

Lincoln University
A Component Unit of the State of Missouri
Accountants' Reports and Financial Statements
June 30, 2012 and 2011

Lincoln University
A Component Unit of the State of Missouri
June 30, 2012 and 2011

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Assets	16
Lincoln University Foundation, Inc. – Statements of Financial Position	17
Statements of Revenues, Expenses and Changes in Net Assets	18
Lincoln University Foundation, Inc. – Statements of Activities and Changes in Net Assets	20
Statements of Cash Flows	21
Notes to Financial Statements	23
Required Supplementary Information	
Schedule of Prior Year Funding Progress	48
Supplementary Information	
Auxiliary Activity Fund – Schedules of Revenues and Expenses	49
Schedule of Expenditures of Federal Awards	50
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	56
Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	58
Schedule of Findings and Questioned Costs	60
Summary Schedule of Prior Audit Findings	64

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Curators
Lincoln University
Jefferson City, Missouri

We have audited the accompanying basic financial statements of Lincoln University and its discretely presented component unit, collectively a component unit of the State of Missouri, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Lincoln University Foundation, Inc., a legally separate, discretely presented tax-exempt component unit of the University, which statements reflect total assets of \$6,119,816 and \$6,276,190 as of June 30, 2012 and 2011, respectively, and total revenues of \$688,308 and \$1,987,171, respectively, for the years then ended. Those statements were audited by other accountants whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for Lincoln University Foundation, Inc. are based solely on the report of the other accountants.

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 of material misstatement. The financial statements of Lincoln University Foundation, Inc., which comprises the financial statements of the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln University and of its discretely presented component unit as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012, on our consideration of the University's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* listed in the table of contents, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The Auxiliary Activity Fund – Schedule of Revenues and Expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

October 22, 2012

Lincoln University
A Component Unit of the State of Missouri
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011

The objective of management's discussion and analysis is to help readers of Lincoln University's financial statements better understand the financial position and operating activities for the years ended June 30, 2012 and 2011, with selected comparative information for the year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes to the financial statements.

Lincoln University

Lincoln University is an academic institution that is part of the Missouri state system of higher education. Founded in 1866 through the cooperative efforts of the enlisted men and officers of the 62nd and 65th Colored Infantries, Lincoln University was designed to meet the educational and social needs of freed African-Americans. While remaining committed to this purpose, the University has expanded its historical mission to embrace the needs of a significantly broader higher education population. Our current mission statement further delineates the University's character and historical nature:

Lincoln University is a historically black, 1890 land-grant, public, comprehensive institution that provides excellent educational opportunities including theoretical and applied learning experiences to a diverse population within a nurturing, student-centered environment.

Academic Programs

The academic programs of the University are organized under four Colleges: the College of Arts and Letters, the College of Professional Studies, the College of Behavioral and Technological Sciences and the College of Agricultural and Natural Sciences. Lincoln University offers nine undergraduate degrees: Bachelor of Arts (B.A.), Bachelor of Liberal Studies (B.L.S.), Bachelor of Music Education (B.M.E.), Bachelor of Science (B.S.), Bachelor of Science in Education (B.S.Ed.), Bachelor of Science in Nursing (B.S.N.), Associate of Arts (A.A.), Associate of Applied Science (A.A.S.) and Associate of Science (A.S.).

The Office of Graduate Studies coordinates all graduate programs. The University offers five graduate degrees: Master of Arts (M.A.) with majors in history, sociology and sociology/criminal justice; Master of Education (M.Ed.) with majors in school administration and supervision, school teaching and guidance and counseling; Master of Business Administration (M.B.A.) with an emphasis in management, accounting, entrepreneurship, public administration/policy or management information systems; Master of Science (M.S.) in Environmental Science and the Specialist Degree in Education: Leadership (Ed.S.) with an emphasis in elementary leadership, secondary leadership or superintendency.

Using the Annual Financial Report

The University's financial statements consist of a series of financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). A summary of significant accounting policies followed by the University is included in *Note 1* to the financial statements of this report.

The Statement of Net Assets - This statement presents information on all University assets and liabilities. Assets and liabilities are generally measured using current values. One notable exception is the capital assets, which are stated at historical cost less an allowance for depreciation.

Statement of Revenues, Expenses and Changes in Net Assets - This statement presents a summary of revenues and expenses classified as either operating or nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The operating deficit, which is reflected results from the classification of state appropriations as nonoperating revenue. Also, this statement reflects a change in the University's net assets based upon revenues in excess of expenses.

Statement of Cash Flows - This statement classifies cash inflows and outflows into the following classifications: operating activities, noncapital financing activities, capital and related financing activities and investing activities. This information is useful in assessing the University's ability to meet maturing financial obligations.

Statement of Net Assets

A summarized comparison of the University's assets, liabilities and net assets at June 30, 2012, 2011 and 2010, is as follows:

	Net Assets, End of Year		
	2012	2011	2010
	(In Millions)		
Assets			
Current assets	\$ 18.7	\$ 15.2	\$ 12.3
Capital assets, net	88.1	87.3	89.4
Other noncurrent assets	<u>6.3</u>	<u>6.4</u>	<u>7.0</u>
Total assets	<u>\$ 113.1</u>	<u>\$ 108.9</u>	<u>\$ 108.7</u>
Liabilities			
Current liabilities	\$ 5.7	\$ 5.8	\$ 5.5
Noncurrent liabilities	<u>27.4</u>	<u>26.7</u>	<u>27.7</u>
Total liabilities	<u>\$ 33.1</u>	<u>\$ 32.5</u>	<u>\$ 33.2</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 64.6	\$ 63.0	\$ 63.3
Restricted – nonexpendable	0.1	0.1	0.1
Restricted – expendable	2.8	3.3	3.5
Unrestricted	<u>12.5</u>	<u>10.0</u>	<u>8.6</u>
Total net assets	<u>\$ 80.0</u>	<u>\$ 76.4</u>	<u>\$ 75.5</u>

During the 2012 fiscal year, total assets increased by \$4.2 million, total liabilities increased by \$0.6 million resulting in an increase in net assets of \$3.6 million compared to fiscal year 2011. The increase in assets was a result of the receipt of loan funds from Missouri Department of Natural Resources for the steam decentralization project in the amount of \$1.7 million, an overall increase in cash and investments, as well as an increase of \$0.8 million in capital assets. The increase in capital assets is partially due to the purchase of land in fiscal year 2012 and is explained further in the Capital Assets section of the Management's Discussion and Analysis.

In fiscal year 2011, there was a modest increase in total net assets of \$0.9 million. This increase resulted from an increase in total assets of \$0.2 million and a decrease in total liabilities of \$0.7 million. The increase in current assets is mainly due to an increase in investments and prepayments for capital assets but is offset by the decrease in capital assets. Capital assets were affected primarily from depreciation. In 2011, the University reduced the liability related to the 2005 and 2007 revenue bonds by approximately \$1.0 million. These changes in assets coupled with the reduction in liabilities resulted in the change in total net assets.

At June 30, 2012, total University assets increased from \$108.9 in 2011 to \$113.10 in 2012. The University's largest asset in 2012 and 2011 is its investment in capital assets of \$64.6 and \$63.0 million (net of depreciation and related debt), respectively.

In fiscal year 2012, the University's current assets of \$18.7 million were sufficient to cover current liabilities of \$5.7 million. The current ratio in 2012 increased to 3.3 compared to the current ratio in 2011 of 2.6.

The University's liabilities totaled \$33.1 million at June 30, 2012, and \$32.5 million at June 30, 2011. Noncurrent liabilities of \$27.4 million in 2012 and \$26.7 million in 2011 both consisted primarily of bonds payable. The change in liabilities in fiscal year 2012 was primarily a result of the DNR steam decentralization loan of \$1.7 million and a reduction in the 2005 and 2007 revenue bond liability of \$1.0 million.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the University's results of financial activity for the year.

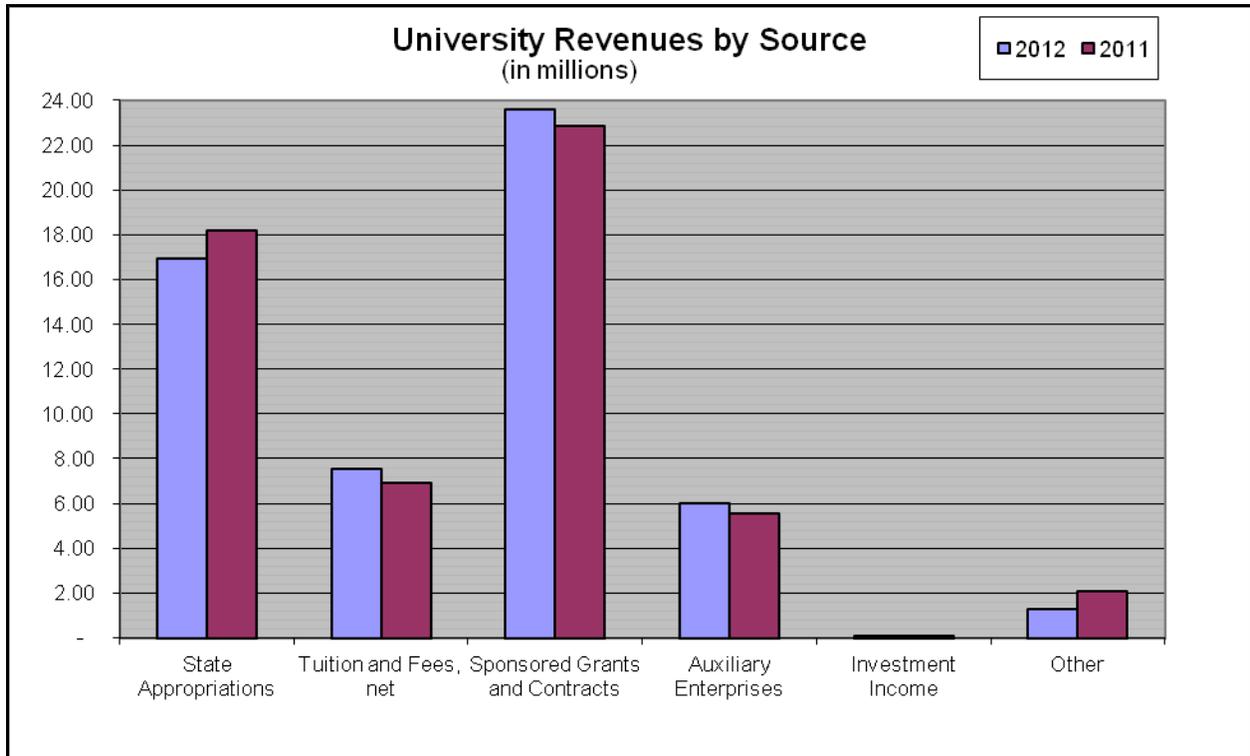
A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2012, 2011 and 2010, is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Millions)		
Operating revenues	\$ 14.3	\$ 14.7	\$ 15.2
Operating expenses	<u>53.4</u>	<u>54.1</u>	<u>53.0</u>
Operating loss	(39.1)	(39.4)	(37.8)
Nonoperating revenues, net	<u>39.8</u>	<u>39.6</u>	<u>37.3</u>
Income (loss) before other revenues, expenses, gains or losses	0.7	0.2	(0.5)
Other revenues	<u>2.9</u>	<u>0.7</u>	<u>1.8</u>
Increase in net assets	3.6	0.9	1.3
Net assets, beginning of year	<u>76.4</u>	<u>75.5</u>	<u>74.2</u>
Net assets, end of year	<u>\$ 80.0</u>	<u>\$ 76.4</u>	<u>\$ 75.5</u>

The total operating loss for fiscal year 2012 was \$39.1 million, which was offset by nonoperating revenues of \$39.8 million. The largest component of nonoperating revenues is federal grants and contracts followed by state appropriations. Although, these revenues support operating expenses, Governmental Accounting Standards Board (GASB) mandates that these revenues be recorded as nonoperating revenues.

Revenues (Operating and Nonoperating)

The following graph displays the components of the University’s revenues for fiscal years 2012 and 2011:



As shown above, the largest component of total revenues (operating and nonoperating) is grants and contracts followed by state appropriations. In fiscal year 2012, the University received \$1.2 million less in state appropriations compared to fiscal year 2011. This equates to nearly 7% in core appropriation reductions in 2012. Recall that the University also received a 5.2% cut in core funding in 2011 resulting in an overall core reduction of \$2.2 million since fiscal year 2010. State appropriations now account for 31% of University revenues compared to 33% in 2011. The University is continuing its efforts to seek external funding to offset continued decreases in appropriations.

