

Lincoln University of the Commonwealth System of Higher Education

Financial Statements and
Supplementary Information

June 30, 2016 and 2015



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Lincoln University of the Commonwealth System of Higher Education

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June 30, 2016 and 2015

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln University of the Commonwealth System of Higher Education (the "University"), which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
November 21, 2016

Lincoln University of the Commonwealth System of Higher Education

Statement of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 18,265,677	\$ 11,392,442
Student receivables, net of allowance of \$3,553,847 and \$3,143,143, respectively	4,698,742	3,302,139
Federal and state governments receivables	1,865,659	1,861,040
Other receivables	1,149,103	757,821
Prepaid expenses	202,466	186,775
Inventories	86,697	105,448
Student loans receivable, net of allowance of \$1,657,080 and \$1,734,901, respectively	1,106,705	1,126,451
Investments	34,512,633	39,079,653
Assets held for sale	252,122	252,122
Funds held in trust	815,375	852,454
Property and equipment, net	<u>232,138,133</u>	<u>239,489,795</u>
Total assets	<u>\$ 295,093,312</u>	<u>\$ 298,406,140</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 4,020,593	\$ 3,279,636
Student deposits	712,201	533,481
Deferred revenue	298,271	401,510
Capital lease obligations	76,878	110,885
Line of credit	2,500,000	-
Bonds payable, net	32,801,935	33,926,552
Asset retirement obligation	592,000	719,000
Government advances for student loans	<u>1,423,892</u>	<u>1,315,158</u>
Total liabilities	<u>42,425,770</u>	<u>40,286,222</u>
Net Assets		
Unrestricted	40,510,725	38,745,493
Temporarily restricted	197,369,130	204,731,002
Permanently restricted	<u>14,787,687</u>	<u>14,643,423</u>
Total net assets	<u>252,667,542</u>	<u>258,119,918</u>
Total liabilities and net assets	<u>\$ 295,093,312</u>	<u>\$ 298,406,140</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Statement of Activities

Year Ended June 30, 2016

(with Comparative totals for 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total (Summarized)
Operating Revenue					
Tuition and fees	\$ 24,915,799	\$ -	\$ -	\$ 24,915,799	\$ 23,180,437
Room and board	13,583,347	-	-	13,583,347	12,056,713
Less: student aid	(5,082,284)	-	-	(5,082,284)	(4,942,847)
Net tuition and fees	33,416,862	-	-	33,416,862	30,294,303
Government appropriations	14,084,000	-	-	14,084,000	13,163,000
Contracts and sponsored activities	4,136,443	-	-	4,136,443	4,475,416
Private gifts and grants	660,422	428,284	-	1,088,706	1,218,935
Endowment income	27,701	304,306	-	332,007	304,102
Other investment income	14,241	-	-	14,241	43,273
Other	567,202	-	-	567,202	553,788
Net assets released from restriction	2,366,946	(2,366,946)	-	-	-
Total operating revenue	55,273,817	(1,634,356)	-	53,639,461	50,052,817
Operating Expenses					
Program services:					
Instruction	18,545,854	-	-	18,545,854	17,191,260
Research	742,152	-	-	742,152	797,420
Student services	8,308,471	-	-	8,308,471	8,330,206
Auxiliary enterprises	10,127,040	-	-	10,127,040	9,732,768
Total program services	37,723,517	-	-	37,723,517	36,051,654
Supporting services:					
Academic support	4,496,485	-	-	4,496,485	3,667,980
Administration and institutional support	10,653,582	-	-	10,653,582	10,085,462
Fundraising	691,022	-	-	691,022	182,502
Total supporting services	15,841,089	-	-	15,841,089	13,935,944
Total operating expenses	53,564,606	-	-	53,564,606	49,987,598
Change in net assets from operations	1,709,211	(1,634,356)	-	74,855	65,219
Nonoperating Items					
State contributions for capital projects	-	1,839,526	-	1,839,526	1,316,564
Contributions-endowment	100,000	-	181,343	281,343	564,169
Capital campaign expenses	-	-	-	-	(827,514)
Realized and unrealized gains (losses) on investments	(43,979)	(502,359)	(37,079)	(583,417)	1,045,689
Depreciation of state contributed assets	-	(7,064,683)	-	(7,064,683)	(8,227,785)
Change in net assets	1,765,232	(7,361,872)	144,264	(5,452,376)	(6,063,658)
Net Assets, Beginning	38,745,493	204,731,002	14,643,423	258,119,918	264,183,576
Net Assets, Ending	<u>\$ 40,510,725</u>	<u>\$ 197,369,130</u>	<u>\$ 14,787,687</u>	<u>\$ 252,667,542</u>	<u>\$ 258,119,918</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Statement of Activities

Year Ended June 30, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Revenue				
Tuition and fees	\$ 23,180,437	\$ -	\$ -	\$ 23,180,437
Room and board	12,056,713	-	-	12,056,713
Less: student aid	(4,942,847)	-	-	(4,942,847)
Net tuition and fees	30,294,303	-	-	30,294,303
Government appropriations	13,163,000	-	-	13,163,000
Contracts and sponsored activities	4,475,416	-	-	4,475,416
Private gifts and grants	631,875	587,060	-	1,218,935
Endowment income	24,357	279,745	-	304,102
Other investment income	43,273	-	-	43,273
Other	553,788	-	-	553,788
Net assets released from restriction	400,135	(400,135)	-	-
Total operating revenue	49,586,147	466,670	-	50,052,817
Operating Expenses				
Program services:				
Instruction	17,191,260	-	-	17,191,260
Research	797,420	-	-	797,420
Student services	8,330,206	-	-	8,330,206
Auxiliary enterprises	9,732,768	-	-	9,732,768
Total program services	36,051,654	-	-	36,051,654
Supporting services:				
Academic support	3,667,980	-	-	3,667,980
Administration and institutional support	10,085,462	-	-	10,085,462
Fundraising	182,502	-	-	182,502
Total supporting services	13,935,944	-	-	13,935,944
Total operating expenses	49,987,598	-	-	49,987,598
Change in net assets from operations	(401,451)	466,670	-	65,219
Nonoperating Items				
State contributions for capital projects	-	1,316,564	-	1,316,564
Contributions-endowment	100,000	-	464,169	564,169
Capital campaign expenses	(827,514)	-	-	(827,514)
Realized and unrealized gains (losses) on investments	81,569	977,745	(13,625)	1,045,689
Depreciation of state contributed assets	-	(8,227,785)	-	(8,227,785)
Change in net assets	(1,047,396)	(5,466,806)	450,544	(6,063,658)
Net Assets, Beginning	39,792,889	210,197,808	14,192,879	264,183,576
Net Assets, Ending	<u>\$ 38,745,493</u>	<u>\$ 204,731,002</u>	<u>\$ 14,643,423</u>	<u>\$ 258,119,918</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (5,452,376)	\$ (6,063,658)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	9,607	9,606
Depreciation	11,739,664	12,707,915
Accretion	(127,000)	5,000
Net loss (gains) on investments	546,338	(1,059,314)
Loss on funds held in trust by others	37,079	13,625
Contributions restricted for capital projects paid by state	(1,839,526)	(1,316,564)
Contributions restricted for endowment	(181,343)	(464,169)
Increase (decrease) in assets:		
Student receivables, net	(1,396,603)	(1,516,173)
Federal and state government receivables	(4,619)	(448,624)
Other receivables	(391,282)	(188,608)
Prepaid expenses	(15,691)	(260,622)
Inventories	18,751	76,042
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	740,957	(1,357,694)
Student deposits	178,720	59,424
Deferred revenue	(103,239)	(522,953)
Government advances for student loans	108,734	89,812
Net cash provided by (used in) operating activities	<u>3,868,171</u>	<u>(236,955)</u>
Cash Flows from Investing Activities		
Contributions restricted for capital projects paid by state	1,839,526	1,316,564
Purchase of property and equipment	(4,388,002)	(5,588,175)
Proceeds from sale of investments	5,109,522	7,328,671
Purchase of investments	(1,088,840)	(3,236,749)
Disbursements of loans to students	(169,960)	(346,570)
Repayments of loans from students	189,706	235,561
Net cash provided by (used in) investing activities	<u>1,491,952</u>	<u>(290,698)</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	181,343	464,169
Principal payments on capital lease obligations	(34,007)	(31,051)
Principal payments on bonds payable	(1,134,224)	(1,098,177)
Proceeds from line of credit	2,500,000	-
Net cash provided by (used in) financing activities	<u>1,513,112</u>	<u>(665,059)</u>
Net increase (decrease) in cash and cash equivalents	6,873,235	(1,192,712)
Cash and Cash Equivalents, Beginning	<u>11,392,442</u>	<u>12,585,154</u>
Cash and Cash Equivalents, Ending	<u>\$ 18,265,677</u>	<u>\$ 11,392,442</u>
Supplementary Cash Flow Information		
Cash paid for interest	<u>\$ 1,115,393</u>	<u>\$ 1,125,465</u>

See notes to financial statements

1. Summary of Significant Accounting Policies

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 Graduate campus 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.

Basis of Presentation

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.

Net assets and revenues, 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:

Permanently restricted - Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets. Such assets primarily include the University's permanent endowment funds.

Temporarily restricted - Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as temporarily restricted revenue and subsequently released from restriction.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

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 is earned. Any payments received in advance for the subsequent year are classified as deferred tuition, which is included with student deposits in the statement 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, 2016 and 2015 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"). In the event that the University ceases to participate in the Program, the amounts are refundable to the federal government. Such funds may be re-loaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2016 and 2015 was \$1,423,892 and \$1,315,158, respectively. The University matches and contributes one-third of the amount contributed by the U.S. Government.

The prescribed practices for the Programs 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; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Programs' requirements. 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, but are not material to the overall financial statements.

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 revenues. All other contributions are reported as operating revenues. Contributions and other revenues with donor-imposed restrictions that are met in the same period are reported as unrestricted revenues. If restrictions are not met in the same period, then such revenues are reported as temporarily restricted. 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. 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.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Revenues from sources other than contributions and related endowment income are reported as increases in unrestricted net assets in the period earned. Revenues under grants, contracts and similar agreements with sponsoring organizations are recognized as allowable expenditures when incurred.

Non-operating revenues 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.

Net Asset Classifications

The University accounts for and discloses net assets in accordance with FASB ASC 958-205-45, *Not-for-profit Entities-Presentation of Financial Statements-Other Presentation*. FASB ASC 958-205-45 provides guidance and improves disclosures about the University's endowment funds (both donor-restricted and board designated endowment funds) even though the University is not subject to the Uniform Prudent Management of Institutional Act of 1996 ("UPMIFA").

The University is subject to the *Bylaws of Lincoln University of the Commonwealth System of Higher Education* adopted November 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 as the Board in its sole discretion shall determine. All contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Prepaid Expenses

Prepaid expenses represent future period expenditures paid in advance.

Inventories

Inventories consist of supplies and are stated at the lower of first-in, first-out cost or market.

Investments

Certain accumulated realized and unrealized gains on endowments are considered temporarily 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 3).

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.

Property and Equipment, Including Assets Made Available and Retirement Obligations

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:

	<u>Years</u>
Building and improvements	5-50
Furniture, fixtures and equipment	3-10

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, which has retained title and ownership to the buildings, improvements and sites. The buildings and improvements have been recorded in the financial statements at estimated construction cost.

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 statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed items are not reflected in the 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. At June 30, 2016 and 2015, accumulated amortization of bond issuance costs was \$25,602 and \$15,995, respectively and are reported net of the bonds payable.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Adoption of Recent Accounting Standards

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Universities that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The University elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The University is assessing the impact the remainder of this standard will have on its financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance was issued that outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The University is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019. Early application is permitted for all entities. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The University is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

Reclassification of Prior Year Amounts

Certain amounts from the prior year have been reclassified to conform to the current year presentation and do not affect the change in net assets or total net assets.

Subsequent Events

The University has evaluated subsequent events through November 21, 2016 which is the date the financial statements were issued.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

2. Cash and Cash Equivalents

Concentration of credit risk is the risk of loss due to the magnitude of the University's deposit in the securities of any single issuer. The policy of the University contains no limitations on the amount that can be invested in any one issuer. The University maintains bank account balances that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The University at times has amounts in excess of FDIC limits.

