2019/2019 rate. Tuition for the senior class is fixed at the 2019/2019 rate. Graduate tuition did not increase. Student tuition, and room and board revenue before student aid in fiscal year 2020 decreased by \$4,313,936, compared to fiscal year 2019. This was largely driven by the impact of COVID-19 on the spring semester.

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.

Foundation

Lincoln University Foundation of Pennsylvania (the Foundation) was established in July 2019, for the charitable and educational purposes permitted by Section 501(c) (3) of the Internal Revenue Code to act exclusively for the benefit to carry out the purpose of the University as a supporting organization. There was no activity of the Foundation in fiscal year 2020. The University is in the process of determining the amount of certain investments, held by the University as of June 30, 2020, to be transferred to the Foundation in fiscal year 2021.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying 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. Any payments received in advance for the subsequent year are classified as deferred tuition, which is included with deferred revenue 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, 2020 and 2019, are dependent upon the University's continued participation in the Title IV programs.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with an original maturity of three months or less.

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). The Program ended on September 30, 2017, with final disbursements permitted through June 30, 2018. The amounts are refundable to the Federal government. The Federal government's portion of these funds as of June 30, 2020 and 2019, was \$583,513 and \$1,203,708, respectively.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Student Loans (continued)

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. 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.

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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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 9).

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. Additionally, the Campus Store inventories are for resale purposes and are valued at a First-In, First-Out (FIFO) basis.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 accompanying statements of financial position and the statements of activities.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. As a result, widespread shutdowns of states, cities, schools, and businesses began to take place, impacting the United States, and specifically the greater Philadelphia area, as the number of people infected grows at an unprecedented rate. The COVID-19 outbreak is still evolving, and its financial impact remains unknown. There is significant uncertainty around the impact on the global economy, duration of business disruptions, and financial and operating viability of entities in the United States related to COVID-19. The University took the impact into consideration when evaluating and accounting for impact to impairment to assets and the establishment to the other collectability of receivables and known facts at the time of preparing the financial statements; however, the University is currently unable to determine the extent of the impact to its future financial condition and operating results.

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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2020 and 2019, accumulated amortization of bond issuance costs was \$64,792 and \$54,423, 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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses (continued)

Accordingly, certain costs have been allocated among the program and supporting services that benefit from those costs. Administrative and 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).

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, 2020, 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, 2020, the statute of limitations for fiscal years 2019 through 2020, 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.

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

**Notes to the Financial Statements
June 30, 2020 and 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Subsequent Events

The University evaluated subsequent events through November 21, 2020, 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 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.

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 University implemented ASU No. 2018-08 and 2016-15 for the fiscal year 2020. The impact of the implementation to the financial statements was immaterial.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

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 2020 and 2019.

As of June 30, 2020, 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	\$ 21,474,532
Accounts receivable:	
Students, net of allowance of \$7,557,808	6,157,289
Federal and state government receivables	1,797,680
Other	<u>292,416</u>
Total financial assets to meet general expenditures over the next 12 months	<u><u>\$ 29,721,917</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, 2020 and 2019, cash and cash equivalents was \$21,474,532 and \$20,603,883, 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.

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
June 30, 2020 and 2019**

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, Commonfund multi-strategy bond funds, funds held in trust and money market fund: Valued based on underlying assets of the fund or the market of similar assets.

There have been no changes in the methodology used as of June 30, 2020.

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, 2020 and 2019, were as follows:

	As of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Commonfund Multi-Strategy Equity Fund	\$ -	\$ 31,363,925	\$ -	\$ 31,363,925
State Street Inst US Govt				
Money Mkt Fund	-	6,373	-	6,373
Commonfund Multi-Strategy Bond Fund	-	13,019,096	-	13,019,096
Funds held in trust	-	-	857,777	857,777
Total	\$ -	\$ 44,389,394	\$ 857,777	\$ 45,247,171

	As of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Commonfund Multi-Strategy Equity Fund	\$ -	\$ 31,742,915	\$ -	\$ 31,742,915
State Street Inst US Govt				
Money Market Fund	-	5,933	-	5,933
Commonfund 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

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2020 and 2019

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, 2020 and 2019, the fair value of the University's investment was \$31,363,925 and \$31,742,915, 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, 2020 and 2019, the fair value of the University's investment was \$13,019,096 and \$12,254,878, 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, 2020 and 2019, the fair value of the University's investment was \$6,373 and \$5,933, 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
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2020 and 2019**

4. INVESTMENTS (continued)

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

	2020	
	Cost	Fair Value
Pooled investments	\$ 12,503,367	\$ 44,389,394
Funds held in trust	888,216	857,777
	<u>\$ 13,391,583</u>	<u>\$ 45,247,171</u>