Student tuition and fees revenue of \$7.5 million is shown net of \$9.9 million and \$0.1 million in scholarship allowances and bad debt, respectively.

The following table represents the details of the University's grants and contracts revenue for the year ended June 30, 2012:

	<u>2012</u>
Federal sources	
Department of Agriculture	\$ 11,848,919
Department of Education (excluding financial aid)	2,860,756
Department of Defense	1,501,570
Department of International Development	79,780
Department of Health and Human Services	875,646
National Aeronautics and Space Administration	11,761
National Science Foundation	483,932
Other Federal Sources	<u>102,006</u>
Total federal sources	<u>17,764,370</u>
Nonfederal sources	
State, local and private	<u>301,260</u>
Total nonfederal sources	<u>301,260</u>
Total all sources	<u>\$ 18,065,630</u>

Operating Revenues

The following table summarizes the University's operating revenues by source for the years ended June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Millions)		
Tuition and fees, net	\$ 7.5	\$ 6.9	\$ 7.4
Grants and contracts	0.5	1.9	2.4
Recovery of facilities and administrative costs	0.7	0.7	0.4
Sales and services of educational activities	0.1	0.1	0.1
Auxiliary enterprises, net	5.2	4.7	4.6
Other	<u>0.3</u>	<u>0.4</u>	<u>0.3</u>
Total operating revenues	<u>\$ 14.3</u>	<u>\$ 14.7</u>	<u>\$ 15.2</u>

Tuition and fees, net of allowances of \$9.9 million and bad debt of \$0.1 million, increased in 2012 to \$7.5 million compared to \$6.9 in 2011. This net increase in tuition and fees of \$0.6 million comes as a result of an increase in tuition and fees rates in 2012. The University increased in-state undergraduate tuition and fees by 3% while nonresident tuition and fees increased by approximately 6%. The University ensures compliance with Missouri Senate Bill 389 in establishing tuition and fee rates.

In fiscal year 2011, tuition and fees, net of allowance and bad debt, decreased slightly by \$0.5 million, despite the increase in tuition and related fees of 5% for nonresident students and a 3% increase for graduate in-state students. The increase in tuition and fee rates was offset by the increase in scholarship allowances. In 2011, the scholarship allowance increased by \$0.7 million. The largest part of scholarship allowances remains to be federal financial aid. In 2011, federal financial aid, specifically PELL, increased by \$0.8 million.

Operating grants and contracts decreased by \$1.4 million in 2012 compared to 2011. This is a direct result of a decrease in external grant funding from the U.S. Department of Defense. Despite the reduction in operating grants, total operating revenues remained relatively steady at \$14.3 million in 2012.

Operating Expenses

The following table summarizes the University's operating expenses for the years ended June 30, 2012, 2011 and 2010:

	2012	2011	2010
	(In Millions)		
Compensation and benefits	\$ 34.0	\$ 34.4	\$ 32.5
Contractual services	6.1	6.5	6.9
Supplies and materials	2.3	2.2	2.5
Depreciation and amortization	5.9	5.9	5.7
Utilities/communications	1.7	1.8	1.7
Scholarships and fellowships	0.4	0.4	0.5
Other	<u>3.0</u>	<u>2.9</u>	<u>3.2</u>
	<u>\$ 53.4</u>	<u>\$ 54.1</u>	<u>\$ 53.0</u>

During fiscal year 2012, operating expenses were \$53.4 million, a decrease of \$0.7 million compared to 2011. With significant reductions in state appropriations in fiscal years 2011 and 2012, the University was forced to reduce the general operating budget, thereby reducing annual expenses in 2012. The principal operating expense remains compensation and benefits. While no cost of living increases were received by employees in 2012, benefits such as retirement and health insurance remain a huge factor for increased costs each year. Despite these increased benefit costs, compensation and benefits decreased by \$0.4 million. Another factor affecting the overall decrease in operating expenses is contractual services, with a decrease of \$0.4 million. All other categories predominantly remained steady.

Operating expenses in 2011 increased to \$54.1 million from \$53.0 million in 2010. The largest component of operating expenses is compensation and benefits. The increase in compensation and benefits was \$1.9 million in 2011. This increase of approximately 6% is the direct result of continued increases in health insurance premiums for faculty and staff. At the renewal period of the 2011 calendar year, the University received a negotiated rate increase of 10%. Along with this rate increase came reduced benefits for employees. In 2011, employees again did not receive cost-of-living increases. Excluding compensation and benefits and depreciation, other operating expenses in total were reduced by \$1.0 million in 2011. Cuts in appropriations in 2011 impacted available funds for other operating expenses.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A comparative summary of the University's expenses by functional classification for the years ended June 30, 2012, 2011 and 2010, is as follows:

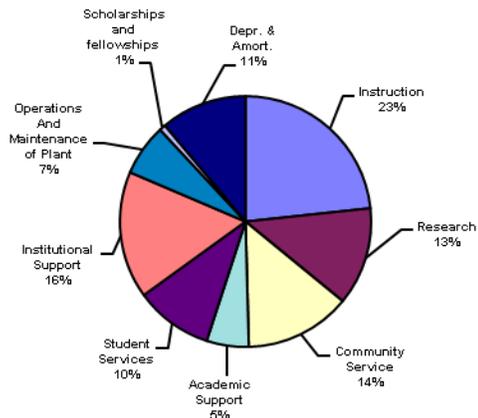
Expenses by Functional Category

	2012	2011	2010
	(In Millions)		
Instruction	\$ 12.4	\$ 12.8	\$ 13.0
Research	6.7	7.5	6.6
Community service	7.3	6.9	5.4
Academic support	2.9	2.8	3.3
Student services	5.4	5.3	5.8
Institutional support	8.8	8.9	8.9
Operations and maintenance of plant	3.6	3.6	3.8
Scholarships and fellowships	0.4	0.4	0.5
Depreciation and amortization	5.9	5.9	5.7
	\$ 53.4	\$ 54.1	\$ 53.0

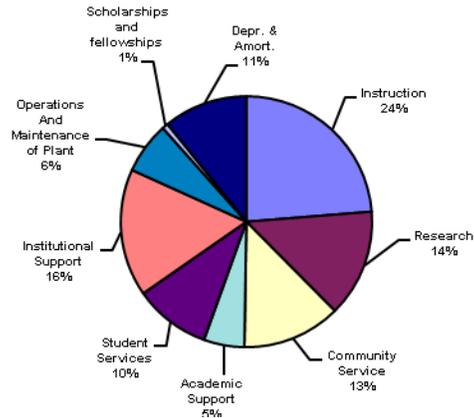
The University's total operating expenses directly support the primary mission of the University: Instruction, Research and Community Service. In 2012, the total of these three categories was \$26.4 million or 49.4% of the total expenses compared to \$27.2 million or 50.3% of total expenses in 2011. While the research category decreased by \$0.8 million, the community service category increased by \$0.4 million, leaving the overall change in expenses at a reduced \$0.7 million.

The following graphic illustrations present total expenses by function:

2012 Functional Expenses



2011 Functional Expenses



Nonoperating Revenues and Expenses

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2012, 2011 and 2010:

Nonoperating Revenues and Expenses

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Millions)		
State appropriations	\$ 17.0	\$ 18.2	\$ 20.0
Federal grants and contracts	22.0	19.7	16.3
State grants and contracts	0.4	0.5	0.7
Interest on indebtedness	(1.3)	(1.3)	(1.4)
Investment income	0.1	0.1	0.1
Other	<u>1.6</u>	<u>2.4</u>	<u>1.5</u>
 Total nonoperating revenues and expenses	 <u>\$ 39.8</u>	 <u>\$ 39.6</u>	 <u>\$ 37.2</u>

Federal grants and contracts are the largest component of the University's nonoperating revenues followed by state appropriations. State appropriations decreased in 2012 by \$1.2 million compared to 2011. The reduction of \$1.2 million equates to a 6.7% cut in base appropriations. In 2011, the University also received a 5.2% cut in base funding, resulting in a net reduction of \$2.2 million in the last two years.

The federal grants and contracts increased by \$2.3 million in 2012, largely attributable to an increase in federal grants and contracts with the U.S. Department of Agriculture, U.S. Department of Health and Human Services and the National Science Foundation.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due and needs for external financing.

The following table summarizes the University's cash flows for the years ended June 30, 2012, 2011 and 2010:

Cash Flows

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Millions)		
Cash Provided by (Used in)			
Operating activities	\$ (31.3)	\$ (34.0)	\$ (32.2)
Noncapital financing activities	41.2	38.7	36.9
Capital and related financing activities	(4.2)	(4.3)	(5.8)
Investing activities	(2.6)	(0.7)	1.3
 Net Increase (Decrease) in Cash and Cash Equivalents	 3.1	 (0.3)	 0.2
 Cash and Cash Equivalents, Beginning of the Year	 <u>4.5</u>	 <u>4.8</u>	 <u>4.6</u>
 Cash and Cash Equivalents, End of the Year	 <u>\$ 7.6</u>	 <u>\$ 4.5</u>	 <u>\$ 4.8</u>

In fiscal year 2012, cash and cash equivalents increased by \$3.1 million compared to 2011. Approximately \$31.3 million of cash was used for operating activities, offset by \$41.2 million of cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state appropriations and federal and state grants and contract revenues received for other than capital purposes.

During fiscal year 2012, cash used for operating activities decreased by \$2.7 million compared to 2011. The change in operating activities relates to the overall decrease in cash used for expenses, the increase in cash provided by tuition and fees and auxiliary enterprise activities and the decrease in cash provided by operating grants.

The net cash provided by noncapital financing activities increased in 2012 by \$2.5 million. The change in noncapital financing activities was affected by the increase in federal and state grant and contract revenue of \$3.7 million offset by the reduction in state appropriations of 6.7% or \$1.2 million.

Cash used for capital and related financing activities in 2012 was \$4.2 million, a decrease of \$0.1 million compared to 2011. The change was due to an increase in cash from capital grants funded by the U.S. Department of Agriculture facility grant, the proceeds related to the Missouri Department of Natural Resources steam decentralization loan, offset by the increase in cash used for purchases of capital assets.

Cash used for investing activities in fiscal year 2012 was \$2.6 million compared to the cash used by investing activities of \$0.7 million in 2011. This is an overall change of \$1.9 million. The investment activity shows the University had purchased investments of \$13.1 million and had maturities of \$10.4 million in 2012, compared to \$14.0 million purchases and \$13.3 million in maturities in 2011. The University employs an investment strategy to maximize investment opportunities. However, interest rates continue to be stagnant and investment opportunities are limited. The University's investment options are restricted to United States Treasury Securities, Government Sponsored Enterprises, collateralized public deposits, bankers acceptances, commercial paper and bank repurchase agreements collateralized by those obligations.

The change in operating activities in 2011 was an overall increase in cash used of \$1.8 million. The changes in operating activities were affected in part by the increase in benefits for employee health insurance premiums.

There was an increase in cash received from noncapital financing activities in 2011 of \$1.8 million. The change in noncapital financing activities was affected by three major components, the reduction in state appropriations of \$1.0 million, the reduction in Caring for Missourians state appropriations (one-time funding in 2010) of \$0.8 million and the increase in federal and state grant and contract revenue of \$3.5 million.

The net decrease in cash used for capital and related financing activities in 2011 compared to 2010 was \$1.5 million. In 2009, the University received capital appropriations through the State of Missouri Lewis and Clark Discovery fund. These funds were fully utilized in 2009 and 2010, thereby reducing the revenue received in 2011 by \$0.5 million. Another major factor affecting cash used for capital and related financing is the reduction in funds available for construction related projects. The University spent \$2.6 million less on purchases of capital assets in 2011 compared to 2010.

Capital Assets

At June 30, 2012, the University had approximately \$88.1 million invested in capital assets, net of accumulated depreciation of approximately \$79.0 million. At June 30, 2011, the University had approximately \$87.3 million invested in capital assets, net of accumulated depreciation of approximately \$73.7 million.

Depreciation charges for the current year totaled approximately \$5.9 million. The following table summarizes the University's capital assets, net of accumulated depreciation, as of June 30, 2012, 2011 and 2010.

	Capital Assets, Net		
	2012	2011	2010
	(In Millions)		
Land and land improvements	\$ 7.2	\$ 5.7	\$ 6.0
Buildings	71.3	71.7	74.5
Furniture, fixtures and equipment	6.3	6.2	6.6
Infrastructure	1.3	1.6	1.8
Library materials	0.1	0.1	0.1
Construction in progress	<u>1.9</u>	<u>2.0</u>	<u>0.4</u>
Total capital assets, net	<u>\$ 88.1</u>	<u>\$ 87.3</u>	<u>\$ 89.4</u>

The University purchased a new farm in January 2012 to replace the farm sold in June 2011 (Freeman Farm across the Missouri River). The new farm has 324.71 acres and is located at 9315 Tanner Bridge Road, Jefferson City, MO. The farm was purchased with \$400,000 from the 1890 Facilities Grant funds, and the balance from the proceeds of the Freeman Farm sale. Contract sales price of the new farm was \$1,180,000.