3. Investments

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash-restricted	\$ 100,106	\$ 100,106	\$ 3,570,000	\$ 3,570,000
Other investments	33,269	33,269	34,116	34,116
Alternative investments	14,152,454	34,379,258	14,702,395	35,475,537
	<u>\$ 14,285,829</u>	<u>\$ 34,512,633</u>	<u>\$ 18,306,511</u>	<u>\$ 39,079,653</u>

The relationship between cost and fair value of investments is as follows at June 30, 2016.

	Cost	Fair Value	Excess of Fair Value Over (Under) Cost
Investments, 2016	\$ 14,285,829	\$ 34,512,633	\$ 20,226,804
Investments, 2015	18,306,511	39,079,653	20,773,142
Net unrealized losses			(546,338)
Net realized losses			-
Total net loss			<u>\$ (546,338)</u>

Individual endowment fund records are maintained depending on the amount of the gift. Individual funds subscribing to or disposing of units from pooled funds are allocated units on the basis of the market value per unit at the beginning of the fiscal year in which the transaction occurs. Investment income from pooled investments is recorded as unrestricted or temporarily restricted revenue based on these units.

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

	2016	2015
Dividends and interest, endowment	\$ 332,007	\$ 304,102
Other investment income	14,241	43,273
Net realized and unrealized gains on investments	(546,338)	1,059,314
Total investment return	<u>\$ (200,090)</u>	<u>\$ 1,406,689</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Investment fees were \$92,280 and \$111,623 for the years ended June 30, 2016 and 2015, respectively.

The University authorized the drawdown of 3.5% in fiscal year 2016 of the University's endowment funds calculated on a three-year trailing average market value. Based upon this policy, the Board of Trustees authorized the use of \$1,094,000 for current operations for the year ended June 30, 2016. To the extent that actual endowment income from these funds is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. The actual dividend and interest income for fiscal year 2016 was \$332,007.

4. Fair Value of Financial Instruments

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.

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.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2016 and 2015 are as follows:

Description	2016			Total
	Level 1	Level 2	Level 3	
Reported at Fair Value				
Cash-restricted	\$ 100,106	\$ -	\$ -	\$ 100,106
Other investments	33,269	-	-	33,269
	<u>\$ 133,375</u>	<u>\$ -</u>	<u>\$ -</u>	133,375
Alternative investments, reported at net asset value				<u>34,379,258</u>
				<u>\$ 34,512,633</u>
Funds held in trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 815,375</u>	<u>\$ 815,375</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Description	2015			Total
	Level 1	Level 2	Level 3	
Reported at Fair Value				
Cash-restricted	\$ 3,570,000	\$ -	\$ -	\$ 3,570,000
Other investments	34,116	-	-	34,116
	<u>\$ 3,604,116</u>	<u>\$ -</u>	<u>\$ -</u>	3,604,116
Alternative investments, reported at net asset value				<u>35,475,537</u>
				<u>\$ 39,079,653</u>
Funds held in trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 852,454</u>	<u>\$ 852,454</u>

For assets measured on a recurring basis falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2016 is as follows:

	<u>Funds Held in Trust</u>
Balance, June 30, 2015	\$ 852,454
Unrealized loss	<u>(37,079)</u>
Balance, June 30, 2016	<u>\$ 815,375</u>

For assets measured on a recurring basis falling within the Level 3 in the hierarchy, the activity recognized during the year ended June 30, 2015 is as follows:

	<u>Funds Held in Trust</u>
Balance, June 30, 2014	\$ 866,079
Unrealized loss	<u>(13,625)</u>
Balance, June 30, 2015	<u>\$ 852,454</u>

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Notes to Financial Statements

June 30, 2016 and 2015

The alternative 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, 2016 and 2015, the fair value of the University's investment was \$23,915,575 and \$24,567,078, respectively. The fund has a redemption period requiring 5 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, 2016 and 2015, the fair value of the University's investment was \$8,837,460 and \$8,739,070, respectively. The fund has a redemption period requiring 5 business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

The CFI Multi-Strategy Commodities Fund, is a multi-strategy program that is managed by Commonfund Asset Management Company, which allocates assets across a broad spectrum of commodity-oriented asset categories. The fund pursues a multi-strategy approach to investing in the commodities markets, which include (but are not limited to) swaps, futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products and foreign currencies. As of June 30, 2016 and 2015, the fair value of the University's investment was \$272,440 and \$310,199, respectively. The fund has a redemption period requiring 5 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, 2016 and 2015, the fair value of the University's investment was \$1,353,783 and \$1,859,190, respectively. The fund has a redemption period requiring 5 business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

The following valuation techniques were used to measure fair value of assets in the table above as of June 30, 2016:

Cash - restricted and other investments - The carrying amount approximates fair value because of the short-term nature of those investments.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Alternative investments - Fair value for these investments based on net asset value ("NAV") as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the University's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. In accordance with Subtopic 820-10, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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.

5. Property and Equipment

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

	2016	2015
Land and improvements	\$ 906,161	\$ 906,161
Building and improvements	320,756,432	318,900,265
Furniture, fixtures and equipment	23,374,947	22,058,364
Construction in progress	305,798	-
	345,343,338	341,864,790
Less accumulated depreciation	(113,205,205)	(102,374,995)
Net property, plant and equipment	\$ 232,138,133	\$ 239,489,795

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

6. Long-Term Debt and Lease Obligations

A summary of the University's long-term debt and line of credit as of June 30, 2016, is 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. 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). Following are the terms under the refinanced bonds:

	<u>Series 2013A (Tax Exempt)</u>	<u>Series 2013B (Taxable)</u>
Loan amount	\$29,426,858	\$7,381,175
Interest rate 2013-2023	2.978%	3.749%
Interest rate 2023-2036	Prevailing Market Rate	Prevailing Market Rate

Principal maturities for each of the next five fiscal years are summarized as follows:

<u>Year</u>	<u>Series 2013 A Bonds</u>	<u>Series 2013 B Bonds</u>	<u>Total Amount</u>
2017	\$ 526,884	\$ 646,469	\$ 1,173,353
2018	538,102	682,748	1,220,850
2019	548,875	712,524	1,261,399
2020	1,164,169	150,454	1,314,623
2021	1,200,538	153,832	1,354,370
2022-2026	6,608,296	886,457	7,494,753
2027-2031	7,737,538	1,071,140	8,808,678
2032-2036	9,062,916	1,302,478	10,365,394
Total	<u>\$ 27,387,318</u>	<u>\$ 5,606,102</u>	\$ 32,993,420
Bond issuance costs			<u>(191,485)</u>
			<u>\$ 32,801,935</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Line of Credit

The University currently maintains a \$3,000,000 revolving line of credit for use as working capital or other general business purposes. The line of credit is secured by the gross revenues of the University. The line of credit will expire on December 31, 2016. The University had \$2,500,000 outstanding at June 30, 2016. The interest rate on advances is based on the LIBOR lending rate plus one hundred fifty (150) basis points (1.50%) and the effective rate was 0.46% plus 1.50% at June 30, 2016.

7. Operating Leases

The University leases equipment for general operations. All leases as of June 30, 2016 will expire within the next four years. Operating lease expense was \$64,684 for the year ended June 30, 2016.

The following is a schedule, by years, of future minimum lease payments under operating leases as of June 30, 2016:

Year ending June 30:	
2017	\$ 74,823
2018	57,899
2019	7,743
2020	3,871

8. Asset Retirement Obligation

The future asset retirement obligation was estimated by the University based on asbestos abatement cost of University buildings. The University estimates its total undiscounted asset retirement obligation to be \$719,000 at June 30, 2016. The University uses a credit adjusted risk free rate of 5.21% and an inflation rate of 1.41% 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. At June 30, 2016, 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 at June 30:

	2016	2015
Balance, beginning of period	\$ 719,000	\$ 714,000
Accretion	(127,000)	5,000
Balance, end of period	\$ 592,000	\$ 719,000

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

9. Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	2016	2015
Invested in State contributed capital	\$ 176,747,757	\$ 181,972,913
Unexpended gains	17,044,648	18,415,677
Restricted for scholarships and other purposes	3,576,725	4,342,412
Total	<u>\$ 197,369,130</u>	<u>\$ 204,731,002</u>

Permanently restricted net assets as of June 30 are available for the following purposes:

	2016	2015
Funds held in trust by others restricted for scholarships	\$ 815,375	\$ 852,454
Endowment principal restricted for scholarships and other purposes	13,972,312	13,790,969
Total	<u>\$ 14,787,687</u>	<u>\$ 14,643,423</u>

10. 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 fund designated by 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the relevant state law. 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
- 7) The investment policies of the University

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are summarized below:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2015	\$ 4,096,356	\$ 18,415,677	\$ 13,093,353	\$ 35,605,386
Net investment income	27,701	304,306	-	332,007
Net loss on investments	(43,979)	(502,359)	-	(546,338)
Contributions	-	-	147,500	147,500
Withdrawal of spending allocation	-	(1,094,000)	-	(1,094,000)
Other withdrawals	(85,739)	(78,976)	-	(164,715)
Transfers	202,397	-	-	202,397
Balance at June 30, 2016	<u>\$ 4,196,736</u>	<u>\$ 17,044,648</u>	<u>\$ 13,240,853</u>	<u>\$ 34,482,237</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2014	\$ 2,934,075	\$ 17,781,187	\$ 12,852,427	\$ 33,567,689
Net investment income	24,357	279,745	-	304,102
Net gains on investments	81,569	977,745	-	1,059,314
Contributions	-	-	240,926	240,926
Withdrawal of spending allocation	-	(623,000)	-	(623,000)
Other withdrawals	(87,588)	-	-	(87,588)
Transfers	1,143,943	-	-	1,143,943
Balance at June 30, 2015	<u>\$ 4,096,356</u>	<u>\$ 18,415,677</u>	<u>\$ 13,093,353</u>	<u>\$ 35,605,386</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

Endowment net assets composition by type of fund for the year ended June 30, 2016 is summarized below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Donor designated endowment funds	\$ -	\$ 17,044,648	\$ 13,240,853	\$ 30,285,501
Board designated endowment funds	<u>4,196,736</u>	<u>-</u>	<u>-</u>	<u>4,196,736</u>
Total endowment funds	<u>\$ 4,196,736</u>	<u>\$ 17,044,648</u>	<u>\$ 13,240,853</u>	<u>\$ 34,482,237</u>

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 unrestricted net assets. There were no such deficiencies reported at June 30, 2016 and 2015.

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.

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 grant making and administration. The current spending policy is to distribute an amount equal to 3.50% 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.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

11. Government Appropriations

The University received the following appropriations from the Commonwealth of Pennsylvania for the year ended June 30, 2016:

	2016	2015
Operations	\$ 14,084,000	\$ 13,163,000
State contributions for capital projects (see Note 15)	1,839,526	1,316,564
Total	<u>\$ 15,923,526</u>	<u>\$ 14,479,564</u>

12. Retirement Benefits

The University participates in the Teacher's 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, 2016 and 2015 was \$1,679,285 and \$1,647,746, respectively.

13. 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.

A University construction project has been deemed by the Pennsylvania Department of Labor and Industry to be a prevailing wage project. Certified payrolls are currently being submitted by the vendors to be reviewed by the PA Department of Labor to determine any additional liability. The PA Department of Labor has waived all penalties or interest charges for this project. The University believes the resolution will not have an adverse or material effect on the University's financial statements.

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.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2016 and 2015

15. Main Campus Revitalization Project

The Commonwealth of Pennsylvania has begun several projects totaling approximately \$330,570,500 to revitalize the Main Campus of Lincoln University.

Project costs of \$1,839,526 and \$1,316,564 of assets were placed in service during 2016 and 2015, respectively. Each project is considered a temporarily restricted contribution. Each year, depreciation expense is recorded until the assets are fully depreciated over their useful lives. Due to the material nature of the revitalization project and its potential impact on the financial statements, the transactions have been recorded as revenue when donated and placed into service.

Depreciation for State contributed capital assets is recorded as a non-operating expense, since the related revenues are recorded as non-operating revenues.

Assets placed in service during fiscal year 2016 were as follows:

Commonwealth of Pennsylvania, Department of General Services Project Number	Description	Funded Amount
1101-42	International Cultural Center	\$ 16,997
1101-47	Construct Learning Counselor Center	5,048
1101-46	Construct Softball Field	62,397
1101-48	Renovate Dickey Hall	980,005
Q1101-48	Renovate Dickey Hall FFE	775,079
Total		<u>\$ 1,839,526</u>

16. Master Lease Agreement

On May 30, 2007, the University entered into a Master Lease agreement for its 3020 Market Street, Philadelphia property. Synterra Partners, L.P. 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. After 2011, the University has rights to a share of certain future profits, with no guaranteed or minimum amount, from sub-leases by the lessee.