	2019	
	Cost	Fair Value
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>

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

	2020	2019
Dividends and interest, endowment	\$ 216,401	\$ 822,381
Other investment income	25,820	63,598
Net realized and unrealized gains on investments, net	729,282	2,832,840
Investment fees	(99,403)	(105,715)
Total Investment Income, Net	<u>\$ 872,100</u>	<u>\$ 3,613,104</u>

Investment fees were \$99,403 and \$105,715, for the years ended June 30, 2020 and 2019, 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:

	Funds Held in Trust	
	2020	2019
Balance, beginning of period	\$ 894,035	\$ 888,216
Unrealized gain	(36,258)	5,819
Balance, end of period	<u>\$ 857,777</u>	<u>\$ 894,035</u>

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

**Notes to the Financial Statements
June 30, 2020 and 2019**

5. PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Life</u>
Land and improvements	\$ 1,321,084	\$ 1,321,084	N/A
Building and improvements	339,121,885	333,259,918	5 - 50 years
Furniture, fixtures and equipment	30,055,390	29,440,718	3 - 5 years
Construction in progress	12,588,968	11,984,808	N/A
Total	<u>383,087,327</u>	<u>376,006,528</u>	
Less: accumulated depreciation	<u>155,195,325</u>	<u>144,927,875</u>	
Property and Equipment, Net	<u>\$ 227,892,002</u>	<u>\$ 231,078,653</u>	

Depreciation expense was \$11,724,387 and \$10,999,067, for the years ended June 30, 2020 and 2019, respectively.

Main Campus Revitalization Project

The Commonwealth of Pennsylvania (the Commonwealth) has begun several projects with budgets totaling approximately \$46,800,000 to revitalize the Main Campus of Lincoln University.

Project costs of \$814,008 and \$392,882, of assets were placed in service during 2020 and 2019, 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, 2020 and 2019**

5. PROPERTY AND EQUIPMENT (continued)

Main Campus Revitalization Project (continued)

Assets placed in service during fiscal years 2020 and 2019, were as follows:

Commonwealth of Pennsylvania, Department of General Services		Funded Amount	
Project Number	Description	2020	2019
Q-1101-0037	Ware Center	\$ 264,475	\$ 217,973
Q-1101-0040	Student Union	701	12,563
Q-1101-0041	Nelson Science	3,097	-
Q-1101-0043	Wright Hall	118,616	-
Q-1101-0044	Hughes Library	401,472	144,531
Q-1101-0047	Wellness Center	25,647	17,815
Total		\$ 814,008	\$ 392,882

6. LONG-TERM DEBT AND LEASE OBLIGATIONS

A summary of the University's long-term debt and line of credit as of June 30, 2020, 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 maturity of these Bonds is June 1, 2036. 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
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2020 and 2019**

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, 2020, were as follows:

<u>For the years ending June 30,</u>	<u>Series 2013 A Bonds</u>	<u>Series 2013 B Bonds</u>	<u>Total</u>
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	1,364,288	184,923	1,549,211
2026-2030	7,493,254	1,032,205	8,525,459
2031-2035	8,783,976	1,251,849	10,035,825
2036	1,928,057	281,495	2,209,552
Total	<u>\$ 24,609,289</u>	<u>\$ 3,413,906</u>	<u>28,023,195</u>
Less: bond issuance cost			153,056
			<u>\$ 27,870,139</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. There was no fund remaining in the escrow account as of June 30, 2020, respectively.

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, with a new balance of \$2,564,675. As of June 30, 2020 and 2019, the outstanding loan balance was \$2,139,344 and \$2,423,596, respectively.

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

**Notes to the Financial Statements
June 30, 2020 and 2019**

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

Loan Payable- Energy Conservation Project (continued)

Future principal payments as of June 30, 2020, were as follows:

<u>For the years ending June 30,</u>	<u>Amount</u>
2021	\$ 295,384
2022	306,952
2023	318,973
2024	331,465
2025	344,446
2026-2027	542,124
Total	<u><u>\$ 2,139,344</u></u>

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, 2020. The amounts outstanding under this Note will bear interest at a rate per annum plus 1.50% The University had \$10,000,000 outstanding as of June 30, 2020.

7. ASSET RETIREMENT OBLIGATION

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, 2020, the future asset retirement obligation was \$582,025 and \$565,946, and the University used an accretion rate of 3.00% 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, 2020, 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>2020</u>	<u>2019</u>
Balance, beginning of period	\$ 565,946	\$ 534,000
Accretion	16,952	186,650
Abatements	<u>(873)</u>	<u>(154,704)</u>
Balance, end of period	<u><u>\$ 582,025</u></u>	<u><u>\$ 565,946</u></u>

**LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF
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**Notes to the Financial Statements
June 30, 2020 and 2019**

8. NET ASSETS

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

	<u>2020</u>	<u>2019</u>
Invested in State contributed capital	\$ 165,639,339	\$ 169,512,430
Cumulative endowments earnings	24,913,073	24,398,055
Restricted for scholarships and other purposes	4,171,019	4,098,799
Funds held in trust by others restricted for scholarships	857,777	894,035
Endowment principal restricted for scholarships and other purposes in perpetuity	<u>15,232,566</u>	<u>15,010,075</u>
Total With Donor Restrictions Net Assets	<u><u>\$ 210,813,774</u></u>	<u><u>\$ 213,913,394</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, 2020 and 2019

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, 2020 and 2019.