Major construction projects that began in FY2011 and were completed in FY2012 include the eastern section renovation of the South Campus Building (Greene Hall) (\$401,000), center section renovation and western HVAC renovation of the South Campus Building (Greene Hall) (\$712,000), parking lot expansion at Dickinson Research Center (\$312,000), upgrades to research spaces in Founders Hall (\$312,200), resurfacing of Dwight T. Reed Stadium Track (\$227,800), Young Hall 300 classroom renovation (\$163,800), first floor renovations for the President's Residence (\$113,000), replacement of three Multi-Stack chillers in Founders Hall (\$116,000), construction of a new reservoir at Busby Farm (\$99,000), construction of a new laboratory at Small Animal Research Facility (\$93,000), Stadium Press Box renovation (\$81,700), Elliff Hall boiler replacement (\$65,000) and the interior renovations to Small Animal Research Facility (\$62,000). Funding for these projects were provided by 1890 Facilities grant funds, Title III funds, National Science Foundation grant funds, research/extension fund and local funds.

Projects that began in FY2012 and will be complete in FY2013 include the replacement of Page Library roof (\$212,000), replacement of Perry Hall roof (\$126,500), replacement of Hoard Hall and Yates Hall roofs (\$79,000), new aquaculture facility construction (\$1,267,000), Martin Luther King Hall roof replacement and cooling tower replacement as well as the waterproofing/tuckpointing and new ADA ramp construction to the art gallery at Richardson Fine Arts Center (\$1,006,000), new surveillance camera system installed in Page Library (\$50,000), and the St. Louis Extension Office restroom renovation and other repairs (\$138,000). These projects are being funded by Title III funds, 1890 Facilities grant funds and local funds.

During FY2012, a new state of the art surveillance camera system was installed in Page Library.

Bonds and Capital Leases

As of June 30, 2012, the University had approximately \$26.0 million in outstanding revenue bonds compared to \$27.0 million in 2011, a decrease of \$1 million.

Bonds and Capital Lease Debt

	2012	2011	2010
	(In Millions)		
Revenue bonds	\$ <u>26.0</u>	\$ <u>27.0</u>	\$ <u>28.0</u>

Student Enrollment

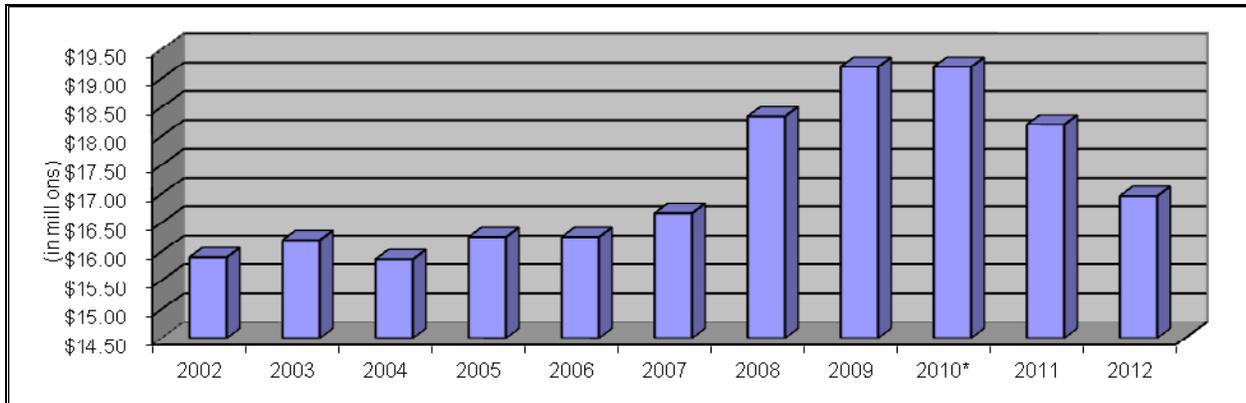
Following are highlights of student demographics for the fall 2011, 2010 and 2009 semesters of fiscal years 2012, 2011 and 2010, respectively.

	2012	2011	2010
Undergraduate	3,192	3,159	3,116
Graduate	<u>196</u>	<u>190</u>	<u>198</u>
Total students	<u>3,388</u>	<u>3,349</u>	<u>3,314</u>
Full-time	2,289	2,204	2,172
Part-time	1,099	1,145	1,142
Male	1,371	1,313	1,323
Female	2,017	2,036	1,991
Credit hours generated	37,120	36,790	35,994
Student full-time equivalent	2,498	2,471	2,419
Resident	851	817	886
Commuter	<u>2,537</u>	<u>2,532</u>	<u>2,428</u>
Total students	<u>3,388</u>	<u>3,349</u>	<u>3,314</u>
In-state	2,894	2,859	2,830
Out-state	427	402	407
International	<u>67</u>	<u>88</u>	<u>77</u>
Total students	<u>3,388</u>	<u>3,349</u>	<u>3,314</u>
Total number of degrees awarded	434	451	395
Number of students in dual – credit courses	421	416	425
Associate degree program	9	10	10
Undergraduate degree programs	47	50	50
Graduate degree programs	<u>11</u>	<u>12</u>	<u>11</u>
	<u>67</u>	<u>72</u>	<u>71</u>

In reviewing University enrollment trends, the chart above shows a modest increase in enrollment between fall 2010 to fall 2011 and again in fall 2012. The total number of students increased by approximately 1% in 2011 and in 2012. While the number of students may have increased at a steady rate, the number of credit hours generated by these students increased by 1% between 2011 and 2012 compared to an increase of 2% between 2010 and 2011. The University continues to see increases in the number of full-time students.

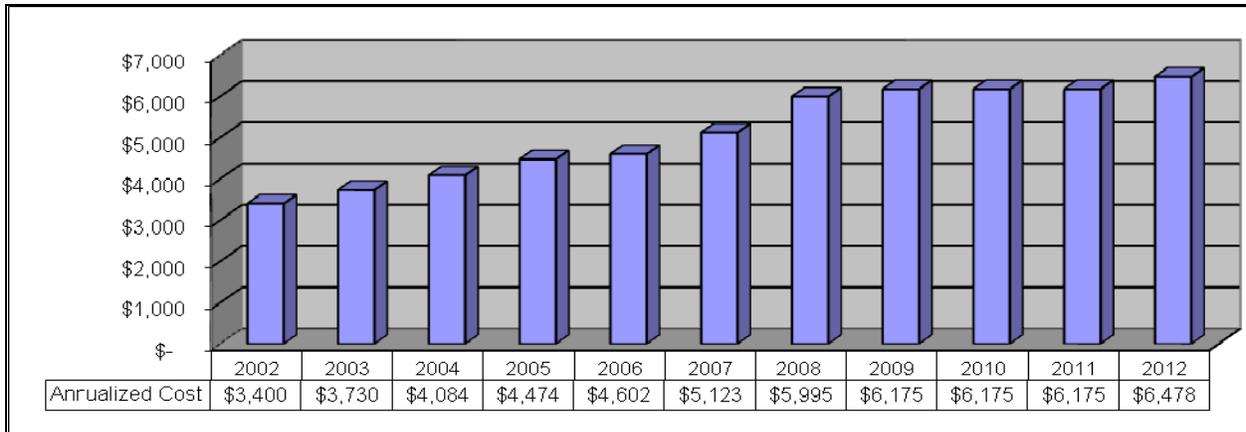
Trends

State Appropriations by Fiscal Year

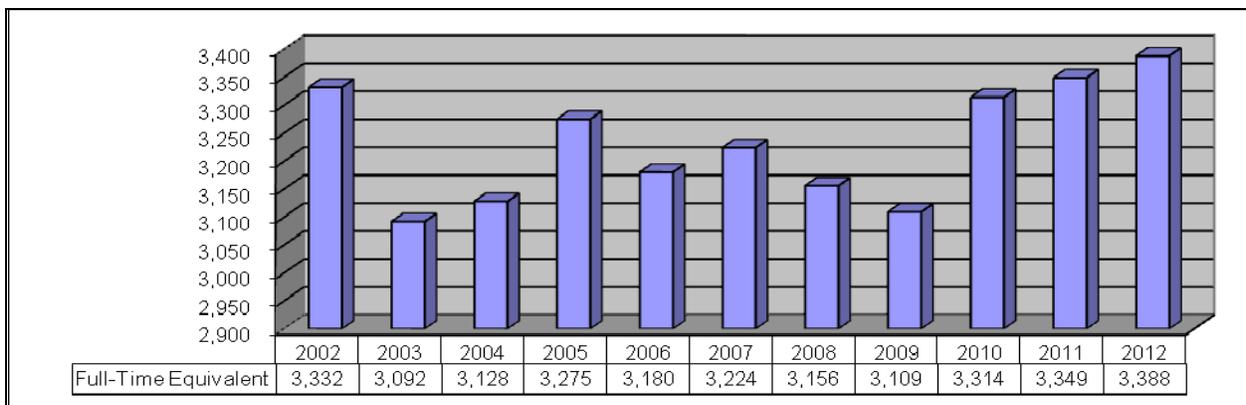


*Excludes the one-time state appropriations for the Caring for Missourian program.

Full-Time Resident Tuition and Required Fees per Year



Student Enrollment for Fall Semesters by Fiscal Year



Fiscal Year 2013 Outlook

General Fund Operating Budget

The Lincoln University Board of Curators approved a \$35.8 million general fund operating budget for fiscal year 2013. In past years, the largest component of the budget was state appropriations. Similar to that of 2012, the largest component of the 2013 budget is tuition and mandatory fees instead of state appropriations as in the past. State appropriations makes up 47% of University revenues compared to tuition and fees at 51%. The 2013 state appropriation of \$16.8 million represents a decrease in core appropriations of \$0.1 million.

Capital Projects

Upcoming projects identified for design and or construction during FY2013 include the steam decentralization project, Page Library vestibule renovation, Dawson Hall old cafeteria renovation, Chestnut Street bridge/stair repairs, Old Teaching Greenhouse renovations and various upgrades to the Integrated Farming Systems Institute at Busby Farm. Projects will be funded by a Department of Natural Resources energy efficiency loan, extension/research funds, 1890 Facilities grant funds and local funds.

Other Significant Factors

The University is currently working on the reaccreditation through the Higher Learning Commission, a commission of the North Central Association. The site visit is tentatively scheduled for Spring 2013.

The National Association of Schools of Music (NASM) visit took place in September 2011. The results from this visit have not been received.

The Accreditation Council for Business Schools and Programs (ACBSP) visit took place in September 2012. The University is awaiting the final written report with the anticipation of re-accreditation for another 10 years.

The accreditation visit from the National Council for the Accreditation of Teacher Education (NCATE) in conjunction with the Missouri Department of Elementary and Secondary Education (DESE) has been scheduled for November 2013.

In August 2012, Dr. Carolyn R. Mahoney, 18th President of Lincoln University, retired. A presidential search firm was chosen to assist the University in the selection of a new president. A committee made up of members of the University Board of Curators, faculty, staff, students, alumni, elected officials and stakeholders was established to review qualified applicants. The committee anticipates that a new president will be selected by 2013. Until a new president is appointed, Dr. Connie Hamacher, head of the Nursing Science department was selected as the Interim President. To further assist in this transition, Mr. Jerome Offord, University Librarian and Dean of Library Services, was selected to serve as Interim Provost.