The recorded asset value at June 30, 2016 for this property was \$7,712,086 with an accumulated depreciation of \$2,578,502 and \$2,439,685 for the years ended June 30, 2016 and 2015, respectively.

During 2011, Synterra Partners, L.P. filed for bankruptcy. In July 2011, the holder of the mortgage, Inland Mortgage Capital Corporation, foreclosed on the master lease. As a result, Synterra has been terminated as Master Lessee. Brandywine Realty Trust is currently the successor Master Lessee. The Master Lease is still in force and will continue with the new Master Lessee.

17. Enrollment

Total undergraduate and graduate student billing equivalents (BE's) were increased from 1,699 in fiscal year 2015 to 1,794 in fiscal year 2016. Undergraduate tuition was increased by 2.5% from fiscal year 2015 to fiscal year 2016. Graduate tuition did not increase. Student tuition, room and board revenues in fiscal year 2016 increased by \$3,122,559 compared to fiscal year 2015.

18. 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 November 20, 2014.

19. Income Taxes

The University qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes. The University accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2016 and 2015.

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

20. Commitments

In December, 2013 Lincoln 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 will provide: repair services, supplies, maintenance kits and drums for all of Lincoln University's laser printing devices as well as for Xerox contracted devices. Lincoln University currently pays a monthly charge of \$9,895 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 \$18,875. 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.

The University employs approximately 400 employees. Approximately 48% of the University's employees are covered by union contracts. Union employees are covered under one of three contracts. The Clerical Union Contract expires July 1, 2019. The Police Union Contract expires June 30, 2017. The Facility Union Contract expired August 31, 2016 and is currently being negotiated.

Lincoln University of the Commonwealth System of Higher Education

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through ID Number	Federal Expenditures	Expenditures to Subrecipients
Student Financial Assistance Cluster:				
Department of Education				
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	84.007		\$ 460,369	\$ -
Federal Work Study Program	84.033		209,403	-
Federal Perkins Loans	84.038		1,296,411	-
Federal Pell Grants	84.063		5,220,532	-
Federal Direct Student Loans	84.268		22,396,369	-
Total Student Financial Assistance Cluster			29,583,084	-
Research and Development Cluster:				
Department of Defense				
Pass-through from Thurgood Marshall College Fund Air Force Defense Research Sciences Program	12.800	TMCF/DOD-AFOSR 2013	2,445 *	-
Department of Justice				
Pass-through from Drexel University Crime Victim Assistance/Discretionary Grants	16.582	2015-VF-GX-K038/216005	40,748 *	-
Total Research and Development Cluster			43,193	-
Other Federal Programs:				
National Science Foundation				
Educational and Human Resources (LEAPS Forward March)	47.076		234,079	-
Educational and Human Resources (LEAPS Scholars Program)	47.076		147,625	-
Educational and Human Resources (BRAINLU)	47.076		97,813	14,257
Educational and Human Resources (ATOMIC SCALE)	47.076		55,643	-
Pass-through from National Center for Science and Civic Engagement Educational and Human Resources (SENCER)	47.076	11224488	813 *	-
Pass-through from Drexel University Educational and Human Resources (Philadelphia AMP)	47.076	HRD-1408052/235920	59,640 *	-
Educational and Human Resources (BNL Summer Institute)	47.076	HRD-1408052	52,500 *	-
Total National Science Foundation			648,113	14,257
Department of Agriculture				
Pass-through from Pennsylvania Department of Agriculture Summer Food Service Program for Children	10.559	424-15-510-1	12,519 *	-
Department of Justice				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		7,176	-
Department of Transportation				
Highway Planning and Construction	20.205		43,526	-
Dwight David Eisenhower Transportation Fellowship Program	20.215		39,828	-
Total U.S. Department of Transportation			83,354	-
National Aeronautics and Space Administration				
Pass-through from Pennsylvania State University Basic Research, Educational Outreach, or Training Opportunities in the Area of Science	43.001	NNX13AR34A/ 4925-LU-NASA-R34A	6,964 *	-
STEM Academic Research Training-Underrepresented Pennsylvanians	43.008	NNX15AK06H/ 5243-LU-NASA-K06H	16,529 *	-
Total National Aeronautics and Space Administration			23,493	-
National Endowment for the Humanities				
Promotion of Humanities-Division of Preservation and Access	45.149		4,273	-
Total National Endowment for the Humanities			4,273	-

Lincoln University of the Commonwealth System of Higher Education

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through ID Number	Federal Expenditures	Expenditures to Subrecipients
Department of Education				
Title III - Strengthening Historically Black Colleges and Universities	84.031		\$ 2,680,925	\$ -
Upward Bound	84.047		506,362	-
Total Department of Education			3,187,288	-
Total Other Federal Programs			3,966,215	14,257
Total Expenditures of Federal Awards			\$ 33,592,492	\$ 14,257

* Indicates subcontract funding

Lincoln University of the Commonwealth System of Higher Education

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Lincoln University of the Commonwealth System of Higher Education (the "University") and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the presentation of the financial statements. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to, and does not, present either the financial position, changes in net assets or cash flows of the University.

For the purposes of the Schedule, federal awards have been classified into three types: Student Financial Assistance Cluster, Research and Development Cluster, and Other Federal Programs.

2. Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the University, and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans outstanding at June 30, 2016 totaled \$1,106,705.

3. William D. Ford Federal Direct Loan Program

The University participates in the Federal Direct Loan Program (CFDA No. 84.268). During the year ended June 30, 2016, the University advanced to students the following amount of new loans under the Federal Direct Loan Program:

	Amount Expended
Stafford loans	\$ 5,795,128
Unsubsidized loans	9,638,831
Plus loans	<u>6,962,410</u>
Total	<u><u>\$ 22,396,369</u></u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

4. Major Programs

Federal awards expenditures for purposes of major program determination calculation include loans administered under the Federal Direct Student Loan Program during the year ended June 30, 2016 and Federal Perkins Loans outstanding as of June 30, 2016.

5. Facilities and Administrative Cost

The University has negotiated facilities and administrative rates for federal contracts and grants effective from July 1, 2013 until amended. The rates were 55% on-campus and 20% off-campus for 2016 and 2015.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln University of the Commonwealth System of Higher Education (the "University"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 21, 2016

**Independent Auditors' Report on Compliance
for its Major Federal Program and on
Internal Control Over Compliance Required
by the Uniform Guidance**

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

Report on Compliance for its Major Federal Program

We have audited Lincoln University of the Commonwealth System of Higher Education's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2016. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on its Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on the major federal program is not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 21, 2016

Lincoln University of the Commonwealth System of Higher Education

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? X yes _____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007	Student Financial Assistance Cluster:
84.033	Federal Supplemental Education Opportunity Grants
84.038	Federal Work Study Program
84.063	Federal Perkins Loan Program
84.268	Federal Pell Grant Program
	Federal Direct Student Loans

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Lincoln University of the Commonwealth System of Higher Education

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section II - Financial Statement Findings

No findings were noted.

Section III - Federal Award Findings and Questioned Costs

Department of Education

Findings 2016-001 - U.S. Department of Education - CFDA No. 84.268

Federal Direct Student Loans - Student Financial Assistance Cluster

Criteria:	The University is required to calculate the Direct Loan fund award amounts based on annual and maximum loan amounts, the cost of attendance, and the expected family contribution for the period. 34 CFR section 685.301(a)(5).
Condition and Context:	In our sample of forty students, one student received more than their eligible amount of Unsubsidized Direct Loans.
Cause:	The student's financial assistance calculation included a manual error in the determination that resulted in the over-award of the Direct Loan funds.
Effect:	Questioned costs total \$5,000 and represent an over-award of Subsidized Direct Loan funds.
Questioned Costs:	The error noted in the calculation resulted in an over-award of \$5,000. This was corrected and the over-award of Subsidized Direct Loan funds was refunded to the Department of Education on October 13, 2015.
Recommendation:	The University should review and improve its internal controls surrounding the calculation of the Direct Loan funds to determine that the calculation is reviewed and in accordance with the student's eligibility limits.
Management Response:	This over award was the result of manual error in data entry. Previously, each financial aid counselor was responsible for reviewing and certifying loans for specified groups of students. Student Financial Services has recently gone through a restructure which, in part, will centralize and consolidate the loan certification.

Lincoln University of the Commonwealth System of Higher Education

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2016

Section IV - Schedule of Prior Year Audit Findings

Findings 2015-001 - U.S. Department of Education - Student Financial Assistance Cluster

Criteria:	The University is required to notify the Department of Education within 60 days if by roster and 30 days if reported manually if the University discovers that a Pell awards or a Direct Subsidized/Unsubsidized/PLUS Loan has been made to or on behalf of a student who ceased to be enrolled on at least a half-time basis, enrolled at that University but failed to enroll on at least a half-time basis for the period for which the loan was intended, or has changed his or her permanent address. 34 CFR Section 685.09(b) and 34 CFR section 690.83(b).
Condition and Context:	One (1) of the fourteen (14) students in our sample of change in enrollment status changed from full time enrollment to withdrawn was not reported within 60 days based on the roster reporting for enrollment status. The student was improperly noted as still enrolled full time following her withdrawal.
Resolution:	The Office of the Registrar has improved staffing and training to ensure that enrollment status changes are properly updated with Department of Education through NDLDs in a timely manner.

Findings 2015-002 - U.S. Department of Education - Student Financial Assistance Cluster

Criteria:	The University is required to calculate the amount of Title IV funds to be returned and to return such funds with 45 days of a student's withdrawal from the College. 34 CFR Section 668.22(e).
Condition and Context:	One (1) of the fourteen (14) students in our sample of return of Title IV calculation was not refunded within 45 days of the date of determination of the student withdrawal, resulting in a late payment to the Department of Education.
Resolution:	The Office of the Registrar has updated their internal process to include a weekly report of withdrawals, as well as having a second staff person verifying this report against the paper withdrawal forms to be sure all forms are captured and departments are notified in a timely matter.

Lincoln University of the Commonwealth System of Higher Education

Financial Statements and
Supplementary Information

June 30, 2017 and 2016



Candor. Insight. Results.

Lincoln University of the Commonwealth System of Higher Education

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June 30, 2017 and 2016

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln University of the Commonwealth System of Higher Education (the "University"), which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 28, 2017

Lincoln University of the Commonwealth System of Higher Education

Statement of Financial Position

June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 16,282,200	\$ 18,265,677
Student receivables, net of allowance of \$3,977,807 and \$3,553,847, respectively	5,481,549	4,698,742
Federal and state governments receivables	1,662,957	1,865,659
Other receivables	496,520	1,149,103
Prepaid expenses	173,458	202,466
Inventories	250,764	86,697
Student loans receivable, net of allowance of \$1,752,768 and \$1,657,080, respectively	1,136,146	1,106,705
Investments	38,496,414	34,512,633
Assets held for sale	252,122	252,122
Funds held in trust	874,043	815,375
Funds held in escrow	1,797,375	-
Property and equipment, net	227,718,949	232,138,133
Total assets	<u>\$ 294,622,497</u>	<u>\$ 295,093,312</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,260,969	\$ 4,020,593
Student deposits	992,024	712,201
Deferred revenue	525,011	298,271
Capital lease obligations	39,916	76,878
Loans payable	3,452,826	-
Line of credit	-	2,500,000
Bonds payable, net	31,638,189	32,801,935
Asset retirement obligation	584,000	592,000
Government advances for student loans	1,351,175	1,423,892
Total liabilities	<u>41,844,110</u>	<u>42,425,770</u>
Net Assets		
Unrestricted	42,367,790	40,510,725
Temporarily restricted	195,092,668	197,369,130
Permanently restricted	15,317,929	14,787,687
Total net assets	<u>252,778,387</u>	<u>252,667,542</u>
Total liabilities and net assets	<u>\$ 294,622,497</u>	<u>\$ 295,093,312</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Statement of Activities

Year Ended June 30, 2017

(with Comparative totals for 2016)