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.

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**Notes to the Financial Statements
June 30, 2020 and 2019**

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 3.5% 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, 2020 and 2019, are summarized below:

2020				
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Donor designated endowment funds	\$ -	\$ 24,903,935	\$ 16,099,481	\$ 41,003,416
Board designated endowment funds	4,466,246	-	-	4,466,246
Total Endowment funds	\$ 4,466,246	\$ 24,903,935	\$ 16,099,481	\$ 45,469,662

2019				
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Donor designated endowment funds	\$ -	\$ 24,763,363	\$ 15,876,990	\$ 40,640,353
Board designated endowment funds	5,073,378	-	-	5,073,378
Total Endowment funds	\$ 5,073,378	\$ 24,763,363	\$ 15,876,990	\$ 45,713,731

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9. ENDOWMENTS (continued)

Changes in endowment net assets for the years ended June 30, 2020 and 2019, were summarized below:

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Endowment Available for Appropriation	Endowment Held for Perpetuity	
Balance as of June 30, 2019	\$ 5,073,378	\$ 24,763,363	\$ 15,876,990	\$ 45,713,731
Net investment income	(79,178)	196,176	-	116,998
Net income on investments	75,086	654,204	-	729,290
Contributions	100,000	-	222,491	322,491
Withdrawal of spending allocation	-	(709,808)	-	(709,808)
Transfers	(703,040)	-	-	(703,040)
Balance as of June 30, 2020	\$ 4,466,246	\$ 24,903,935	\$ 16,099,481	\$ 45,469,662

	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	\$ 22,875,405	\$ 15,721,920	\$ 43,713,543
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	\$ 24,763,363	\$ 15,876,990	\$ 45,713,731

10. GOVERNMENT APPROPRIATIONS

The University received the following appropriations from the Commonwealth of Pennsylvania for the years ended June 30, 2020 and 2019:

	2020	2019
Operations	\$ 15,166,000	\$ 14,869,000
State contributions for capital projects (see Note 5)	2,025,029	9,093,021
Total	\$ 17,191,029	\$ 23,962,021

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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. Lincoln University currently pays a monthly charge of \$8,553 for the support of non-Xerox equipment. Also included in this agreement is the use of contracted Xerox equipment. Contracted Xerox equipment is billed at a monthly minimum base price of \$18,877. Included in the price for both Xerox and non-Xerox equipment is a base number of impressions that are included. Impressions above this base amount are billed at a per impression charge. In January 2019 Lincoln University extended the agreement with Xerox and their related service company Stewart Business Systems for an additional 5-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.

The University employs approximately 333 employees. Approximately 52% of the University's employees are covered by union contracts. Union employees are covered under one of three contracts. The Clerical Union (AFSCME) Contract will expire on July 1, 2022. The Police Union (LUPA) Contract will expire on July 1, 2022. The Facility Union (LUC0AAUP) Contract will expire on September 1, 2022.

Operating Leases

The University leases equipment for general operations. All leases as of June 30, 2020 will expire within the next five years. Operating lease expense was \$322,588 for the year ended June 30, 2020.

The following is a schedule, by years, of future minimum lease payments under operating leases of June 30, 2020.

<u>For the Years ending June 30:</u>	
2021	\$ 219,670
2022	188,646
2023	181,338
2024	89,965
2025	1,598
Total	<u>\$ 681,217</u>

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**Notes to the Financial Statements
June 30, 2020 and 2019**

11. COMMITMENTS AND CONTINGENCIES (continued)

Capital Leases

The University leases vehicles and equipment for general operations. All leases as of June 30, 2020, will expire within the next five years. The interest rate is 1%, compounded monthly. The following is a schedule, by years, of future minimum lease payments under capital leases as of June 30, 2020.

<u>Years ending June 30:</u>	<u>Principal</u>
2021	\$ 75,167
2022	75,167
2023	75,167
2024	75,167
2025	3,578
Total minimum lease payments	304,246
Less: Amount representing interest	36,683
Present value of minimum lease payments	\$ 267,563

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 \$507,422 and \$491,272, in revenue under this lease for the years ended June 30, 2020, respectively.

The recorded asset value as of June 30, 2020 and 2019, for this property was \$7,712,086, with accumulated depreciation of \$4,658,572 and \$2,994,956, as of June 30, 2020 and 2019, respectively.

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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, 2020 and 2019, was \$1,995,080 and \$1,891,479, 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.