Lincoln University
A Component Unit of the State of Missouri
Statements of Net Assets
June 30, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 5,172,799	\$ 1,460,737
Short-term investments	8,601,850	6,490,694
Accounts receivable, net of allowance; 2012 – \$296,384, 2011 – \$410,245	698,534	670,859
Federal and state grants receivable	4,180,470	5,351,055
Deposit on land and other prepaid expenses	23,155	1,194,444
Other	8,871	10,743
Total current assets	18,685,679	15,178,532
 Noncurrent Assets		
Restricted cash and cash equivalents	2,416,809	3,077,990
Long-term investments	882,480	376,464
Short-term endowment investments	287,607	-
Long-term endowment investments	1,210,833	1,405,517
Prepaid and other assets, net	1,457,182	1,561,850
Capital assets, net	88,137,849	87,271,092
Total noncurrent assets	94,392,760	93,692,913
Total assets	\$ 113,078,439	\$ 108,871,445

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,718,359	\$ 2,496,423
Accrued compensated absences	775,106	908,251
Postemployment benefit obligation	71,937	65,951
Deferred revenue	1,086,108	1,354,652
Current portion of long-term debt	<u>1,050,000</u>	<u>1,015,000</u>
Total current liabilities	<u>5,701,510</u>	<u>5,840,277</u>
Noncurrent Liabilities		
Deposits held in custody for others	119,613	101,868
Accrued compensated absences	660,275	489,058
Postemployment benefit obligation	44,471	63,848
Long-term debt	<u>26,620,139</u>	<u>25,996,905</u>
Total noncurrent liabilities	<u>27,444,498</u>	<u>26,651,679</u>
Total liabilities	<u>33,146,008</u>	<u>32,491,956</u>
Net Assets		
Invested in capital assets, net of related debt	64,551,361	62,957,603
Restricted nonexpendable	56,352	56,352
Restricted expendable for		
Research	234,134	234,808
Retirement of indebtedness	121,341	778,523
Term endowment	1,295,619	1,289,277
Other	1,166,892	1,009,095
Unrestricted	<u>12,506,732</u>	<u>10,053,831</u>
Total net assets	<u>\$ 79,932,431</u>	<u>\$ 76,379,489</u>

Lincoln University Foundation, Inc.
Statements of Financial Position
June 30, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 459,921	\$ 431,439
Contributions receivable	63,410	107,326
Accrued investment income	2,644	3,613
Investments	5,583,503	5,721,378
Cash surrender value of life insurance	10,338	12,434
	<u>6,119,816</u>	<u>6,276,190</u>
Total assets	<u>\$ 6,119,816</u>	<u>\$ 6,276,190</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 10,380	\$ 3,055
Note payable	-	133,124
	<u>10,380</u>	<u>136,179</u>
Total liabilities	<u>10,380</u>	<u>136,179</u>

Net Assets

Unrestricted	132,463	(59,436)
Temporarily restricted	2,644,673	2,936,945
Permanently restricted	3,332,300	3,262,502
	<u>6,109,436</u>	<u>6,140,011</u>
Total net assets	<u>6,109,436</u>	<u>6,140,011</u>
Total liabilities and net assets	<u>\$ 6,119,816</u>	<u>\$ 6,276,190</u>

Lincoln University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Tuition and fees (net of scholarship allowances of \$9,894,893 – 2012 and \$9,510,657 – 2011 and bad debt expense of \$100,711 – 2012 and \$178,777 – 2011)	\$ 7,535,495	\$ 6,898,900
Federal grants and contracts	499,978	1,899,206
State grants and contracts	26,520	26,880
Recovery of facility and administrative costs	651,560	722,445
Sales and services of educational activities	43,061	51,117
Auxiliary enterprises (net of scholarship allowances of \$141,953 – 2012 and \$168,071 – 2011 and bad debt expense of \$25,178 – 2012 and \$43,100 – 2011)	5,172,486	4,730,142
Other	344,668	330,222
Total operating revenues	14,273,768	14,658,912
Operating Expenses		
Compensation and benefits	33,988,757	34,422,001
Contractual services	6,049,585	6,507,687
Travel	1,331,268	1,339,645
Supplies and materials	2,336,278	2,161,216
Scholarships and fellowships	441,516	424,082
Depreciation and amortization	5,922,789	5,844,242
Communications	126,264	175,892
Utilities	1,595,013	1,634,328
Other	1,636,282	1,581,099
Total operating expenses	53,427,752	54,090,192
Operating Loss	(39,153,984)	(39,431,280)
Nonoperating Revenues (Expenses)		
State appropriations	16,962,048	18,188,722
Federal grants and contracts	21,976,681	19,653,669
State and local grants and contracts	441,894	534,191
Contributions	108,930	-
Student fees for capital projects	827,858	797,463
Gain (loss) on disposal of capital assets	(86,523)	898,908
Investment income	62,520	69,596
Interest on capital asset-related debt	(1,305,675)	(1,345,588)
Other nonoperating revenues	825,265	799,880
Net nonoperating revenues	39,812,998	39,596,841

Lincoln University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Gain Before Other Revenues, Expenses, Gains or Losses	\$ 659,014	\$ 165,561
Capital Grants and Gifts	<u>2,893,928</u>	<u>734,885</u>
Increase in Net Assets	3,552,942	900,446
Net Assets, Beginning of Year	<u>76,379,489</u>	<u>75,479,043</u>
Net Assets, End of Year	<u><u>\$ 79,932,431</u></u>	<u><u>\$ 76,379,489</u></u>

Lincoln University Foundation, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and Other Support				
Contributions	\$ 264,677	\$ 177,664	\$ 98,800	\$ 541,141
Special events	94,047	18,391	-	112,438
Investment return	(41,612)	(69,873)	12,198	(99,287)
Other revenue	3,608	130,408	-	134,016
	<u>320,720</u>	<u>256,590</u>	<u>110,998</u>	<u>688,308</u>
Net assets released from restrictions	<u>590,062</u>	<u>(548,862)</u>	<u>(41,200)</u>	<u>-</u>
Total revenues and other support	<u>910,782</u>	<u>(292,272)</u>	<u>69,798</u>	<u>688,308</u>
Expenses				
Program services				
Scholarships	193,445	-	-	193,445
Direct payments	300,812	-	-	300,812
Total program expenses	<u>494,257</u>	<u>-</u>	<u>-</u>	<u>494,257</u>
Support services				
Management and general	76,473	-	-	76,473
Fundraising	148,153	-	-	148,153
Total support services	<u>224,626</u>	<u>-</u>	<u>-</u>	<u>224,626</u>
Total expenses	<u>718,883</u>	<u>-</u>	<u>-</u>	<u>718,883</u>
Change in net assets	191,899	(292,272)	69,798	(30,575)
Net Assets, Beginning of Year	<u>(59,436)</u>	<u>2,936,945</u>	<u>3,262,502</u>	<u>6,140,011</u>
Net Assets, End of Year	<u>\$ 132,463</u>	<u>\$ 2,644,673</u>	<u>\$ 3,332,300</u>	<u>\$ 6,109,436</u>

See Notes to Financial Statements

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 257,476	\$ 385,771	\$ 34,540	\$ 677,787
89,437	29,694	-	119,131
64,233	934,171	73,846	1,072,250
118,003	-	-	118,003
529,149	1,349,636	108,386	1,987,171
537,492	(387,492)	(150,000)	-
1,066,641	962,144	(41,614)	1,987,171
222,135	-	-	222,135
440,731	-	-	440,731
662,866	-	-	662,866
103,666	-	-	103,666
103,923	-	-	103,923
207,589	-	-	207,589
870,455	-	-	870,455
196,186	962,144	(41,614)	1,116,716
(255,622)	1,974,801	3,304,116	5,023,295
\$ (59,436)	\$ 2,936,945	\$ 3,262,502	\$ 6,140,011

Lincoln University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Tuition and fees	\$ 7,712,418	\$ 6,628,408
Grants and contracts	526,498	1,926,086
Payments to suppliers	(11,871,693)	(14,036,132)
Payments to employees	(33,937,501)	(34,393,290)
Sales and services of auxiliary enterprises	5,166,952	4,750,758
Sales and services of educational activities	43,061	51,117
Other receipts and deposits	1,014,056	1,047,927
Net cash used in operating activities	<u>(31,346,209)</u>	<u>(34,025,126)</u>
Noncapital Financing Activities		
State appropriations	16,962,048	18,188,722
Gifts and grants for other than capital purposes	23,451,289	19,727,729
Other receipts	825,264	799,880
Net cash provided by noncapital financing activities	<u>41,238,601</u>	<u>38,716,331</u>
Capital and Related Financing Activities		
Capital grants and gifts	2,744,455	715,092
Student fees for capital projects	827,858	797,463
Purchase of capital assets	(7,173,323)	(3,472,589)
Deposit on land purchase	-	(1,184,250)
Principal paid on capital debt	(1,015,000)	(985,000)
Interest paid on capital debt	(1,258,336)	(1,298,131)
Proceeds from loan payable	1,680,408	-
Proceeds from sale of land	-	1,164,045
Net cash used in capital and related financing activities	<u>(4,193,938)</u>	<u>(4,263,370)</u>
Investing Activities		
Investment income receipts	62,520	69,596
Proceeds from sales and maturities of investments	10,375,916	13,272,278
Purchases of investments	(13,086,009)	(14,036,980)
Net cash used in investing activities	<u>(2,647,573)</u>	<u>(695,106)</u>
Increase (Decrease) in Cash and Cash Equivalents	3,050,881	(267,271)
Cash and Cash Equivalents, Beginning of Year	<u>4,538,727</u>	<u>4,805,998</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,589,608</u>	<u>\$ 4,538,727</u>

Lincoln University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 5,172,799	\$ 1,460,737
Restricted cash and cash equivalents	2,416,809	3,077,990
Total cash and cash equivalents	\$ 7,589,608	\$ 4,538,727
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (39,153,984)	\$ (39,431,280)
Depreciation and amortization	5,922,789	5,844,242
Changes in operating assets and liabilities		
Receivables, net	368,677	(304,149)
Inventories	1,794	16
Deposit on land and other prepaid expenses	1,171,289	(3,712)
Accounts payable and accrued liabilities	287,410	(158,954)
Accrued compensated absences	38,071	51,086
Deposits held in custody for others	17,745	(22,375)
Net Cash Used in Operating Activities	\$ (31,346,209)	\$ (34,025,126)
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	\$ 363,571	\$ 707,545

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Lincoln University (the “University”) is a state-assisted university with its campus located in Jefferson City, Missouri, operating under the jurisdiction of a nine-member Board of Curators that is appointed by the Governor and confirmed by the Senate of the State of Missouri. The University is a component unit of the State of Missouri. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study and Federal Direct Loan Programs. The University extends unsecured credit to students.

Basis of Accounting and Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

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, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents consisted primarily of money market funds, repurchase agreements and certificates of deposit.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations and mutual funds are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable is recorded net of estimated uncollectible amounts.

Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization was \$46,720 for the years ended June 30, 2012 and 2011.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the University:

Land improvements	20 years
Buildings	40 years
Building improvements	27 years
Infrastructure	40 years
Furniture, fixtures and equipment	6 – 10 years
Library materials	5 years
Software	4 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. No interest was capitalized for the years ended June 30, 2012 and 2011.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Compensated Absences

University policies permit full-time employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits when earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Revenue

Deferred revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements.

Net Assets

Net assets of the University are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the University, such as permanent endowments. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances and (2) sales and services of auxiliary enterprises.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state appropriations and investment income.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, are recorded as nonoperating revenues and other governmental grants are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Foundation

Lincoln University Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of Lincoln University (University). The Foundation acts primarily as a fundraising foundation to supplement the resources that are available to the University in support of its programs. The 20-member Board of Directors of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the years ended June 30, 2012 and 2011, the Foundation distributed \$0 and \$97,090 to the University for both restricted and unrestricted purposes, respectively. During 2012 and 2011, the University transferred \$35,500 and \$22,800, respectively, of endowment funds to the Foundation for management purposes. Complete financial statements for the Foundation can be obtained from the Administrative Office at 820 Chestnut Street, Jefferson City, Missouri 65102.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial reporting entity for these differences.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The University's deposit policy for custodial credit risk requires compliance with the provisions of state law which requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Missouri; bonds of any city having a population of not less than two thousand, county, school district or special road district of the state of Missouri; bonds of any state; a surety bond having an aggregate value at least equal to the amount of the deposits; tax anticipation notes issued by any first class county; irrevocable standby letters of credit issued by a Federal Home Loan Bank; or out-of-state municipal bonds rated in the highest category by a nationally recognized statistical rating agency.

At June 30, 2012 and 2011, respectively, the University's bank balances were \$89,186 and \$418,793. None of these deposits were exposed to custodial credit risk at June 30, 2012 and 2011.

Investments

The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, bank repurchase agreements, banker's acceptances and commercial paper.