	2017			2016 Total (Summarized)
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Revenue				
Tuition and fees	\$ 26,929,624	\$ -	\$ -	\$ 26,929,624
Room and board	14,688,106	-	-	14,688,106
Less: student aid	(6,223,956)	-	-	(6,223,956)
Net tuition and fees	35,393,774	-	-	33,190,792
Government appropriations	14,436,000	-	-	14,084,000
Contracts and sponsored activities	3,933,561	-	-	4,136,443
Private gifts and grants	555,672	383,539	-	1,088,706
Endowment income	46,575	239,420	-	332,007
Other investment income	25,673	-	-	14,241
Other	427,015	-	-	567,202
Net assets released from restriction	1,391,900	(1,391,900)	-	-
Total operating revenue	56,210,170	(768,941)	-	53,413,391
Operating Expenses				
Program services:				
Instruction	19,026,758	-	-	18,545,854
Research	831,397	-	-	742,152
Student services	9,046,896	-	-	8,308,471
Auxiliary enterprises	10,752,061	-	-	10,127,040
Total program services	39,657,112	-	-	37,723,517
Supporting services:				
Academic support	4,143,872	-	-	4,496,485
Administration and institutional support	10,507,993	-	-	10,427,512
Fundraising	821,658	-	-	691,022
Total supporting services	15,473,523	-	-	15,615,019
Total operating expenses	55,130,635	-	-	53,338,536
Change in net assets from operations	1,079,535	(768,941)	-	74,855
Nonoperating Items				
State contributions for capital projects	-	783,997	-	1,839,526
Contributions-endowment	200,000	100,000	471,574	281,343
Realized and unrealized gains (losses) on investments	577,530	4,087,767	58,668	(583,417)
Depreciation of state contributed assets	-	(6,479,285)	-	(7,064,683)
Change in net assets	1,857,065	(2,276,462)	530,242	(5,452,376)
Net Assets, Beginning	40,510,725	197,369,130	14,787,687	258,119,918
Net Assets, Ending	<u>\$ 42,367,790</u>	<u>\$ 195,092,668</u>	<u>\$ 15,317,929</u>	<u>\$ 252,667,542</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Statement of Activities

Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue				
Tuition and fees	\$ 24,915,799	\$ -	\$ -	\$ 24,915,799
Room and board	13,583,347	-	-	13,583,347
Less: student aid	(5,308,354)	-	-	(5,308,354)
Net tuition and fees	33,190,792	-	-	33,190,792
Government appropriations	14,084,000	-	-	14,084,000
Contracts and sponsored activities	4,136,443	-	-	4,136,443
Private gifts and grants	660,422	428,284	-	1,088,706
Endowment income	27,701	304,306	-	332,007
Other investment income	14,241	-	-	14,241
Other	567,202	-	-	567,202
Net assets released from restriction	2,366,946	(2,366,946)	-	-
Total operating revenue	55,047,747	(1,634,356)	-	53,413,391
Operating Expenses				
Program services:				
Instruction	18,545,854	-	-	18,545,854
Research	742,152	-	-	742,152
Student services	8,308,471	-	-	8,308,471
Auxiliary enterprises	10,127,040	-	-	10,127,040
Total program services	37,723,517	-	-	37,723,517
Supporting services:				
Academic support	4,496,485	-	-	4,496,485
Administration and institutional support	10,427,512	-	-	10,427,512
Fundraising	691,022	-	-	691,022
Total supporting services	15,615,019	-	-	15,615,019
Total operating expenses	53,338,536	-	-	53,338,536
Change in net assets from operations	1,709,211	(1,634,356)	-	74,855
Nonoperating Items				
State contributions for capital projects	-	1,839,526	-	1,839,526
Contributions-endowment	100,000	-	181,343	281,343
Realized and unrealized losses on investments	(43,979)	(502,359)	(37,079)	(583,417)
Depreciation of state contributed assets	-	(7,064,683)	-	(7,064,683)
Change in net assets	1,765,232	(7,361,872)	144,264	(5,452,376)
Net Assets, Beginning	38,745,493	204,731,002	14,643,423	258,119,918
Net Assets, Ending	<u>\$ 40,510,725</u>	<u>\$ 197,369,130</u>	<u>\$ 14,787,687</u>	<u>\$ 252,667,542</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 110,845	\$ (5,452,376)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	9,607	9,607
Depreciation	11,307,478	11,739,664
Accretion	(8,000)	(127,000)
Net (gains) loss on investments	(4,665,297)	546,338
Realized and unrealized (gains) loss on funds held in trust by others	(58,668)	37,079
Contributions restricted for capital projects paid by state	(783,997)	(1,839,526)
Contributions restricted for endowment	(471,574)	(181,343)
Increase (decrease) in assets:		
Student receivables, net	(782,807)	(1,396,603)
Federal and state government receivables	202,702	(4,619)
Other receivables	652,583	(391,282)
Prepaid expenses	29,008	(15,691)
Inventories	(164,067)	18,751
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	(759,624)	740,957
Student deposits	279,823	178,720
Deferred revenue	226,740	(103,239)
Government advances for student loans	(72,717)	108,734
Net cash provided by operating activities	<u>5,052,035</u>	<u>3,868,171</u>
Cash Flows from Investing Activities		
Contributions restricted for capital projects paid by state	783,997	1,839,526
Purchase of property and equipment	(6,888,294)	(4,388,002)
Proceeds from sale of investments	2,077,625	5,109,522
Purchase of investments	(1,396,109)	(1,088,840)
(Increase) from funds held in escrow	(1,797,375)	-
Disbursements of loans to students	(330,802)	(169,960)
Repayments of loans from students	301,361	189,706
Net cash (used in) provided by investing activities	<u>(7,249,597)</u>	<u>1,491,952</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	471,574	181,343
Principal payments on capital lease obligations	(36,962)	(34,007)
Principal payments on bonds payable	(1,173,353)	(1,134,224)
Proceeds from loans payable	3,601,959	-
Payments on loans payable	(149,133)	-
(Payments) Proceeds from line of credit	(2,500,000)	2,500,000
Net cash (used in) provided by financing activities	<u>214,085</u>	<u>1,513,112</u>
Net (decrease) increase in cash and cash equivalents	(1,983,477)	6,873,235
Cash and Cash Equivalents, Beginning	<u>18,265,677</u>	<u>11,392,442</u>
Cash and Cash Equivalents, Ending	<u>\$ 16,282,200</u>	<u>\$ 18,265,677</u>
Supplementary Cash Flow Information		
Cash paid for interest	<u>\$ 1,104,384</u>	<u>\$ 1,115,393</u>

See notes to financial statements

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

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 an Undergraduate and Graduate campus 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.

Basis of Presentation

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.

Net assets and revenues, 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:

Permanently restricted - Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets. Such assets primarily include the University's permanent endowment funds.

Temporarily restricted - Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as temporarily restricted revenue and subsequently released from restriction.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

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 is earned. Any payments received in advance for the subsequent year are classified as deferred tuition, which is included with student deposits in the statement 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, 2017 and 2016 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"). In the event that the University ceases to participate in the Program, the amounts are refundable to the federal government. Such funds may be re-loaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2017 and 2016 was \$1,351,175 and \$1,423,892, respectively. The University matches and contributes one-third of the amount contributed by the U.S. Government.

The prescribed practices for the Programs 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; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Programs' requirements. 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, but are not material to the overall financial statements.

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 revenues. All other contributions are reported as operating revenues. Contributions and other revenues with donor-imposed restrictions that are met in the same period are reported as unrestricted revenues. If restrictions are not met in the same period, then such revenues are reported as temporarily restricted. 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. 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 unrestricted net assets. Expiration of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Revenues from sources other than contributions and related endowment income are reported as increases in unrestricted net assets in the period earned. Revenues under grants, contracts and similar agreements with sponsoring organizations are recognized as allowable expenditures when incurred.

Non-operating revenues 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.

Net Asset Classifications

The University accounts for and discloses net assets in accordance with FASB ASC 958-205-45, *Not-for-profit Entities-Presentation of Financial Statements-Other Presentation*. FASB ASC 958-205-45 provides guidance and improves disclosures about the University's endowment funds (both donor-restricted and board designated endowment funds) even though the University is not subject to the Uniform Prudent Management of Institutional Act of 1996 ("UPMIFA").

The University is subject to the *Bylaws of Lincoln University of the Commonwealth System of Higher Education* adopted November 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 as the Board in its sole discretion shall determine. All contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Prepaid Expenses

Prepaid expenses represent future period expenditures paid in advance.

Inventories

Inventories consist of supplies and are stated at the lower of first-in, first-out cost or market.

Investments

Certain accumulated realized and unrealized gains on endowments are considered temporarily 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 3).

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.

Property and Equipment, Including Assets Made Available and Retirement Obligations

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:

	<u>Years</u>
Building and improvements	5-50
Furniture, fixtures and equipment	3-10

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, which has retained title and ownership to the buildings, improvements and sites. The buildings and improvements have been recorded in the financial statements at estimated construction cost.

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 statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed items are not reflected in the 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. At June 30, 2017 and 2016, accumulated amortization of bond issuance costs was \$35,209 and \$25,602, respectively and are reported net of the bonds payable.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers*. This new accounting guidance updates the core principles that the University should apply in the recognition of revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update is effective for the University's fiscal year beginning July 1, 2018, early application is permitted for the fiscal year beginning after July 1, 2017. The University will be determining its implementation approach and assessing the impact this guidance may have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This amendment will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. Under this amendment a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The amendment results in changes to lease disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This update is effective for the University's fiscal year beginning July 1, 2019, early adoption is permitted. The University will be determining its implementation approach and assessing the impact this guidance may have on its financial statement.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. This update is effective for the University's fiscal year beginning July 1, 2018, early adoption is permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard addresses diversity in practice that exists in the classification and presentation of changes in restricted cash in the statement of cash flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period to the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of the period and end of the period total amounts shown on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. This update is effective for the University's fiscal year beginning July 1, 2020, early application is permitted. The University will be determining its implementation approach and assessing the impact this guidance may have on its financial position.

Reclassification of Prior Year Amounts

Certain amounts from the prior year have been reclassified to conform to the current year presentation and do not affect the change in net assets or total net assets.

Subsequent Events

The University has evaluated subsequent events through November 28, 2017 which is the date the financial statements were issued.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

2. Cash and Cash Equivalents

Concentration of credit risk is the risk of loss due to the magnitude of the University's deposit in the securities of any single issuer. The policy of the University contains no limitations on the amount that can be invested in any one issuer. The University maintains bank account balances that are insured by the FDIC. The University at times has amounts in excess of FDIC limits.

3. Investments

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

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash-restricted	\$ -	-	\$ 100,106	\$ 100,106
Other investments	36,942	36,942	33,269	33,269
Alternative investments	13,326,071	38,459,472	14,152,454	34,379,258
	<u>\$ 13,363,013</u>	<u>\$ 38,496,414</u>	<u>\$ 14,285,829</u>	<u>\$ 34,512,633</u>

The relationship between cost and fair value of investments is as follows at June 30, 2017.

	Cost	Fair Value	Excess of Fair Value Over (Under) Cost
Investments, 2017	\$ 13,363,013	\$ 38,496,414	\$ 25,133,401
Investments, 2016	14,285,829	34,512,633	20,226,804
Net unrealized gain			4,906,597
Net realized losses			(241,300)
Total net gain			<u>\$ 4,665,297</u>

Individual endowment fund records are maintained depending on the amount of the gift. Individual funds subscribing to or disposing of units from pooled funds are allocated units on the basis of the market value per unit at the beginning of the fiscal year in which the transaction occurs. Investment income from pooled investments is recorded as unrestricted or temporarily restricted revenue based on these units.

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

	2017	2016
Dividends and interest, endowment	\$ 285,995	\$ 332,007
Other investment income	25,673	14,241
Net realized and unrealized gains (losses) on investments	<u>4,665,297</u>	<u>(546,338)</u>
Total investment return	<u>\$ 4,976,965</u>	<u>\$ (200,090)</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

Investment fees were \$97,145 and \$92,280 for the years ended June 30, 2017 and 2016, respectively.

The University authorized the drawdown of 3.5% in fiscal year 2017 of the University's endowment funds calculated on a three-year trailing average market value. Based upon this policy, the Board of Trustees authorized the use of \$1,228,000 for current operations for the year ended June 30, 2017. To the extent that actual endowment income from these funds is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. The actual dividend and interest income for fiscal year 2017 was \$285,995.

4. Fair Value of Financial Instruments

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.

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.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2017 and 2016 are as follows:

Description	2017			Total
	Level 1	Level 2	Level 3	
Reported at Fair Value				
Other investments	\$ 36,942	\$ -	\$ -	\$ 36,942
Alternative investments, reported at net asset value				38,459,472
				<u>\$ 38,496,414</u>
Funds held in trust	\$ -	\$ -	\$ 874,043	\$ 874,043
Funds held in escrow- Cash	\$ 1,797,375	\$ -	\$ -	\$ 1,797,375

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

Description	2016			Total
	Level 1	Level 2	Level 3	
Reported at Fair Value				
Cash-restricted	\$ 100,106	\$ -	\$ -	\$ 100,106
Other investments	33,269	-	-	33,269
	<u>\$ 133,375</u>	<u>\$ -</u>	<u>\$ -</u>	133,375
Alternative investments, reported at net asset value				<u>34,379,258</u>
				<u>\$ 34,512,633</u>
Funds held in trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 815,375</u>	<u>\$ 815,375</u>

For assets measured on a recurring basis falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2017 is as follows:

	<u>Funds Held in Trust</u>
Balance, June 30, 2016	\$ 815,375
Unrealized gain	<u>58,668</u>
Balance, June 30, 2017	<u>\$ 874,043</u>

For assets measured on a recurring basis falling within the Level 3 in the hierarchy, the activity recognized during the year ended June 30, 2016 is as follows:

	<u>Funds Held in Trust</u>
Balance, June 30, 2015	\$ 852,454
Unrealized loss	<u>(37,079)</u>
Balance, June 30, 2016	<u>\$ 815,375</u>

The alternative 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, 2017 and 2016, the fair value of the University's investment was \$30,596,311 and \$23,915,575, respectively. The fund has a redemption period requiring 5 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, 2017 and 2016, the fair value of the University's investment was \$7,130,459 and \$8,837,460, respectively. The fund has a redemption period requiring 5 business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

The CFI Multi-Strategy Commodities Fund, is a multi-strategy program that is managed by Commonfund Asset Management Company, which allocates assets across a broad spectrum of commodity-oriented asset categories. The fund pursues a multi-strategy approach to investing in the commodities markets, which include (but are not limited to) swaps, futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products and foreign currencies. As of June 30, 2017 and 2016, the fair value of the University's investment was \$0 and \$272,440, respectively. The fund has a redemption period requiring 5 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, 2017 and 2016, the fair value of the University's investment was \$732,702 and \$1,353,783, respectively. The fund has a redemption period requiring 5 business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

The following valuation techniques were used to measure fair value of assets in the table above as of June 30, 2017:

Cash – restricted, other investments and funds held in escrow-The carrying amount approximates fair value because of the short-term nature of those investments.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

Alternative investments - Fair value for these investments based on net asset value ("NAV") as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the University's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. In accordance with Subtopic 820-10, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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.

5. Property and Equipment

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

	2017	2016
Land and improvements	\$ 906,161	\$ 906,161
Building and improvements	324,565,304	320,756,432
Furniture, fixtures and equipment	24,175,751	23,374,947
Construction in progress	2,008,000	305,798
	351,655,216	345,343,338
Less accumulated depreciation	(123,936,267)	(113,205,205)
Net property and equipment	<u>\$ 227,718,949</u>	<u>\$ 232,138,133</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

6. Long-Term Debt and Lease Obligations

A summary of the University's long-term debt and line of credit as of June 30, 2017, is 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. 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). Following are the terms under the refinanced bonds:

	<u>Series 2013A (Tax Exempt)</u>	<u>Series 2013B (Taxable)</u>
Loan amount	\$29,426,858	\$7,381,175
Interest rate 2013-2023	2.978%	3.749%
Interest rate 2023-2036	Prevailing Market Rate	Prevailing Market Rate

Principal maturities for each of the next five fiscal years are summarized as follows:

<u>Year</u>	<u>Series 2013 A Bonds</u>	<u>Series 2013 B Bonds</u>	<u>Total Amount</u>
2018	\$ 538,102	682,748	\$ 1,220,850
2019	548,875	712,524	1,261,399
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
2023-2027	6,817,012	923,027	7,740,039
2028-2032	7,991,162	1,112,728	9,103,890
2033-2036	7,360,614	1,062,280	8,422,894
Total	<u>\$ 26,860,433</u>	<u>\$ 4,959,633</u>	<u>\$ 31,820,066</u>
Bond issuance costs			<u>(181,877)</u>
			<u>31,638,189</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

Loan Payable- Energy Conservation Project

On November 21, 2016 the University entered into an agreement with PNC Equipment Finance, LLC ("PNC") for \$3,601,959 to upgrade the energy efficiency of University's facilities at an interest rate of 3.8% for a period of ten years. In order to fund the acquisition of certain equipment necessary to the project, PNC deposited in escrow the anticipated acquisition cost of the equipment. As of June 30, 2017 \$1,797,375 remained in funds held in escrow.

Principal amount due for each of the next five fiscal years are summarized as follows:

Year ending June 30:	
2018	\$ 307,021
2019	319,042
2020	331,537
2021	344,520
2022	358,013
Thereafter	<u>1,792,693</u>
Total	<u><u>3,452,826</u></u>

Line of Credit

The University currently maintains a \$3,000,000 revolving line of credit for use as working capital or other general business purposes. The line of credit is secured by the gross revenues of the University. The line of credit will expire on December 31, 2017. The University had \$0 outstanding at June 30, 2017 and \$2,500,000 at June 30, 2016. The interest rate on advances is based on the LIBOR lending rate plus one hundred fifty (150) basis points (1.50%).

7. Operating Leases

The University leases equipment for general operations. All leases as of June 30, 2017 will expire within the next three years. Operating lease expense was \$154,911 for the year ended June 30, 2017.

The following is a schedule, by years, of future minimum lease payments under operating leases as of June 30, 2017:

Year ending June 30:	
2018	\$ 139,499
2019	89,343
2020	85,471

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

8. Asset Retirement Obligation

The future asset retirement obligation was estimated by the University based on asbestos abatement cost of University buildings. The University estimates its total undiscounted asset retirement obligation to be \$584,000 at June 30, 2017. The University uses a credit adjusted risk free rate of 6.00% and an inflation rate of 1.32% 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. At June 30, 2017, 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 at June 30:

	2017	2016
Balance, beginning of period	\$ 592,000	\$ 719,000
Accretion	(8,000)	(127,000)
Balance, end of period	\$ 584,000	\$ 592,000

9. Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	2017	2016
Invested in State contributed capital	\$ 171,052,468	\$ 176,747,757
Unexpended gains	20,143,835	17,044,648
Restricted for scholarships and other purposes	3,896,365	3,576,725
Total	\$ 195,092,668	\$ 197,369,130

Permanently restricted net assets as of June 30 are available for the following purposes:

	2017	2016
Funds held in trust by others restricted for scholarships	\$ 874,043	\$ 815,375
Endowment principal restricted for scholarships and other purposes	14,443,886	13,972,312
Total	\$ 15,317,929	\$ 14,787,687

10. 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 fund designated by 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.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the relevant state law. 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
- 7) The investment policies of the University

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are summarized below:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2016	\$ 4,196,736	\$ 17,044,648	\$ 13,240,853	\$ 34,482,237
Net investment income	46,575	239,420	-	285,995
Net gain on investments	577,530	4,087,767	-	4,665,297
Contributions	100,000	-	471,573	571,573
Withdrawal of spending allocation	-	(1,228,000)	-	(1,228,000)
Other withdrawals	(88,694)	-	-	(88,694)
Transfers	(127,405)	-	-	(127,405)
Balance at June 30, 2017	<u>\$ 4,704,742</u>	<u>\$ 20,143,835</u>	<u>\$ 13,712,426</u>	<u>\$ 38,561,003</u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2015	\$ 4,096,356	\$ 18,415,677	\$ 13,093,353	\$ 35,605,386
Net investment income	27,701	304,306	-	332,007
Net loss on investments	(43,979)	(502,359)	-	(546,338)
Contributions	-	-	147,500	147,500
Withdrawal of spending allocation	-	(1,094,000)	-	(1,094,000)
Other withdrawals	(85,739)	(78,976)	-	(164,715)
Transfers	202,397	-	-	202,397
Balance at June 30, 2016	<u>\$ 4,196,736</u>	<u>\$ 17,044,648</u>	<u>\$ 13,240,853</u>	<u>\$ 34,482,237</u>

Endowment net assets composition by type of fund for the year ended June 30, 2017 is summarized below:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Donor designated endowment funds	\$ -	\$ 20,143,835	\$ 13,543,119	\$ 33,686,954
Board designated endowment funds	4,874,049	-	-	4,874,049
Total endowment funds	<u>\$ 4,874,049</u>	<u>\$ 20,143,835</u>	<u>\$ 13,543,119</u>	<u>\$ 38,561,003</u>

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 unrestricted net assets. There were no such deficiencies reported at June 30, 2017 and 2016.

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.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

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.

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 grant making and administration. The current spending policy is to distribute an amount equal to 3.50% 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.

11. Government Appropriations

The University received the following appropriations from the Commonwealth of Pennsylvania for the year ended June 30, 2017:

	2017	2016
Operations	\$ 14,436,000	\$ 14,084,000
State contributions for capital projects (see Note 15)	783,997	1,839,526
Total	<u>\$ 15,219,997</u>	<u>\$ 15,923,526</u>

12. Retirement Benefits

The University participates in the Teacher's Insurance and Annuity Association ("TIAA"), 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, 2017 and 2016 was \$1,690,498 and \$1,679,285, respectively.

Lincoln University of the Commonwealth System of Higher Education

Notes to Financial Statements

June 30, 2017 and 2016

13. 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.

A University construction project has been deemed by the Pennsylvania Department of Labor and Industry to be a prevailing wage project. Certified payrolls are currently being submitted by the vendors to be reviewed by the PA Department of Labor to determine any additional liability. The PA Department of Labor has waived all penalties or interest charges for this project. The University believes the resolution will not have an adverse or material effect on the University's financial statements.

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.

15. Main Campus Revitalization Project

The Commonwealth of Pennsylvania has begun several projects totaling approximately \$331,070,500 to revitalize the Main Campus of Lincoln University.

Project costs of \$783,997 and \$1,839,526 of assets were placed in service during 2017 and 2016, respectively. Each project is considered a temporarily restricted contribution. Each year, depreciation expense is recorded until the assets are fully depreciated over their useful lives. Due to the material nature of the revitalization project and its potential impact on the financial statements, the transactions have been recorded as revenue when donated and placed into service.

Depreciation for State contributed capital assets is recorded as a non-operating expense, since the related revenues are recorded as non-operating revenues.

Assets placed in service during fiscal year 2017 were as follows:

Commonwealth of Pennsylvania, Department of General Services Project Number	Description	Funded Amount
1101-46	Construct Softball Field	\$ 302,109
Q1101-44	Library FF&E	481,888
Total		<u>\$ 783,997</u>

16. Master Lease Agreement

On May 30, 2007, the University entered into a Master Lease agreement for its 3020 Market Street, Philadelphia property. Synterra Partners, L.P. 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. After 2011, the University has rights to a share of certain future profits, with no guaranteed or minimum amount, from sub-leases by the lessee.

The recorded asset value at June 30, 2017 for this property was \$7,712,086 with an accumulated depreciation of \$2,717,320 and \$2,578,502 for the years ended June 30, 2017 and 2016, respectively.

During 2011, Synterra Partners, L.P. filed for bankruptcy. In July 2011, the holder of the mortgage, Inland Mortgage Capital Corporation, foreclosed on the master lease. As a result, Synterra has been terminated as Master Lessee. Brandywine Realty Trust is currently the successor Master Lessee. The Master Lease is still in force and will continue with the new Master Lessee.

17. Enrollment

Total undergraduate and graduate student billing equivalents (BE's) were increased from 1,794 in fiscal year 2016 to 1,934 in fiscal year 2017. 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% from fiscal year 2016 to fiscal year 2017 for incoming freshman and senior classes. Tuition for the sophomore class is fixed at the 2015/2016 tuition rate. Tuition for the junior class is fixed at the 2014/2015 rate. Graduate tuition did not increase. Student tuition, room and board revenues in fiscal year 2017 increased by \$3,118,584 compared to fiscal year 2016.

18. 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 November 20, 2014.

19. Income Taxes

The University qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes. The University accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2017 and 2016.