At June 30, 2012 and 2011, the University had the following investments and maturities:

Type	June 30, 2012				
	Fair Value	Less than 1	Maturities in Years		
			1-5	6-10	More than 10
Repurchase agreements	\$ 5,077,411	\$ 5,077,411	\$ -	\$ -	\$ -
Certificates of deposit	7,456,000	5,953,712	1,398,800	103,488	-
Money market treasury funds	141,672	141,672	-	-	-
U.S. agencies obligations	5,801,907	2,935,745	2,830,054	36,108	-
	<u>\$18,476,990</u>	<u>\$ 14,108,540</u>	<u>\$ 4,228,854</u>	<u>\$ 139,596</u>	<u>\$ -</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Type	June 30, 2011				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Repurchase agreements	\$ 1,035,744	\$ 1,035,744	\$ -	\$ -	\$ -
Certificates of deposit	3,988,852	3,503,174	485,678	-	-
Money market treasury funds	780,909	780,909	-	-	-
U.S. agencies obligations	6,580,903	5,434,600	730,064	416,239	-
	\$12,386,408	\$ 10,754,427	\$ 1,215,742	\$ 416,239	\$ -

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by managing the duration of the portfolio in a manner which satisfies the anticipated liquidity needs of the University. The repurchase agreements are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012 and 2011, the University’s investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated AA+ and AAA, respectively, by Standard & Poors and Aaa by Moody’s Investor Service.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the University’s investments in repurchase agreements at June 30, 2012 and 2011, are held by the counterparties in other than the University’s name. The University’s investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk – The University places no limit on the amount that may be invested in any one issuer.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net assets as follows:

	2012	2011
Carrying value		
Deposits	\$ 95,388	\$ 424,994
Investments	18,476,990	12,386,408
	<u>\$ 18,572,378</u>	<u>\$ 12,811,402</u>

Deposits and investments are included in the following statements of net assets captions:

	2012	2011
Cash and cash equivalents	\$ 5,172,799	\$ 1,460,737
Short-term investments	8,601,850	6,490,694
Restricted cash and cash equivalents	2,416,809	3,077,990
Long-term investments	882,480	376,464
Short-term endowment investments	287,607	-
Long-term endowment investments	1,210,833	1,405,517
	<u>\$ 18,572,378</u>	<u>\$ 12,811,402</u>

Investment Income

Investment income for the years ended June 30, 2012 and 2011, consisted of:

	2012	2011
Interest and dividend income	\$ 137,365	\$ 94,806
Net realized and unrealized losses on investments	(74,845)	(25,210)
	<u>\$ 62,520</u>	<u>\$ 69,596</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Note 3: Endowment Funds

The University's endowment funds are substantially composed of term endowment funds received from the U.S. Department of Education Title III program and state matching funds of \$1,104,000. The grant provisions require the University to maintain the endowment corpus for 20 years. After the termination of the grant period, the University may use the endowment fund corpus plus any endowment fund income for any educational purpose. Endowment fund income is defined as the total value of the endowment fund established minus the endowment fund corpus. Each year the University is allowed to spend not more than 50% of the total aggregate endowment fund income related to the grant award. During the years ended June 30, 2012 and 2011, \$0 and \$100,000, respectively, were transferred out of the endowment fund to the operating fund.

Note 4: Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011, were:

	Beginning Balance	2012			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 2,189,342	\$ 1,015,274	\$ -	\$ -	\$ 3,204,616
Land improvements	4,866,293	222,268	-	580,002	5,668,563
Buildings and improvements	120,651,340	1,873,316	-	1,252,846	123,777,502
Infrastructure	4,140,518	-	-	-	4,140,518
Furniture, fixtures and equipment	24,808,356	1,886,718	581,268	742	26,114,548
Library materials	2,264,043	12,400	-	-	2,276,443
Construction in progress	2,031,800	1,813,374	61,624	(1,833,590)	1,949,960
	<u>160,951,692</u>	<u>6,823,350</u>	<u>642,892</u>	<u>-</u>	<u>167,132,150</u>
Less accumulated depreciation					
Land improvements	1,410,564	232,325	-	-	1,642,889
Buildings and improvements	48,908,651	3,577,678	-	-	52,486,329
Infrastructure	2,581,836	253,126	-	-	2,834,962
Furniture, fixtures and equipment	18,575,479	1,792,689	562,368	-	19,805,800
Library materials	2,204,070	20,251	-	-	2,224,321
	<u>73,680,600</u>	<u>5,876,069</u>	<u>562,368</u>	<u>-</u>	<u>78,994,301</u>
Net capital assets	<u>\$ 87,271,092</u>	<u>\$ 947,281</u>	<u>\$ 80,524</u>	<u>\$ -</u>	<u>\$ 88,137,849</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

	Beginning Balance	2011			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 2,442,342	\$ -	\$ 253,000	\$ -	\$ 2,189,342
Land improvements	4,784,704	45,100	-	36,489	4,866,293
Buildings and improvements	119,872,246	585,780	-	193,314	120,651,340
Infrastructure	4,140,518	-	-	-	4,140,518
Furniture, fixtures and equipment	23,554,003	1,417,202	162,849	-	24,808,356
Library materials	2,312,481	9,612	58,050	-	2,264,043
Construction in progress	431,337	1,830,266	-	(229,803)	2,031,800
	<u>157,537,631</u>	<u>3,887,960</u>	<u>473,899</u>	<u>-</u>	<u>160,951,692</u>
Less accumulated depreciation					
Land improvements	1,180,570	229,994	-	-	1,410,564
Buildings and improvements	45,366,917	3,541,734	-	-	48,908,651
Infrastructure	2,328,710	253,126	-	-	2,581,836
Furniture, fixtures and equipment	16,981,233	1,751,396	157,150	-	18,575,479
Library materials	2,240,849	21,271	58,050	-	2,204,070
	<u>68,098,279</u>	<u>5,797,521</u>	<u>215,200</u>	<u>-</u>	<u>73,680,600</u>
Net capital assets	<u>\$ 89,439,352</u>	<u>\$ (1,909,561)</u>	<u>\$ 258,699</u>	<u>\$ -</u>	<u>\$ 87,271,092</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Note 5: Noncurrent Liabilities

The following is a summary of noncurrent obligation transactions for the University for the years ended June 30, 2012 and 2011:

	Beginning Balance	2012		Ending Balance	Current Portion
		Additions	Deductions		
Bonds					
Revenue bonds payable, Series 2005	\$ 7,050,000	\$ -	\$ 605,000	\$ 6,445,000	\$ 625,000
Revenue bonds payable, Series 2007	19,865,000	-	410,000	19,455,000	425,000
Reoffering premium	96,905	-	7,174	89,731	-
Total bonds	27,011,905	-	1,022,174	25,989,731	1,050,000
Other noncurrent liabilities					
Loan payable - DNR					
Energize MO	-	1,680,408	-	1,680,408	-
Accrued compensated absences	1,397,309	804,855	766,783	1,435,381	775,106
Deposits held in custody for others	101,868	90,325	72,580	119,613	-
Postemployment benefit obligation	129,799	58,546	71,937	116,408	71,937
Total other noncurrent liabilities	1,628,976	2,634,134	911,300	3,351,810	847,043
Total noncurrent liabilities	\$28,640,881	\$ 2,634,134	\$ 1,933,474	\$29,341,541	\$ 1,897,043

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

	Beginning Balance	2011		Ending Balance	Current Portion
		Additions	Deductions		
Bonds					
Revenue bonds payable, Series 2005	\$ 7,640,000	\$ -	\$ 590,000	\$ 7,050,000	\$ 605,000
Revenue bonds payable, Series 2007	20,260,000	-	395,000	19,865,000	410,000
Reoffering premium	104,079	-	7,174	96,905	-
Total bonds	28,004,079	-	992,174	27,011,905	1,015,000
Other noncurrent liabilities					
Accrued compensated absences	1,346,223	1,030,014	978,928	1,397,309	908,251
Deposits held in custody for others	124,243	82,480	104,855	101,868	-
Postemployment benefit obligation	135,051	60,699	65,951	129,799	65,951
Total other noncurrent liabilities	1,605,517	1,173,193	1,149,734	1,628,976	974,202
Total noncurrent liabilities	\$29,609,596	\$ 1,173,193	\$ 2,141,908	\$28,640,881	\$ 1,989,202

Loan Payable

The University has a loan payable with the Missouri Department of Natural Resources (MDNR), dated June 14, 2012, in the maximum amount of \$1,831,160 which shall include principal and estimated interest costs at an annual interest rate at 2%. The proceeds of the loan shall be used to implement the Energy Conservation Measures as designated by the MDNR and payments begin when the project is deemed completed which shall be no later than 18 months after the execution date of the loan. The loan requires semiannual payments equal to one-half of the annual energy savings until paid in full.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Revenue Bonds Payable

On September 29, 2005, the University issued \$9,800,000 of Auxiliary System Refunding Revenue Bonds, Series 2005. The bonds bear interest, payable semiannually, at rates between 3.00% to 4.10%. Principal maturities began June 1, 2007, and continue until 2021. Proceeds from the issuance of these bonds were used to pay the costs of refunding the Auxiliary System Revenue Bonds, Series 2000 and Series 2001, to fund the Debt Service Reserve Fund and to pay certain costs of issuance related to the Series 2005 bond issue. At the option of the University, bonds maturing on or after June 1, 2016, may be called for redemption prior to maturity on or after June 1, 2015, at 100% of principal plus accrued interest to the redemption date.

On July 1, 2007, the University issued \$21,000,000 of Auxiliary System Subordinate Revenue Bonds, Series 2007. These bonds bear interest, payable semiannually, at rates of 4.0% to 5.125% beginning December 1, 2007. Principal maturities began June 1, 2009, and continue until 2037. Proceeds from issuance of the these bonds were used to finance the costs of the acquisition, construction, erection, equipping and furnishing of additions and renovations to the Auxiliary System (including a new 224-room student residence facility and the renovation of two other residence facilities), fund a Debt Service Reserve Fund and to pay the costs of issuing the bonds. At the option of the University, bonds maturing on or after June 1, 2018, may be called for redemption prior to maturity on or after June 1, 2017, at 100% of principal plus accrued interest to the redemption date.

The revenue bond issues, payable from and secured by net revenues of the Auxiliary Activity Fund, require the University to establish and fund various Debt Service Reserve Funds.

Bond Defeasance

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. On June 30, 2012, \$6,180,000 of bonds outstanding are considered defeased.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

The debt service requirements as of June 30, 2012, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2013	\$ 2,267,121	\$ 1,050,000	\$ 1,217,121
2014	2,294,271	1,120,000	1,174,271
2015	2,233,359	1,105,000	1,128,359
2016	2,187,779	1,105,000	1,082,779
2017	2,216,899	1,180,000	1,036,899
2018 - 2022	10,468,644	6,080,000	4,388,644
2023 - 2027	6,920,406	3,635,000	3,285,406
2028 - 2032	6,924,094	4,655,000	2,269,094
2033 - 2037	6,917,869	5,970,000	947,869
	<u>\$ 42,430,442</u>	<u>\$ 25,900,000</u>	<u>\$ 16,530,442</u>

Note 6: Pension Plans

MOSERS

The University contributes to the Missouri State Employees' Retirement System (MOSERS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the state of Missouri. Pension expense is recorded for the amount the University is contractually required to contribute for the year. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. State law assigns the authority to establish and amend benefit provisions to the plan's Board of Trustees, which is appointed by the Governor with the approval of the state legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at P.O. Box 209, Jefferson City, Missouri 65102, or by calling 573.751.2342.

The authority to establish and amend requirements of members and the University is set forth in state law and is vested in the plan's Board of Trustees. Plan member contributions are not required nor permitted. The University is required to contribute at an actuarially determined rate; the rate was 13.97% and 13.81% of annual covered payroll for 2012 and 2011, respectively. The University's contributions to the plan for the years ended June 30, 2012, 2011 and 2010, were \$2,556,408, \$2,606,452 and \$2,383,734, respectively, which equaled the required contributions for each year. The MOSERS funded status ratio was 79.2% and 80.4% as of June 30, 2011 and 2010, respectively.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

The MOSERS funding policy provides for actuarially determined and Board approved, employer contributions using the entry-age normal cost method, consisting of normal cost and amortization of any unfunded accrued liabilities over an open 30-year period. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by state statute to be funded in advance. Any amendments to the plan are established by change in state statute.

CURP

Beginning July 1, 2002, all full-time faculty are enrolled in the College and University Retirement Plan (CURP) if they have not previously been enrolled in MOSERS. CURP is a noncontributory 401(a) defined contribution retirement plan that uses TIAA-CREF as its third-party administrator. CURP provides a retirement program that offers interstate portability, immediate vesting and no minimum service requirement. MOSERS has been given the responsibility by law to implement and oversee the administration of the plan. Contributions made by the University are self-directed by participants into their selected individual accounts. After participating in CURP for at least six years, a faculty member may elect to become a member of MOSERS.

The University is required to contribute at an actuarially determined rate; the rate was 6.92% and 7.77% of annual covered payroll for 2012 and 2011, respectively. The University's contributions to the plan for the years ended June 30, 2012, 2011 and 2010, were \$275,816, \$284,236 and \$230,021, respectively, which equaled the required contributions for each year.