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

20. Commitments

In December, 2013 Lincoln 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 will provide: repair services, supplies, maintenance kits and drums for all of Lincoln University's laser printing devices as well as for Xerox contracted devices. Lincoln University currently pays a monthly charge of \$9,895 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 \$18,875. 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.

The University employs approximately 320 employees. Approximately 39% of the University's employees are covered by union contracts. Union employees are covered under one of three contracts. The Clerical Union Contract expires July 1, 2019. The Police Union Contract expired July 1, 2017 and is currently being negotiated. The Facility Union Contract expires September 1, 2019.

Lincoln University of the Commonwealth System of Higher Education

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through ID Number	Federal Expenditures	Expenditures to Subrecipients
Student Financial Assistance Cluster:				
U.S. Department of Education				
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	84.007		\$ 458,369	\$ -
Federal Work Study Program	84.033		209,403	-
Federal Perkins Loans	84.038		1,436,007	-
Federal Pell Grants	84.063		330,802	-
Federal Direct Student Loans	84.268		25,083,554	-
Total Student Financial Assistance Cluster			27,518,135	-
Title III - Strengthening Historically Black Colleges and Universities	84.031		2,423,318	-
Upward Bound	84.047		459,301	-
Total Department of Education			30,400,754	-
Other U.S. Federal Programs:				
Department of Defense-Research and Development cluster,				
Pass-through from Drexel University Crime Victim Assistance/Discretionary Grants	16.582	216005	40,742 *	-
Total Research and Development Cluster			40,742	-
National Science Foundation				
Educational and Human Resources (LEAPS Transformation)	47.076		213,048	-
Educational and Human Resources (LEAPS Scholars Program)	47.076		133,461	-
Educational and Human Resources (BRAINLU)	47.076		141,748	32,275
Educational and Human Resources (ATOMIC SCALE)	47.076		137,858	-
Educational and Human Resources (LearningExpress App)	47.076		103,761	-
Pass-through from National Center for Science and Civic Engagement Educational and Human Resources (SENCER)	47.076	11224488	2,187 *	-
Pass-through from Virginia State University Research Foundation Educational and Human Resources (Algebra Project)	47.076	VSUKF16/20	13,376 *	-
Pass-through from Drexel University Educational and Human Resources (Philadelphia AMP)	47.076	235920/ U0058762/ U0101600/ U0101324/ 820089/U0108808	134,523 *	-
Total National Science Foundation			879,962	32,275
U.S. Department of Agriculture				
Pass-through from Pennsylvania Department of Agriculture Summer Food Service Program for Children	10.559	424-15-510-1	9,319 *	-
U.S. Department of Justice				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		1,838	-
U.S. Department of State				
Pass-through from Partners of America Foundation Academic Exchange Programs- Undergraduate Programs	19.009	CBG-2015-R1-05	18,173 *	-
U.S. Department of Transportation				
Pass-through from Pennsylvania Department of Transportation Highway Planning and Construction Summer Transportation	20.205	360636	33,148 *	-
Dwight David Eisenhower Transportation Fellowship Program	20.215		35,172	-
Total U.S. Department of Transportation			68,320	-
National Aeronautics and Space Administration				
Pass-through from Pennsylvania State University STEM Academic Research Training-Underrepresented Pennsylvanians	43.008	5243-LU-NASA-K06H	7,533 *	-
National Endowment for the Humanities				
Promotion of Humanities-Division of Preservation and Access	45.149		3,248	-
Total Other Federal Programs			1,029,135	32,275
Total Expenditures of Federal Awards			\$ 31,429,889	\$ 32,275

* Indicates subcontract funding

Lincoln University of the Commonwealth System of Higher Education

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Lincoln University of the Commonwealth System of Higher Education (the "University") and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the presentation of the financial statements. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to, and does not, present either the financial position, changes in net assets or cash flows of the University.

For the purposes of the Schedule, federal awards have been classified into three types: Student Financial Assistance Cluster, Research and Development Cluster, and Other Federal Programs.

2. Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the University, and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans outstanding at June 30, 2017 totaled \$1,136,146.

3. William D. Ford Federal Direct Loan Program

The University participates in the Federal Direct Loan Program (CFDA No. 84.268). During the year ended June 30, 2017, the University advanced to students the following amount of new loans under the Federal Direct Loan Program:

	Amount Expended
Stafford loans	\$ 6,027,026
Unsubsidized loans	10,585,238
Plus loans	<u>8,471,290</u>
Total	<u><u>\$ 25,083,554</u></u>

Lincoln University of the Commonwealth System of Higher Education

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

4. Major Programs

Federal awards expenditures for purposes of major program determination calculation include loans administered under the Federal Direct Student Loan Program during the year ended June 30, 2017 and Federal Perkins Loans outstanding as of June 30, 2017.

5. Facilities and Administrative Cost

The University has negotiated facilities and administrative cost rates for use on Federal grants, contracts, and other agreements with the Federal Government. The negotiated Predetermined rates are 55% on-campus and 20% off-campus and are effective from July 1, 2016, through June 30, 2021. After June 30, 2021 Provisional rates of 55% on-campus and 20% off-campus will apply until amended.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln University of the Commonwealth System of Higher Education (the "University"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania
November 28, 2017

**Independent Auditors' Report on Compliance
for each Major Federal Program and Report on
Internal Control Over Compliance Required
by the Uniform Guidance**

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

Report on Compliance for each Major Federal Program

We have audited Lincoln University of the Commonwealth System of Higher Education's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on its Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program are not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 28, 2017

Lincoln University of the Commonwealth System of Higher Education

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007	Student Financial Assistance Cluster: Federal Supplemental Education Opportunity Grants Federal Work-Study Program Federal Perkins Loans Federal Pell Grant Program Federal Direct Student Loans
84.033	
84.038	
84.063	
84.268	
47.076	Educational and Human Services
84.031	Title III- Strengthening Historically Black Colleges

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Lincoln University of the Commonwealth System of Higher Education

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section II - Financial Statement Findings

No findings were noted.

Section III - Federal Award Findings and Questioned Costs

Department of Education

Findings 2017-001 - U.S. Department of Education - CFDA No. 84.031-Higher Education Institutional Aid -July 1, 2016- June 30, 2017

Criteria:	Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. 2 CFR section 200(h)(8)(i)(vii)
Condition and Context:	In our sample of forty payroll charges, one individuals time and effort reports did not accurately support the salary and wages charged to the federal award for the eight pays tested. The sample was not a statistically valid sample.
Cause:	Review of time and effort reports failed to effectively identify errors in the allocation of employee time between grant and University activities.
Effect:	Time and effort reports could not accurately support the distribution of the employee's salary between grant and University funding.
Questioned Costs:	Not Applicable.
Recommendation:	We recommend the principal investigator compare the reported time and effort percentages to the actual wages charged to the grant as a component of the review process.
Management Response:	The Department of Sponsored Programs is now responsible for certification of effort for all grants (Federal, State, and other non-governmental organizations.) This procedure has been in place as of 9/1/2017.

Lincoln University of the Commonwealth System of Higher Education

Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2017

Section IV - Schedule of Prior Year Audit Findings

Findings 2016-001 - U.S. Department of Education - CFDA No. 84.268 Federal Direct Student Loans - Student Financial Assistance Cluster- July 1, 2015-June 30, 2016

Criteria:	The University is required to calculate the Direct Loan fund award amounts based on annual and maximum loan amounts, the cost of attendance, and the expected family contribution for the period. 34 CFR section 685.301(a)(5).
Condition:	One student received a \$5,000 over-award of Subsidized Direct Loans.
Current Status:	The University corrected the over-award of Subsidized Direct Loan funds and refunded to the Department of Education. Additionally, The office of Student Financial Aid Services centralized the review of loan certification.

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

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

For the Years Ended June 30, 2018 and 2017



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2018 AND 2017

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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 statement of financial position of Lincoln University of Commonwealth System of Higher Education, Inc. (the University), as of June 30, 2018, the related statements of activities and changes in net assets, and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year's Report

The financial statements of the University as of and for the year ended June 30, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on November 28, 2017.

Hunt Valley, Maryland
November 19, 2018

SB & Company, LLC

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

**Statements of Financial Position
As of June 30, 2018 and 2017**

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 20,022,470	\$ 16,282,200
Student receivables, net of allowance of \$5,326,757 and \$3,977,807, respectively	4,938,382	5,481,549
Federal and state government receivables	1,945,804	1,662,957
Other receivables	1,157,103	496,520
Prepaid expenses	378,978	173,458
Inventories	266,297	250,764
Loans receivable, net of allowance of \$1,712,612 and \$1,752,768, respectively	1,033,928	1,136,146
Investments	41,535,635	38,496,414
Assets held for sale	-	252,122
Funds held in trust	888,216	874,043
Funds held in escrow	445,560	1,797,375
Property and equipment, net	224,119,599	227,718,949
Total Assets	\$ 296,731,972	\$ 294,622,497
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,616,795	\$ 3,260,969
Student deposits	1,097,824	992,024
Deferred revenue	339,983	525,011
Capital lease obligations	-	39,916
Line of credit	5,000,000	-
Loans payable	3,145,804	3,452,826
Bonds payable, net	30,426,946	31,638,189
Asset retirement obligation	534,000	584,000
Government advances for student loans	1,301,297	1,351,175
Total Liabilities	45,462,649	41,844,110
Net Assets		
Unrestricted	42,816,270	42,367,790
Temporarily restricted	192,731,133	195,092,668
Permanently restricted	15,721,920	15,317,929
Total Net Assets	251,269,323	252,778,387
Total Liabilities and Net Assets	\$ 296,731,972	\$ 294,622,497

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, 2018 with Comparative Totals for 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
				Total 2017
Operating Revenue				
Tuition and fees	\$ 29,829,635	\$ -	\$ -	\$ 29,829,635
Room and board	16,713,789	-	-	16,713,789
Less: student aid	(16,227,677)	-	-	(16,227,677)
Net tuition and fees	30,315,747	-	-	30,315,747
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	62,802	559,296	-	622,098
Other investment income	46,029	-	-	46,029
Other	475,732	-	-	475,732
Net assets released from restriction	1,614,860	(1,614,860)	-	-
Total Operating Revenue	59,040,697	(454,420)	-	58,586,277
Operating Expenses				
Program Services				
Instruction	21,255,327	-	-	21,255,327
Research	958,024	-	-	958,024
Student services	9,117,875	-	-	9,117,875
Auxiliary enterprises	11,166,033	-	-	11,166,033
Total Program expenses	42,497,259	-	-	42,497,259
Supporting Services				
Academic Support	4,450,390	-	-	4,450,390
Administration and institutional support	11,065,070	-	-	11,065,070
Fundraising	966,007	-	-	966,007
Total Supporting expenses	16,481,467	-	-	16,481,467
Total Operating Expenses	58,978,726	-	-	58,978,726
Change in net assets from operations	61,971	(454,420)	-	(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 (loss) on Investments	286,509	2,894,850	-	3,181,359
Depreciation of State contributed assets	-	(5,906,837)	-	(5,906,837)
Total Non-operating items	386,509	(1,907,115)	403,991	(1,116,615)
Changes in Net Assets	448,480	(2,361,535)	403,991	(1,509,064)
Net assets, beginning of year	42,367,790	195,092,668	15,317,929	252,778,387
Net Assets, End of Year	\$ 42,816,270	\$ 192,731,133	\$ 15,721,920	\$ 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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue				
Tuition and fees	\$ 26,929,624	\$ -	\$ -	\$ 26,929,624
Room and board	14,688,106	-	-	14,688,106
Less: student aid	(11,849,090)	-	-	(11,849,090)
Net tuition and fees	29,768,640	-	-	29,768,640
Government appropriations	14,436,000	-	-	14,436,000
Pell grant	5,625,134	-	-	5,625,134
Contracts and sponsored activities	3,933,561	-	-	3,933,561
Private gifts and grants	555,672	383,539	-	939,211
Endowment income	46,575	239,420	-	285,995
Other investment income	25,673	-	-	25,673
Other	427,015	-	-	427,015
Net assets released from restriction	1,391,900	(1,391,900)	-	-
Total Operating Revenue	56,210,170	(768,941)	-	55,441,229
Operating Expenses				
Program Services				
Instruction	19,026,758	-	-	19,026,758
Research	831,397	-	-	831,397
Student services	9,046,896	-	-	9,046,896
Auxiliary enterprises	10,752,061	-	-	10,752,061
Total Program expenses	39,657,112	-	-	39,657,112
Supporting Services				
Academic Support	4,143,872	-	-	4,143,872
Administration and institutional support	10,507,993	-	-	10,507,993
Fundraising	821,658	-	-	821,658
Total Supporting expenses	15,473,523	-	-	15,473,523
Total Operating Expenses	55,130,635	-	-	55,130,635
Change in net assets from operations	1,079,535	(768,941)	-	310,594
Non-operating items				
State contribution for capital projects	-	783,997	-	783,997
Contributions - endowment	200,000	100,000	471,574	771,574
Realized and unrealized gains (losses) on Investments	577,530	4,087,767	58,668	4,723,965
Depreciation of State contributed assets		(6,479,285)		(6,479,285)
Changes in Net Assets	1,857,065	(2,276,462)	530,242	110,845
Net assets, beginning of year	40,510,725	197,369,130	14,787,687	252,667,542
Net Assets, End of Year	\$ 42,367,790	\$ 195,092,668	\$ 15,317,929	\$ 252,778,387

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (1,509,064)	\$ 110,845
Operating activities:		
Amortization	9,607	9,607
Depreciation	10,629,668	11,307,478
Accretion	(50,000)	(8,000)
Net realized and unrealized gains on investments	(3,181,359)	(4,665,297)
Net gain on funds held in trust by others	-	(58,668)
Contributions restricted for capital project costs paid by state	(1,104,872)	(783,997)
Contributions restricted for endowment	(403,991)	(471,574)
Effects of changes in non-cash operating assets and liabilities:		
Student receivables, net	543,167	(782,807)
Federal and State government receivables	(282,847)	202,702
Other receivables	(660,583)	652,583
Prepaid expenses	(205,520)	29,008
Inventories	(15,533)	(164,067)
Accounts payable and accrued expenses	355,826	(759,624)
Student deposits	105,800	279,823
Deferred revenue	(185,028)	226,740
Government advances for student loans	(49,878)	(72,717)
Net cash from operating activities	<u>3,995,393</u>	<u>5,052,035</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions restricted for capital project costs paid by state	1,104,872	783,997
Purchases of property and equipment	(6,778,196)	(6,888,294)
Proceeds from sale of investments	5,694,211	2,077,625
Purchase of investments	(5,566,247)	(1,396,109)
Funds held in escrow	1,351,815	(1,797,375)
Disbursements of loans to students	(118,385)	(330,802)
Repayments of loans from students	220,604	301,361
Net cash from investing activities	<u>(4,091,326)</u>	<u>(7,249,597)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	403,991	471,574
Principal payments on capital lease obligations	(39,916)	(36,962)
Principal payments on bonds payable	(1,220,850)	(1,173,353)
Proceeds from loans payable	-	3,601,959
Payments on loans payable	(307,022)	(149,133)
Proceeds (borrowings) from line of credit, net	5,000,000	(2,500,000)
Net cash from financing activities	<u>3,836,203</u>	<u>214,085</u>
Net change in cash and cash equivalents	<u>3,740,270</u>	<u>(1,983,477)</u>
Cash and cash equivalents, beginning of year	<u>16,282,200</u>	<u>18,265,677</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,022,470</u>	<u>\$ 16,282,200</u>
Supplemental information:		
Interest paid	<u>\$ 1,055,915</u>	<u>\$ 1,104,384</u>

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, 2018 and 2017

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 Graduate campus 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 1,934 in fiscal year 2017 to 2,125 in fiscal year 2018. 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 2017 to fiscal year 2018 for incoming freshman and senior classes. Tuition for the sophomore class is fixed at the 2016/2017 tuition rate. Tuition for the junior class is fixed at the 2015/2016 rate. Tuition for the senior class is fixed at the 2014/2015 rate. Graduate tuition did not increase. Student tuition, and room and board revenues before student aid in fiscal year 2018 increased by \$4,925,694 compared to fiscal year 2017.

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 November 20, 2014.

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. Any payments received in advance for the subsequent year are classified as deferred tuition, which is included with student deposits in the statements of financial position.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 and 2017 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). In the event that the University ceases to participate in the Program, the amounts are refundable to the federal government. Such funds may be re-loaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds as of June 30, 2018 was \$1,301,297. The University matches and contributes one-third of the amount contributed by the U.S. Government.

The prescribed practices for the Programs 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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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 unrestricted revenue. If restrictions are not met in the same period, then such revenue are reported as temporarily restricted. 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 unrestricted net assets. Expiration of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary 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 unrestricted net assets 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 temporarily 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, 2018 and 2017

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 November 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 as the Board in its sole discretion shall determine. All contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets 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:

Permanently restricted - Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets. Such assets primarily include the University's permanent endowment funds.

Temporarily restricted - Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as temporarily restricted revenue and subsequently released from restriction.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets 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, 2018 and 2017

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.

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 unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets, 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 HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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, 2018 and 2017, accumulated amortization of bond issuance costs was \$44,816 and \$35,209, respectively, and are reported net of the bonds payable.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 School performed an evaluation of uncertain tax positions for the year ended June 30, 2018, 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, 2018, the statute of limitations for fiscal years 2015 through 2018, remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the University files tax returns.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The University's policy is to recognize interest related to unrecognized tax benefits in interest expense 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 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 billed but did not earn. Advances received under the contracts are deferred until earned.

Subsequent Events

The University has evaluated subsequent events through November 19, 2018 which is the date these financial statements were issued.

Reclassification of Prior Year Amounts

Certain 2017 amounts have been reclassified to confirm with the 2018 presentation.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Standards Not Yet Adopted

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*, that 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 standard is effective for periods beginning after December 15, 2019.

In August 2016, the FASB issued ASU 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 standard 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 August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No 2016-14 provides updated guidance on the reporting model for not-for-profits and is effective for periods beginning after December 15, 2017.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, that creates a singular reporting model for leases. This standard 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. These standards will be effective for periods beginning after December 15, 2019.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers*. This new accounting guidance updates the core principles that the University should apply in the recognition of revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update is effective for the University's fiscal year beginning July 1, 2018.

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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

3. CASH AND CASH EQUIVALENTS

Cash equivalents are investments with an original maturity of three months or less. Short-term investments are stated at fair value, which approximates cost. Cash and cash equivalents consists of \$20,022,470 and \$16,282,200, as of June 30, 2018 and 2017, 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.

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.

Common fund 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, 2018.

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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

4. INVESTMENTS (continued)

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, 2018 and 2017, were as follows:

	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

	As of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Other investments	\$ 36,942	\$ -	\$ -	\$ 36,942
Alternative Investments Reported at net asset value	-	-	-	38,459,472
Funds held in trust	-	-	874,043	874,043
Total	\$ 36,942	\$ -	\$ 874,043	\$ 39,370,457

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, 2018 and 2017, the fair value of the University's investment was \$29,818,020 and \$30,596,311, respectively. The fund has a redemption period requiring 5 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, 2018 and 2017

4. INVESTMENTS (continued)

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, 2018 and 2017, the fair value of the University's investment was \$11,682,340 and \$7,130,459, respectively. The fund has a redemption period requiring 5 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, 2018 and 2017, the fair value of the University's investment was \$5,667 and \$732,702, respectively. The fund has a redemption period requiring 5 business days prior to the end of the month, monthly redemption frequency and no unfunded commitments.

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

	2018	
	Cost	Fair Value
Pooled investments	\$ 13,242,175	\$ 41,535,635
Funds held in trust	815,375	888,216
	<u>\$ 14,057,550</u>	<u>\$ 42,423,851</u>

	2017	
	Cost	Fair Value
Investments	\$ 36,942	\$ 36,942
Pooled investments	13,326,071	38,459,472
	<u>\$ 13,363,013</u>	<u>\$ 38,496,414</u>

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

	2018	2017
Dividends and interest, endowment	\$ 622,098	\$ 285,995
Other investment income	46,029	25,673
Net realized and unrealized gains on investments	<u>3,181,359</u>	<u>4,665,297</u>
	<u>\$ 3,849,486</u>	<u>\$ 4,976,965</u>

Investment fees were \$93,566 and \$97,145 for the years ended June 30, 2018 and 2017, respectively.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

4. INVESTMENTS (continued)

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	
	2018	2017
Balance, beginning of period	\$ 874,043	\$ 815,375
Unrealized gain	21,301	58,668
Fund transferred to endowment	(7,128)	-
Balance, end of period	<u>\$ 888,216</u>	<u>\$ 874,043</u>

5. PROPERTY AND EQUIPMENT

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

	2018	2017	Estimated Useful Life
Land and improvements	\$ 1,158,283	\$ 906,161	N/A
Building and improvements	326,382,145	324,565,304	5 - 50 years
Furniture, fixtures and equipment	26,559,570	24,175,751	3 - 5 years
Construction in progress	4,585,537	2,008,000	N/A
Total	<u>358,685,535</u>	<u>351,655,216</u>	
Less: accumulated depreciation	<u>134,565,936</u>	<u>123,936,267</u>	
Property and Equipment, Net	<u>\$ 224,119,599</u>	<u>\$ 227,718,949</u>	

Depreciation expense was \$10,629,668 and \$11,307,478, for the years ended June 30, 2018 and 2017, respectively.

Main Campus Revitalization Project

The Commonwealth of Pennsylvania (the Commonwealth) has begun several projects totaling approximately \$331,070,500 to revitalize the Main Campus of Lincoln University.

Project costs of \$1,104,422 and \$783,997, of assets were placed in service during 2018 and 2017, respectively. Each project is considered a temporarily restricted contribution 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, 2018 and 2017**

5. PROPERTY AND EQUIPMENT (continued)

Main Campus Revitalization Project (continued)

Assets placed in service during fiscal years 2018 and 2017, were as follows:

Commonwealth of Pennsylvania, Department of General Project Number		Funded Amount	
	Description	2018	2017
C-1101-0046	Softball Field	\$ 25,000	\$ 302,109
C-1101-0048	Dickey Hall	77,768	-
C-1101-0050	Azikiwe Nkrumah Hall	86,105	-
Q-1101-0027	University Hall	43,381	-
Q-1101-0037	Ware Center	16,981	-
Q-1101-0041	Nelson Science Center	72,376	-
Q-1101-0044	Library FF&E	-	481,888
Q-1101-0047	Wellness Center	783,261	-
Total		\$ 1,104,872	\$ 783,997

6. LONG-TERM DEBT AND LEASE OBLIGATIONS

A summary of the University's long-term debt and line of credit as of June 30, 2018 and 2017, 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 HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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, 2018, were as follows:

For the years ended June 30	Series 2013 A Bonds	Series 2013 B Bonds	Total
2019	\$ 548,875	\$ 712,524	\$ 1,261,399
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
2024-2028	7,035,488	958,005	7,993,493
2029-2033	8,243,429	1,156,757	9,400,186
2034-2036	5,607,668	813,308	6,420,976
Total	\$ 26,322,331	\$ 4,276,885	30,599,216
Less: bond issuance cost			172,270
			\$ 30,426,946

Loan Payable- Energy Conservation Project

On November 21, 2016, the University entered into an agreement with Aramark and PNC bank 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, 2018 and 2017, the balance remaining in the escrow account was \$445,560 and \$1,797,375, respectively, 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.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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

Loan Payable- Energy Conservation Project (continued)

Future principal payments as of June 30, 2018, were as follows:

<u>For the years ended June 30</u>	<u>Amount</u>
2019	\$ 319,042
2020	331,537
2021	344,520
2022	358,013
2023	372,033
2024-2027	1,420,659
Total	<u>\$ 3,145,804</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 will expire on December 31, 2018. The University had \$5,000,000 outstanding as of June 30, 2018.