Note 7: Postemployment Health Care Plan

The University offers postretirement medical benefits to its retirees (and their dependents) who qualify for certain pension benefits. The Plan is funded on a pay-as-you-go basis and therefore, is not a funded plan. All participating retirees, except professors who have obtained emeritus status, are required to contribute the entire amount of the monthly premium, which is determined annually on a pooled basis for the University's healthcare plan. Premiums for retirees 64 years of age and under ranged from \$694 to \$2,181 during 2012 and \$740 to \$2,416 during 2011, depending on the coverage selected. Premiums for retirees over age 65 ranged from \$169 to \$469 during 2012 and \$158 to \$463 during 2011, depending on the coverage.

The University pays the full healthcare premium for professors who have attained emeritus status upon retirement. To be eligible an employee must hold professional rank and have served the University for at least 20 years. The University paid health insurance premiums for 23 and 22 professor emeritus for 2012 and 2011, respectively. Health insurance premiums for these retirees totaled \$71,937 and \$65,951 in 2012 and 2011, respectively.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Retiree health coverage is available for each of the lifetimes of retirees and participating spouses. The plan is operated as a fully insured arrangement and benefits are provided through a POS Open Access structure. Currently, for retirees and spouses over age 65, the coverage is secondary to Medicare and retirees must be enrolled in Parts A and B.

Starting in January 2009, all Medicare retirees were required to enroll in separate fully insured Medicare Supplement and Part D Drug plans as part of a Lincoln University Retiree Group Plan. Therefore, the age-approximating premium for post 65 retirees will equal the carrier-charged premium since the rated group will be comprised solely of individuals of a similar age.

Also starting in 2009, the University began charging pre-65 retirees a contribution premium equal to a factor times the pooled premium rate. The pooled premium rate is the rate charged to the University based on the combined experience of all pre-Medicare participants including actives and pre-65 retirees. The factor applied to the pooled rate is based on the State of Missouri Health System's pre-65 retiree group rate relative to its active employee rate.

Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, reporting as a single-employer plan, requires recognition of expenses for postemployment benefits as services are performed, regardless of the timing of the related benefit payments. Application of GASB 45 has been made using a prospective recognition method.

The University's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the University's net OPEB obligation to the plan:

Normal cost	\$ -
Amortization payment	60,330
Interest on normal cost and amortization payment	-
Annual required contribution	<u>60,330</u>
Interest on net OPEB obligation	5,841
Less adjustment to the annual required contribution	<u>7,625</u>
Annual OPEB cost	58,546
Contributions made	<u>71,937</u>
Decrease in net OPEB obligation	13,391
Net OPEB obligation at June 30, 2011	<u>129,799</u>
Net OPEB obligation at June 30, 2012	<u><u>\$ 116,408</u></u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2012 and 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 60,699	108.7%	\$ 129,799
June 30, 2012	\$ 58,546	122.9%	\$ 116,408

The funded status of the plan as of the actuarial valuation date is as follows:

Actuarial accrued liability	\$ 1,026,924
Actuarial value of assets	-
Total unfunded actuarial liability	\$ 1,026,924
Funded ratio	0.0%
Annual covered payroll	\$ 21,298,411
Ratio of unfunded actuarial liability to covered payroll	4.8%

Actuarial valuations reflect a long-term perspective and involve estimates of the value reported amounts and assumptions about the probability of events far into the future. Actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. These calculations are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. A Schedule of Funding Progress, presented as Required Supplementary Information, follows the notes to the financial statements. The Schedule of Funding Progress will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As allowed by GASB, this reporting requirement is being implemented prospectively. Data is not available for prior years. The actuarial calculations have been based on the substantive plan in place at the time of valuation performed as of July 1, 2011, and on the pattern of cost sharing between the employers and members to that point.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

The actuarial methods and assumptions utilized in the valuation were as follows:

Actuarial cost method	Projected Unit Credit
UAAL amortization method	Level Dollar Amount
UAAL amortization period, closed/open	30 years, open
Investment return (discount) rate	4.50%
Healthcare cost trend rate	8.5%, decreasing to 5.5% in 2016

Note 8: Commitments and Contingencies

Claims and Litigation

The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University. At June 30, 2012 and 2011, there was no accrual recorded in the statements of net assets.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Cash and Investments

The University is a participant in the financial industry through its ongoing contractual arrangements with financial institutions such as investment banks, commercial banks and investment agreement providers. In the current financial environment, it is possible that a financial institution could have financial difficulty in the near term that could impact its ability to honor its contractual obligations, which could negatively impact the financial condition of the University.

Current Economic Conditions

The current economic environment presents colleges and universities with challenges, which in some cases may result in declines in enrollment revenues, government support and contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the University.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements, including allowances for student receivables, could change rapidly, resulting in material future adjustments. The University could experience difficulty meeting debt covenants or maintaining sufficient liquidity should significant changes occur.

Note 9: Governmental Grants and Contracts – Facility and Administration Costs

The University recovers facility and administration costs under certain grants and contracts with federal agencies, and these are recorded as operating revenue. Facility and administration costs rates vary according to the terms of the grant award or contract with most rates being based upon salaries and wages.

Note 10: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The State of Missouri self-insures workers' compensation benefits for all state employees, including University employees. Claims are administered by the Missouri Office of Administration, Risk Management Section.

Note 11: Natural Classifications with Functional Classifications

For the years ended June 30, 2012 and 2011, the following table represents operating expenses with both natural and functional classifications:

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

	Compensation and Benefits	Contractual Services	Travel	2012 Supplies and Materials	Utilities	Other	Total
Instruction	\$ 11,547,393	\$ 210,346	\$ 101,893	\$ 377,238	\$ 445	\$ 210,098	\$ 12,447,413
Research	4,322,160	1,229,569	186,393	689,041	142,735	180,092	6,749,990
Community service	5,383,090	660,953	350,404	494,458	62,356	340,691	7,291,952
Academic support	2,377,144	72,885	51,812	125,236	15,405	258,960	2,901,442
Student services	3,475,404	658,137	433,789	306,089	222	479,852	5,353,493
Institutional support	5,127,328	2,947,557	193,020	131,326	109,994	254,656	8,763,881
Operations and maintenance of plant	1,756,238	270,138	13,957	212,890	1,263,856	38,197	3,555,276
Scholarships and fellowships	-	-	-	-	-	-	441,516
Depreciation and amortization	-	-	-	-	-	-	5,922,789
	<u>\$ 33,988,757</u>	<u>\$ 6,049,585</u>	<u>\$ 1,331,268</u>	<u>\$ 2,336,278</u>	<u>\$ 1,595,013</u>	<u>\$ 1,762,546</u>	<u>\$ 53,427,752</u>

	Compensation and Benefits	Contractual Services	Travel	2011 Supplies and Materials	Utilities	Other	Total
Instruction	\$ 11,781,956	\$ 273,109	\$ 157,746	\$ 389,061	\$ 421	\$ 220,829	\$ 12,823,122
Research	4,637,185	1,640,650	197,886	679,223	157,842	190,469	7,503,255
Community service	5,164,168	818,834	289,984	299,100	68,058	220,251	6,860,395
Academic support	2,386,487	52,635	54,532	99,077	211	238,499	2,831,441
Student services	3,495,826	617,102	436,954	291,434	-	478,029	5,319,345
Institutional support	5,140,448	2,919,405	188,896	172,471	103,263	367,621	8,892,104
Operations and maintenance of plant	1,815,931	185,952	13,647	230,850	1,304,533	41,293	3,592,206
Scholarships and fellowships	-	-	-	-	-	-	424,082
Depreciation and amortization	-	-	-	-	-	-	5,844,242
	<u>\$ 34,422,001</u>	<u>\$ 6,507,687</u>	<u>\$ 1,339,645</u>	<u>\$ 2,161,216</u>	<u>\$ 1,634,328</u>	<u>\$ 1,756,991</u>	<u>\$ 54,090,192</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Note 12: Lincoln University Foundation, Inc.

Contributions

The Foundation records pledges by donors, including unconditional promises to give, as revenues in the period in which pledges are made, at their estimated net realizable values. Pledges which are conditional promises to give are recognized as revenues at their estimated net realizable value in the period in which the conditions are met.

Under GAAP, contributions of services should be recognized in the financial statements if the services received create or enhance nonfinancial assets or if the services require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Foundation received contributions of employee services from Lincoln University meeting the aforementioned criteria during the years ended June 30, 2012 and 2011, with an estimated value of \$175,560 for each year.

Contributions are classified into net asset categories based on the existence or absence of donor-imposed restrictions, stipulations on use of a contributed asset that is more specific than broad limits resulting from the Foundation's basic mission and environment in which it operates. Temporary restrictions are donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Permanent restrictions are donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. When a donor, with the Foundation's Board of Directors' approval, wants all or a portion of a prior permanently restricted gift to be released from its permanent restriction, permanently restricted net assets are reclassified to either unrestricted or temporarily restricted net assets, depending on the donor's revised request. Assets without donor-imposed restrictions, including assets designated for specific use by the Foundation's Board of Directors, are included in unrestricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Investments

The Foundation contracts with an investment manager to buy, sell and hold investment securities under the Foundation's investment policy guidelines. The Foundation's main investment strategy has been to maximize the total return to meet general endowment and operating needs.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

The aggregate amount of investments summarized by major type at June 30, 2012 and 2011, was as follows:

	2012	
	Cost	Carrying Amount
	<hr/>	<hr/>
Money market funds	\$ 120,838	\$ 120,838
Fixed income securities	1,482,607	1,566,361
Equity securities	<u>3,973,430</u>	<u>3,896,304</u>
Total investments	<u><u>\$ 5,576,875</u></u>	<u><u>\$ 5,583,503</u></u>

	2011	
	Cost	Carrying Amount
	<hr/>	<hr/>
Money market funds	\$ 72,210	\$ 72,210
Fixed income securities	1,528,013	1,560,573
Equity securities	<u>3,750,220</u>	<u>4,088,595</u>
Total investments	<u><u>\$ 5,350,443</u></u>	<u><u>\$ 5,721,378</u></u>

Investment return consisted of the following for the years ended June 30, 2012 and 2011:

	2012	2011
	<hr/>	<hr/>
Dividends and interest	\$ 149,216	\$ 161,496
Realized and unrealized gains and losses	<u>(248,503)</u>	<u>910,754</u>
Total investment return	<u><u>\$ (99,287)</u></u>	<u><u>\$ 1,072,250</u></u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Restrictions on Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011, are available for the following purposes:

	2012	2011
KJLU radio station	\$ 149,016	\$ 140,015
Lincoln University athletic programs	33,187	31,346
Lincoln University academic departments	33,271	45,572
Other Lincoln University programs	15,308	11,251
Lincoln University capital projects maintenance	27,999	5,394
General assistance for Lincoln University students	2,070	3,014
Loan funds for Lincoln University students	2,214	2,996
Promised to give in future years	16,094	99,736
General support of Lincoln University	66,898	88,565
Scholarships for Lincoln University students	2,298,616	2,509,056
	<u>\$ 2,644,673</u>	<u>\$ 2,936,945</u>

Permanently restricted net assets consisted of the following at June 30, 2012 and 2011:

	2012	2011
Scholarships for Lincoln University students	\$ 3,322,300	\$ 3,252,502
Loan funds for Lincoln University students	10,000	10,000
	<u>\$ 3,332,300</u>	<u>\$ 3,262,502</u>

Endowment Funds

The composition of the Foundation's endowment by net asset classification for the year ended June 30 was as follows:

	Unrestricted	Temporarily Restricted	2012 Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,957,214	\$ 3,332,300	\$ 5,289,514
Board-designated endowment funds	-	-	-	-
	<u>\$ -</u>	<u>\$ 1,957,214</u>	<u>\$ 3,332,300</u>	<u>\$ 5,289,514</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

	Unrestricted	2011		Total
		Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 2,170,160	\$ 3,262,502	\$ 5,432,662
Board-designated endowment funds	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,170,160</u>	<u>\$ 3,262,502</u>	<u>\$ 5,432,662</u>

Fair Value of Financial Instruments

For assets and liabilities required to be reported at fair value, GAAP prescribes a framework for measuring fair value and financial statement disclosures about fair value measurements. A fair value hierarchy has been established that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified with Level 3 of the hierarchy).

The fair value hierarchy as prescribed by GAAP is as follows:

- Level 1** Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.
- Level 2** Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
- Level 3** Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity.