7. ASSET RETIREMENT OBLIGATION

The future asset retirement obligation was estimated by the University based on asbestos abatement cost of University buildings. The University estimates its total undiscounted asset retirement obligation to be \$534,000 as of June 30, 2018. The University uses 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, 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>2018</u>	<u>2017</u>
Balance, beginning of period	\$ 584,000	\$ 592,000
Accretion and removal	(50,000)	(8,000)
Balance, end of period	<u>\$ 534,000</u>	<u>\$ 584,000</u>

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

**Notes to the Financial Statements
June 30, 2018 and 2017**

8. NET ASSETS

Temporarily restricted net assets as of June 30, were available for the following purposes:

	2018	2017
Invested in State contributed capital	\$ 166,250,503	\$ 171,052,468
Cumulative endowments earnings	22,269,681	20,143,835
Restricted for scholarships and other purposes	4,210,949	3,896,365
Total	\$ 192,731,133	\$ 195,092,668

Permanently restricted net assets as of June 30, were available for the following purposes:

	2018	2017
Funds held in trust by others restricted for scholarships	\$ 888,216	\$ 874,043
Endowment principal restricted for scholarships and other purposes	14,833,704	14,443,886
Total	\$ 15,721,920	\$ 15,317,929

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 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the relevant state law.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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 unrestricted net assets. There were no such deficiencies reported as of June 30, 2018 and 2017.

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
HIGHER EDUCATION**

**Notes to the Financial Statements
June 30, 2018 and 2017**

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 grant making and administration. The current spending policy is to distribute an amount equal to 3.50% 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, 2018 and 2017, are summarized below:

2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	\$ -	\$ 22,269,681	\$ 14,833,704	\$ 37,103,385
Board designated endowment funds	5,126,387	-	-	5,126,387
Total Endowment funds	\$ 5,126,387	\$ 22,269,681	\$ 14,833,704	\$ 42,229,772

2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	\$ -	\$ 20,143,835	\$ 14,429,713	\$ 34,573,548
Board designated endowment funds	4,874,049	-	-	4,874,049
Total Endowment funds	\$ 4,874,049	\$ 20,143,835	\$ 14,429,713	\$ 39,447,597

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

**Notes to the Financial Statements
June 30, 2018 and 2017**

9. ENDOWMENTS (continued)

Changes in endowment net assets for the years ended June 30, 2018 and 2017, are summarized below:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2017	\$ 4,704,742	\$ 20,143,835	\$ 14,429,713	\$ 39,278,290
Net investment income	62,802	559,297	-	622,099
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	<u>\$ 5,126,387</u>	<u>\$ 22,269,681</u>	<u>\$ 14,833,704</u>	<u>\$ 42,229,772</u>

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2016	\$ 4,196,736	\$ 17,044,648	\$ 13,899,472	\$ 35,140,856
Net investment income	46,575	239,420	-	285,995
Net income on investments	577,529	4,087,767	58,668	4,723,964
Contributions	100,000	-	471,573	571,573
Withdrawal of spending allocation	-	(1,228,000)	-	(1,228,000)
Other withdrawals	(88,694)	-	-	(88,694)
Transfers	(127,404)	-	-	(127,404)
Balance as of June 30, 2017	<u>\$ 4,704,742</u>	<u>\$ 20,143,835</u>	<u>\$ 14,429,713</u>	<u>\$ 39,278,290</u>

10. GOVERNMENT APPROPRIATIONS

The University received the following appropriations from the Commonwealth of Pennsylvania for the years ended June 30, 2018 and 2017:

	2018	2017
Operations	\$ 14,436,000	\$ 14,436,000
State contributions for capital projects (see Note 5)	1,104,872	783,997
Total	<u>\$ 15,540,872</u>	<u>\$ 15,219,997</u>

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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.

A University construction project has been deemed by the Pennsylvania Department of Labor and Industry to be a prevailing wage project. Certified payrolls are currently being submitted by the vendors to be reviewed by the PA Department of Labor to determine any additional liability. The PA Department of Labor has waived all penalties or interest charges for this project. The University believes the resolution will not have an adverse or material effect on the University's financial statements.

In December 2013, Lincoln 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 will provide: repair services, supplies, maintenance kits and drums for all of Lincoln 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.

The University employs approximately 330 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 Contract expires July 1, 2019. The Police Union Contract expired July 1, 2017 and is currently being negotiated. The Facility Union Contract expires September 1, 2019.

Operating Leases

The University leases equipment for general operations. All leases as of June 30, 2018 will expire within the next three years. Operating lease expense was \$265,550 for the year ended June 30, 2018.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

11. COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued)

The following is a schedule, by years, of future minimum lease payments under operating leases as of June 30, 2018:

<u>Years ending June 30:</u>	
2019	\$ 227,489
2020	111,223
2021	4,517
Total	<u>\$ 343,229</u>

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 \$309,993 in revenue under this lease for the year ended June 30, 2018.

The recorded asset value as of June 30, 2018 and 2017, for this property was \$7,712,086, with accumulated depreciation of \$2,856,138 and \$2,717,320, as of June 30, 2018 and 2017, respectively.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Financial Statements June 30, 2018 and 2017

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, 2018 and 2017, was \$1,756,890 and \$1,690,498, 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.

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

**Single Audit Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2018



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JUNE 30, 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 statement of financial position of Lincoln University of Commonwealth System of Higher Education, Inc. (the University), as of June 30, 2018, the related statements of activities and changes in net assets, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of Federal awards as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the University's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal controls over financial reporting and compliance.

Hunt Valley, Maryland
November 19, 2018

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL
CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln University of the Commonwealth System of Higher Education, Inc. (the University), as of June 30, 2018, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2018.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal controls over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal controls. Accordingly, we do not express an opinion on the effectiveness of the University's internal controls.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland
November 19, 2018

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROLS OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Lincoln University of the Commonwealth System of Higher Education, Inc. (the University) compliance requirements disclosed in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major Federal programs for the year ended June 30, 2018. The University's major Federal programs are identified in the summary of independent public accountants' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the University's compliance.



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Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Controls over Compliance

Management of the University is responsible for establishing and maintaining effective internal controls over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal controls over compliance with the types of requirements that could have a direct and material effect on each major Federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal controls over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal controls over compliance.

A deficiency in internal controls over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal controls over compliance* is a deficiency, or combination of deficiencies in internal controls over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal controls over compliance* is a deficiency, or a combination of deficiencies, in internal controls over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal controls over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal controls over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal controls over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hunt Valley, Maryland
November 19, 2018

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

Federal Grantor/Passthrough Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through ID or Grant Number	Federal Expenditures	Expenditures to Subrecipients
U.S Department of Education				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		\$ 460,369	\$ -
Federal Work-Study	84.033		209,403	-
Federal Pell Grants	84.063		6,369,617	-
Federal Perkins Loans Outstanding	84.038		1,254,531	-
Federal Direct Lending	84.268		25,185,239	-
Total Student Financial Assistance Cluster			33,479,159	-
Title III - Strengthening Historically Black Colleges and Universities	84.031		3,149,120	-
Upward Bound	84.047		589,262	-
Total Department of Education			37,217,541	-
National Science Foundation				
<i>Passed through Virginia State University & Drexel University</i>				
Educational and Human Resources (LEAPS Transformation)	47.076	Unknown 235920/U0058762/U01 01600/U0101324/8200	441,980	-
Educational and Human Resources (Philadelphia AMP)	47.076	89/U0108808	64,750	-
Educational and Human Resources (LEAPS Scholars)	47.076	Unknown	95,167	-
Educational and Human Resources (BRAINLU)	47.076	Unknown	105,787	18,373
Educational and Human Resources (ATOMIC SCALE)	47.076	Unknown	22,001	-
Educational and Human Resources (LearningExpress App)	47.076	Unknown	75,011	-
Educational and Human Resources (Algebra Project)	47.076	VSUFK1620	144,807	-
Total National Science Foundation			949,503	18,373
U.S Department of Agriculture				
<i>Passed through Pennsylvania Department of Education</i>				
Summer Food Service Program for Children	10.559	424-15-510-1	6,925	-
U.S Department of Justice				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		32,066	-
U.S Department of State				
<i>Passed through Partners of the Americas</i>				
Capacity Building Grants for U.S. Undergraduate Study Abroad	19.009	CBG-2015-R1-05	28,635	-
National Aeronautics and Space Administration				
<i>Passed through Pennsylvania State University</i>				
STEM Academic Research Training-Underrepresented Pennsylvanians	43.008	5243-LU-NASA-K06H	750	-
National Endowment for the Humanities				
Promotion of the Humanities-Division of Preservation & Access (Preserving the History of Lincoln U. Village)	45.149		964	-
<i>Passed through Morehouse School of Medicine</i>				
HBCU-Center for Excellence-Substance Abuse and Mental Health Services Administration	93-243	Unknown	6,228	-
Total National Endowment for the Humanities			1,025,071	18,373
Total Expenditures of Federal Awards			\$ 38,242,612	\$ 18,373

See accompanying notes to this schedule.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Notes to the Schedule of Expenditures of Federal Awards June 30, 2018

1. BASIS OF PRESENTATION

All Federal grant operations of Lincoln University of the Commonwealth System of Higher Education (the University) are included in the scope of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit) for the year ended June 30, 2018. The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant program noted below. The programs on the schedule of expenditures of Federal awards represent all Federal award programs for fiscal year 2018, with cash or non-cash expenditure activities. For our single audit testing, we tested Federal award programs to ensure coverage of at least 20% of Federally granted funds. Our actual coverage was 88%.

Major Program	Federal CFDA Number	Federal Expenditures
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	\$ 460,369
Federal Work Study Program	84.033	209,403
Federal Pell Grant Program	84.038	6,369,617
Federal Perkins Loan Program	84.063	1,254,531
Federal Direct Student Loans	84.268	25,185,239
Total Student Financial Assistance Cluster		\$ 33,479,159

Expenditures reported on the accompanying schedule of expenditures of Federal awards (the Schedule) are reported on the accrual basis of accounting. Management has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

2. FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program is administered directly by the University, and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans outstanding as of June 30, 2018, totaled \$1,033,927.

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

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018**

3. WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

The University participates in the Federal Direct Loan Program (CFDA No. 84.268). During the year ended June 30, 2018, the University disbursed to students the following amount of new loans under the Federal Direct Loan Program:

	<u>Amount Expended</u>
Stafford loans	\$ 6,239,804
Unsubsidized loans	10,279,773
Plus loans	<u>8,665,662</u>
Total	<u>\$ 25,185,239</u>

4. FACILITIES AND ADMINISTRATIVE COST

The University has negotiated facilities and administrative cost rates for use on Federal grants, contracts, and other agreements with the Federal Government. The negotiated predetermined rates are 55% on-campus and 20% off-campus, and are effective from July 1, 2016, through June 30, 2021. After June 30, 2021, provisional rates of 55% on-campus and 20% off-campus will apply until amended.

LINCOLN UNIVERSITY OF THE COMMONWEALTH SYSTEM OF HIGHER EDUCATION

Schedule of Findings and Questioned Costs June 30, 2018

Financial Statements

Type of Independent Public Accountants' Report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Noted
Noncompliance material to the financial statements noted?	No

Federal Awards

Type of Independent Public Accountants' Report issued on compliance for major programs	Unmodified
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Noted
Audit finding disclosed that are required to be reported in accordance with Uniform Guidance?	No

Identification of Major Program:

Major Program	Federal CFDA Number	Federal Expenditures
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	\$ 460,369
Federal Work Study Program	84.033	209,403
Federal Pell Grant Program	84.038	6,369,617
Federal Perkins Loan Program	84.063	1,254,531
Federal Direct Student Loans	84.268	25,185,239
Total Student Financial Assistance Cluster		\$ 33,479,159

Threshold for distinguishing between Type A and B programs	\$ 750,000
Did the University qualify as a low risk auditee?	Yes

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

**Schedule of Findings and Questioned Costs
June 30, 2018**

Section II – Financial Statement Findings

None Noted.

Section III – Award Findings

None Noted.

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

**Schedule of Prior Year Findings and Questioned Costs
June 30, 2018**

Department of Education

**Findings 2017-001 - U.S. Department of Education - CFDA No. 84.031 - Higher Education
Institutional Aid - July 1, 2016 - June 30, 2017**

Criteria:	Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. 2 CFR section 200(h)(8)(i)(vii).
Condition and Context:	In the sample of forty payroll charges, one individuals time and effort reports did not accurately support the salary and wages charged to the federal award for the eight pays tested. The sample was not a statistically valid sample.
Cause:	Review of time and effort reports failed to effectively identify errors in the allocation of employee time between grant and University activities.
Questioned Costs:	Not Applicable.
Recommendation:	It was recommended that the principal investigator compare the reported time and effort percentages to the actual wages charged to the grant as a component of the review process.
Management Response:	The Department of Sponsored Programs is now responsible for certification of effort for all grants (Federal, State, and other non-governmental organizations). This procedure has been in place as of 9/1/2017.
2018 Status:	Finding remaining as stated, based on 2018 testing.