The Foundation's assets measured at fair value on a recurring basis as of June 30, 2012 and 2011, aggregated by the level in the fair value hierarchy within which those measurements fall, were as follows:

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

2012				
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 120,838	\$ 120,838	\$ -	\$ -
Certificates of deposit	36,982	-	36,982	-
State and municipal bonds	235,315	-	235,315	-
Fixed income mutual funds	1,294,065	1,294,065	-	-
Equity mutual funds				
Growth funds	793,320	793,320	-	-
Mid-cap blend funds	98,250	98,250	-	-
Value funds	1,218,369	1,218,369	-	-
Index funds	624,124	624,124	-	-
International funds	654,732	654,732	-	-
Emerging markets funds	507,508	507,508	-	-
	<u>3,896,303</u>	<u>3,896,303</u>	<u>-</u>	<u>-</u>
Total equity mutual funds				
	<u>\$ 5,583,503</u>	<u>\$ 5,311,206</u>	<u>\$ 272,297</u>	<u>\$ -</u>

2011				
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 72,210	\$ 72,210	\$ -	\$ -
Fixed income mutual funds	1,560,573	1,560,573	-	-
Equity mutual funds				
Growth funds	492,266	492,266	-	-
Value funds	957,299	957,299	-	-
Index funds	1,083,033	1,083,033	-	-
International funds	1,011,658	1,011,658	-	-
Emerging markets funds	544,339	544,339	-	-
	<u>4,088,595</u>	<u>4,088,595</u>	<u>-</u>	<u>-</u>
Total equity mutual funds				
	<u>\$ 5,721,378</u>	<u>\$ 5,721,378</u>	<u>\$ -</u>	<u>\$ -</u>

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2012 and 2011

Notes Payable

The Foundation had a note payable to a local financial institution scheduled to mature in March 2013, with a floating interest rate equal to the prime rate minus 1/2%, and with a floor of 4%. The Foundation retired this note late in fiscal year 2012. The note was secured by investments owned by the Foundation. Interest expense totaled \$3,901 and \$11,047 for the years ended June 30, 2012 and 2011, respectively. The note proceeds were used for the Soldiers' Memorial Plaza Project at Lincoln University.

Note 13: Accounting Pronouncements

Deferrals and Net Position

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement standardizes the presentation of deferred outflows and inflows of resources and their effects on an entity's net position. This statement will become effective for the University for fiscal year 2013. Management has not yet determined the impact it will have on the University's financial statements.

Pension Plan Benefits Obligation

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement will require the inclusion of long-term obligations for pension benefits as a liability and will expand required disclosures. This statement will become effective for the University for fiscal year 2015. Management has not yet determined the impact it will have on the University's financial statements.

Required Supplementary Information

Lincoln University
A Component Unit of the State of Missouri
Required Supplementary Information
Schedule of Prior Year Funding Progress
June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2011	\$ -	\$ 1,026,924	\$ 1,026,924	0%	\$21,298,411	4.8%
7/1/2009	\$ -	\$ 1,064,605	\$ 1,064,605	0%	\$18,048,020	5.9%
7/1/2007	\$ -	\$ 2,711,406	\$ 2,711,406	0%	\$16,177,687	16.8%

Supplementary Information

Lincoln University
A Component Unit of the State of Missouri
Auxiliary Activity Fund
Schedules of Revenues and Expenses
Years Ended June 30, 2012 and 2011

	2012					Total
	Residence Halls	Cafeteria	Bookstore	Vending and Other	Student Union	
Revenues						
Residence hall contracts	\$ 3,052,471	\$ -	\$ -	\$ -	\$ -	\$ 3,052,471
Housing system appropriation	827,858	-	-	-	-	827,858
Food service	-	2,079,763	-	-	-	2,079,763
Bookstore	-	-	152,920	-	-	152,920
Other	-	-	-	22,205	-	22,205
Vending	-	-	-	32,257	-	32,257
	<u>3,880,329</u>	<u>2,079,763</u>	<u>152,920</u>	<u>54,462</u>	<u>-</u>	<u>6,167,474</u>
Direct Expenses						
Salaries and wages	452,532	-	-	93,478	62,103	608,113
Fringe benefits	185,369	-	-	34,844	33,081	253,294
Equipment purchases	-	-	-	1,206	1,284	2,490
Contractual services	83,100	1,322,456	-	36,282	1,372	1,443,210
Travel	491	-	-	1,714	1,646	3,851
Supplies, cost of sales	24,135	-	-	3,445	19,930	47,510
Communications	12,198	(1,897)	(1,786)	2,441	3,464	14,420
Utilities	567,070	-	-	-	222	567,292
Other operating	189,525	700	-	1,316	2,276	193,817
	<u>1,514,420</u>	<u>1,321,259</u>	<u>(1,786)</u>	<u>174,726</u>	<u>125,378</u>	<u>3,133,997</u>
Excess (Deficiency) of Revenues Over Direct Expenses	<u>\$ 2,365,909</u>	<u>\$ 758,504</u>	<u>\$ 154,706</u>	<u>\$ (120,264)</u>	<u>\$(125,378)</u>	<u>3,033,477</u>
Indirect Expenses						
Bad debts						25,178
Audit						10,350
Revenue bond trustee fees						5,957
Custodial services						223,502
						<u>264,987</u>
Other Income						
Interest income						<u>-</u>
Excess of Revenues Over Expenses						2,768,490
Mandatory Transfer for Principal and Interest on Indebtedness						(1,596,588)
Transfer In						<u>36,163</u>
Net Increase (Decrease) for the Year						1,208,065
Net Assets, Beginning of Year						<u>1,751,546</u>
Net Assets, End of Year						<u>\$ 2,959,611</u>

2011					
Residence Halls	Cafeteria	Bookstore	Vending and Other	Student Union	Total
\$ 2,775,500	\$ -	\$ -	\$ -	\$ -	\$ 2,775,500
797,464	-	-	-	-	797,464
-	1,954,902	-	-	-	1,954,902
-	-	146,261	-	-	146,261
-	-	-	33,554	-	33,554
-	-	-	31,096	-	31,096
<u>3,572,964</u>	<u>1,954,902</u>	<u>146,261</u>	<u>64,650</u>	<u>-</u>	<u>5,738,777</u>
456,219	-	-	97,437	91,897	645,553
154,505	-	-	37,139	38,588	230,232
3,533	-	-	-	775	4,308
118,747	1,285,391	-	3,759	1,292	1,409,189
323	-	-	617	-	940
55,235	-	-	1,379	9,162	65,776
12,046	(1,452)	(1,508)	2,492	10,899	22,477
564,817	-	-	-	-	564,817
223,142	435	-	1,264	725	225,566
<u>1,588,567</u>	<u>1,284,374</u>	<u>(1,508)</u>	<u>144,087</u>	<u>153,338</u>	<u>3,168,858</u>
<u>\$ 1,984,397</u>	<u>\$ 670,528</u>	<u>\$ 147,769</u>	<u>\$ (79,437)</u>	<u>\$ (153,338)</u>	<u>2,569,919</u>
					43,100
					10,000
					5,277
					281,947
					<u>340,324</u>
					226
					2,229,821
					(2,283,131)
					<u>40,000</u>
					(13,310)
					<u>1,764,856</u>
					<u>\$ 1,751,546</u>

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity
Student Financial Aid	
Federal Pell Grant Program (11-12)	U.S. Department of Education
Federal Pell Grant Program (10-11)	U.S. Department of Education
Federal Pell Administrative Cost Allowance	U.S. Department of Education
Federal Workstudy Program (11-12)	U.S. Department of Education
Federal Workstudy Program (10-11)	U.S. Department of Education
Federal Supplemental Educational Opportunity Grants (11-12)	U.S. Department of Education
Federal Direct Student Loans (11-12)	U.S. Department of Education
Federal Direct Student Loans (10-11)	U.S. Department of Education
Research and Development	
Cooperative Research, Education and Extension Service	U.S. Department of Agriculture
Personal Response System	U.S. Department of Agriculture
Reducing Arsenic Uptake by Domestic Rice	U.S. Department of Agriculture
Using Experiential Learning in Natural Resources to Mentor Students' Professional Development	U.S. Department of Agriculture
Nano-Biotechnology	U.S. Department of Agriculture
Microalgae Based Biofuels and Bioproduct	U.S. Department of Agriculture
Attracting Minority Students to Environmental Science	U.S. Department of Agriculture
Gardening as Therapy to Improve Physical and Mental Health	U.S. Department of Agriculture
Tracking Dissolved Organic Nitrogen in Terrestrial Aquatic Systems Using Fluorescence EEM Spectroscopy	U.S. Department of Agriculture
Hydrologic Processes Controlling Stream Water Quality in a Missouri Claypan Water Shed	U.S. Department of Agriculture
Establishing 1890's Land Grant University Water Center	U.S. Department of Agriculture/ Virginia State University
LU Natural Resource Program Development, Recruitment and Retention	U.S. Department of Agriculture
Developing a Behaviorally-Based, Sustainable Integrated Pest Management Push Pull Strategy for Cucumber Beetles in Missouri	U.S. Department of Agriculture
Silver Nanoparticles as Pesticide for Agricultural Applications	U.S. Department of Agriculture
Novel Escherichia Coli Genetic Markers for Water Safety	U.S. Department of Agriculture
Evaluate Newly Designed Least Cost Experimental Diets for Bluegill at Commercial Densities	U.S. Department of Agriculture/ Michigan State University
North Central Regional Aquaculture Center Extension Project	U.S. Department of Agriculture/ University of Michigan
Climate Change, Mitigation and Adaptation in Corn-Based Cropping Systems	U.S. Department of Agriculture/ Iowa State University
Promoting USDA Programs and Sustainable Agriculture to Socially Disadvantaged Farmers	U.S. Department of Agriculture/ Office of Advocacy Outreach
Development of Aquaculture Integrated Pest Management Training for Missouri Stakeholders	U.S. Department of Agriculture
Alternative Energy Production and Utilization on Farms: A Workshop	U.S. Department of Agriculture/ University of Minnesota

CFDA Number	Grant or Identifying Number	Amount Expended
84.063	P063P101741	\$ 7,832,635
84.063	P063P101741	2,216
84.063		10,375
84.033	P033A102336	123,333
84.033	P033A102336	28,589
84.007	P007A102336	110,260
84.268	P268K111741	17,766,387
84.268	P268K111741	442,839
		<u>26,316,634</u>
10.205	CREN08911	3,959,642
10.216	2007-38820-18500	9,899
10.216	2008-38814-04727	173,582
10.216	2008-38820-04783	42,207
10.216	2008-38820-04793	61,395
10.216	2010-38821-21444	54,499
10.216	2010-38821-21443	23,859
10.216	2010-38821-21525	99,802
10.216	2010-38821-21558	95,447
10.216	2011-38821-30956	6,836
10.216	2010-38821-21614	584
10.216	2011-38821-30964	37,482
10.216	2010-38821-30867	17,612
10.216	2011-38814-31034	17,641
10.216	2011-38814-31033	35,083
10.200	2008-38500-19157	24,115
10.200	2008-38500-19157	1,100
10.310	2011-68002-30190	114,275
10.443	59-2501-11-016	79,097
10.500	2011-41530-30797	5,093
10.500	2011-47001-30538	10,194

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity
Research and Development (Continued)	
Native Plant Material Program	U.S. Department of Agriculture
Cover Crop Management for Sweet Corn and Edamame Soybean Production Workshop and Demonstration Project	U.S. Department of Agriculture
Promoting NRCS Conservation Programs and Practices through a Missouri Minority and Limited Resources Farmers' Conference	U.S. Department of Agriculture
Effect of Living Mulch on Yield of Sweet Corn	U.S. Department of Agriculture
Analysis of the Best Practices in Organic and High Tunnel Vegetable Production	U.S. Department of Agriculture
Expanding Agriculture Production Opportunities and Controlling Invasive Species Utilizing Small Ruminant Grazing Application	U.S. Department of Agriculture
Expanding Agriculture Production Opportunities and Controlling Invasive Species Utilizing Small Ruminant Grazing Application	U.S. Department of Agriculture
Analysis of the Best Practices in Organic and High Tunnel Vegetable Production	U.S. Department of Agriculture
The Effects of Soil Properties on Anti-Personnel Land Mine Detection Reliability	U.S. Army Research Laboratory/ Leonard Wood Institute
Developing a Semiochemically Based Mass Trapping System for Cucumber Beetle Management in Missouri	U.S. Department of Agriculture/ University of Illinois
Multi-Threat Detection Initiative (MTDI)	U.S. Army Research, Development and Engineering Command
Standoff Detection Laser CBE Capability Upgrade	U.S. Army Research Laboratory/ Leonard Wood Institute
Reality V Based Training Video	U.S. Army Research, Development and Engineering Command Acq Center
Improving Drinking Water Quality for Small Rural Communities in Missouri	U.S. Environmental Protection Agency
ARRA - Novel 3 Dimensional Biosensor for Rapid Detection	National Science Foundation/ University of Missouri
Plant Growth Experiment	National Science Foundation/ Missouri University of Science & Technology

CFDA Number	Grant or Identifying Number	Amount Expended
None	11-CS-11090500-021	\$ 3,031
10.912	NRCS-69-6424-11-138	4,381
10.902	NRCS-69-6424-11-139	1,478
10.912	NRCS-69-6424-10-107	2,825
10.912	NRCS-68-6424-10-121	84,945
10.912	NRCS-69-6424-11-142	20,487
10.902	NRCS-69-6424-11-142	20,486
10.902	NRCS-68-6424-10-121	84,945
12.431	W911NF-07-2-0062	126,638
10.303	2007-04967-35	6,445
None	W911SR-11-C-0010	881,120
12.431	W911NF-07-2-0062	45,367
12.431	W911NF-09-2-0063	87,274
66.509	83517301	16,946
47.082	ECCS - 0925612	43,304
47.041	NSF ECCS-0644679	6,553
		<u>6,305,669</u>

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity
Cooperative Extension	
Cooperative Extension Programs	U.S. Department of Agriculture
Satellite & Off-Campus Enhancement & Expansion	U.S. Department of Agriculture
RREA – Renewable Resource Extension Account	U.S. Department of Agriculture
EFNEP – Expanded Food Nutritional Program	U.S. Department of Agriculture
NCR - SARE	U.S. Department of Agriculture/ University of Minnesota
Evaluating the Performance and Grazing Behavior of Meat Goats in the Development of a Field Station in Missouri Woodlands	U.S. Department of Agriculture
Socially Disadvantaged Farmers and Ranchers	U.S. Department of Agriculture
Goat Industry Community of Practice	U.S. Department of Agriculture/ University of Nebraska
McIntire Stennis Cooperative Forestry Act Funds	U.S. Department of Agriculture
State Abstinence Education Primary Prevention Program	U.S. Department of Health and Human Services/Missouri Department of Health and Senior Services
Vegetable Grafting Training for Agricultural Professionals	U.S. Department of Agriculture/ University of Minnesota
Higher Education Institutional Aid	U.S. Department of Education
Higher Education Institutional Aid	U.S. Department of Education
Higher Education Institutional Aid	U.S. Department of Education
Higher Education Institutional Aid	U.S. Department of Education
Higher Education Institutional Aid (Endowment Fund)	U.S. Department of Education

CFDA Number	Grant or Identifying Number	Amount Expended
10.500	EF4408911	\$ 3,341,845
10.500	2003-45200-01765	2,532,160
10.500	4600008911	17,160
10.500	4151008911	203,314
10.500		35,113
10.216	2011-38821-30958	57,957
10.443	2009-39300-20152	79,270
10.500	2007-41595-03903	9,707
10.202	2010-32100	90,150
93.235	1001MOAEGP	875,646
10.500	2008-47001-04671	10,252
		<u>7,252,574</u>
84.031B	P031B040023	25,843
84.031B	P031B070025	2,196,403
84.031B	P031B085025	4,559
84.031B	P031B100021	633,951
84.031B	P031B070025	838,554
		<u>3,699,310</u>

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity
International Training – Foreign Participant	
Farmer to Farmer Program	U.S. Department of Agriculture/Foreign Agricultural Services/ Office of Capacity Building and Development
Turkey - Food Processing	U.S. Department of Agriculture/Foreign Agricultural Services
Risk Communications and Management Training	U.S. Department of Agriculture/Foreign Agricultural Services
Kazakhstan Livestock Development	U.S. Department of Agriculture/Foreign Agricultural Services
Coordination of Meetings and Other Arrangements for PRC Team 5	U.S. Department of Agriculture/Foreign Agricultural Services
FY-11 SCEP PRC Team 6: Soil Testing and Sulfur Usage	U.S. Department of Agriculture/Foreign Agricultural Services
Serbia - Judicial Rule of Law	FHI 360
Trio Student Support Services	U.S. Department of Education
Improving Teacher Quality State Grants	U.S. Department of Education/Missouri Department of Higher Education
Wildlife Initiative Program Center of Excellence in Natural Resource Management	U.S. Department of Agriculture/APHIS
Small Ruminant Grazing Conference	U.S. Department of Agriculture
Food and Agricultural Sciences: Preparing Future Graduate Students	U.S. Department of Agriculture/ University of Maryland Eastern Shore
ARRA - A Time for Freshman Physics in Missouri	U.S. National Science Foundation/ University of Missouri
ARRA - Renovation and Upgrade of Research Space in Founders Hall	U.S. National Science Foundation
Successful Undergraduate in Courses Connected to Earth System Science (SUCCESS)	NASA/UNCF Special Programs
A Model for Achieving Success in STEM (AMASS)	U.S. National Science Foundation
Outsourcing the Academic Phase of Training for the US Army Prime Power School	U.S. Army Core of Engineers
FA30 Training	MICC DOC Fort Leavenworth
Missouri Space Grant Consortium	NASA/Missouri University of Science and Technology
Lincoln Clarion Digitizing Project	Institute of Museum and Library Services/ Missouri SOS State Library
IREX Cultural Exchange Services	U.S. Department of State/IREX
Radio Equipment Upgrade	U.S. Department of Homeland Security/ MO Department of Public Safety
Water Boot Camp	U.S. Environmental Protection Agency

CFDA Number	Grant or Identifying Number	Amount Expended
10.962		\$ 2,894
10.962	58-3148-0-242	17,940
10.962	58-3148-0-242	17,607
10.962	58-3148-0-242	16,581
10.961	58-3148-1-188	11,243
10.961	58-3148-1-244	1,560
None	3311	<u>11,955</u>
		<u>79,780</u>
84.042A	P042A101390	<u>338,766</u>
84.367B		<u>(273)</u>
10.028	09-7100-0025-CA	<u>19,130</u>
10.912	69-6424-11-137	<u>11,696</u>
10.216	2011-38821-30948	<u>4,207</u>
47.082	DUE-0928924	5,768
47.082	DBI-0963226	<u>215,922</u>
		<u>221,690</u>
None		<u>(80)</u>
47.076	HRD-1036091	<u>212,385</u>
None	W912HQ-11-D-0003	<u>361,170</u>
None	W91QF4-120-C-0003	<u>3,791</u>
43.001	NNX10AI92H	<u>11,841</u>
45.310	2011-LSD1-DIGC1CN1-6399	<u>5,664</u>
None	S-ECAAE-08-CA-033	<u>4,284</u>
97.067	2010-SS-T0-0039	<u>71,224</u>
66.424	97734501	<u>97</u>
		<u>\$ 44,919,559</u>

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Notes to Schedule

1. This schedule includes the federal awards activity of Lincoln University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Universities*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, Lincoln University provided federal awards to subrecipients as follows:

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Program	CFDA Number	Subrecipient	Amount Provided
Reducing Arsenic Uptake by Domestic Rice	10.216	Missouri University of Science and Technology	\$ 57,727
Reducing Arsenic Uptake by Domestic Rice	10.216	University of Missouri Columbia	36,854
Microalga Based Biofuels and Bioproducts	10.216	Missouri University of Science and Technology	26,861
Tracking Dissolved Organic Nitrogen in Terrestrial Aquatic Systems Using Fluorescence EEM Spectroscopy	10.216	Old Dominion	15,839
Tracking Dissolved Organic Nitrogen in Terrestrial Aquatic Systems Using Fluorescence EEM Spectroscopy	10.216	University of Missouri Columbia	43,015
Promoting USDA Programs and Sustainable Agriculture to Socially Disadvantaged Farmers	10.443	University of Missouri Columbia	5,130
Hydrologic Processes Controlling Stream Water Quality in a Missouri Claypan Water Shed	10.216	U.S. Department of Agriculture Research Service	6,775
Silver Nanoparticles as Pesticide for Agriculture Applications	10.216	University of Missouri Columbia	1,881
Novel Escherichia Coli Genetic Markers for Water Safety	10.216	University of Missouri Columbia	27,526
Multi-Threat Detection Initiative (MTDI)	None	Alakai	253,000
Improving Drinking Water Quality for Small Rural Communities in Missouri	66.509	University of Missouri Columbia	273
Improving Drinking Water Quality for Small Rural Communities in Missouri	66.509	Missouri University of Science and Technology	991
Evaluation the Performance and Grazing Behavior of Meat Goats in the Development of a Field Station in Missouri Woodlands	10.216	Langston University	16,695
Evaluation the Performance and Grazing Behavior of Meat Goats in the Development of a Field Station in Missouri Woodlands	10.216	Crowder College	3,309
			<u>\$ 495,876</u>

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

Board of Curators
Lincoln University
Jefferson City, Missouri

We have audited the financial statements of Lincoln University as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012, which contained a reference to the report of other accountants. 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. Other accountants audited the financial statements of Lincoln University Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other accountants' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those accountants. The financial statements of Lincoln University Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 University's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control 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 control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Curators
Lincoln University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

This report is intended solely for the information and use of the governing body, management and others within the University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 22, 2012

Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Curators
Lincoln University
Jefferson City, Missouri

Compliance

We have audited the compliance of Lincoln University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the compliance of Lincoln University based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Lincoln University complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-1.

Internal Control Over Compliance

The management of Lincoln University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we considered to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 12-1. 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.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the governing body, management, others with the University, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 22, 2012

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$1,347,587.
9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
12-1	CFDA Number 84.268 Federal Direct Student Loans U.S. Department of Education Student Financial Aid Cluster Program Year 2011-2012	None
	<p>Criteria or Specific Requirement – Special tests and provisions related to notifying the National Student Loan Data System (NSLDS) of student enrollment status changes on a timely basis.</p> <p>Condition – Three student enrollment status change dates were not communicated to NSLDS on a timely basis.</p> <p>Context – Out of a population of 553 student enrollment status changes requiring lender notification, a sample of 40 student status changes was selected for testing.</p> <p>Effect – NSLDS was not notified of student enrollment status changes timely.</p> <p>Cause – Personnel responsible for notification overlooked these enrollment changes and did not notify NSLDS within the required timeframe.</p> <p>Recommendation – The University should ensure personnel handling the Roster File submission are including all students with changes in student enrollment on a timely basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We concur with the finding and recommendation. The Office of the Registrar will monitor submission files to ensure that timely submissions are made. Any manual status changes will be submitted immediately rather than waiting for the next submission file.</p>	

Lincoln University
A Component Unit of the State of Missouri
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Reference Number	Summary of Finding	Status
11-1	<p style="text-align: center;">CFDA Number 84.268 Federal Direct Student Loans U.S. Department of Education Student Financial Aid Cluster Program Year 2010-2011</p> <p>Out of a population of 522 student enrollment status changes requiring under notification, a sample of 25 student status changes were selected for testing. Four student enrollment status changes were communicated incorrectly to NSLDS.</p>	Unresolved. See Finding 12-1.
11-2	<p style="text-align: center;">CFDA Number 84.268, Award Number P268K111741 Federal Direct Student Loans CFDA Number 84.063, Award Number P063P101741 Federal Pell Grant Program CFDA Number 84.375, Award Number P375A101741 Academic Competitiveness Grants CFDA Number 84.376, Award Number P376S101741 National Science and Mathematics Access to Retain Talent Grants CFDA Number 84.033, Award Number P033A102336 Federal Workstudy Program CFDA Number 84.007, Award Number P007A102336 Federal Supplemental Education Opportunity Grants U.S. Department of Education Student Financial Aid Cluster Program Year 2010-2011</p> <p>Out of a population of 2,744 students receiving student financial aid, a sample of 25 was selected for testing. One student was over awarded subsidized direct loans resulting in questioned costs of \$1,620.</p>	Resolved.

Lincoln University
A Component Unit of the State of Missouri
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Reference Number	Summary of Finding	Status
11-3	<p>CFDA Number 10.205, Award Number CREN08911 Cooperative Research, Education and Extension Service U.S. Department of Agriculture CFDA 12.431, Award Number W911NF-09-2-0063 Reality V Based Training Video U.S. Army Research Development and Engineering Command Acq Center Research and Development Cluster Program Year 2010-2011</p> <p>Out of a population of 25 reports required during the year, a sample of four was selected for testing. One report had the incorrect basis of accounting reported and one was not filed timely.</p>	Resolved
11-4	<p>CFDA 10.500, Award Number EF4408911 Cooperative Extension Programs U.S. Department of Agriculture Cooperative Extension Cluster Program Year 2009-2010</p> <p>The University could not substantiate a portion of the matching requirement of the grant. The grant requires 100% matching. Each year the University obtains a waiver for a portion of the matching requirement of the grant requested at the beginning of the grant period for the amount expected not to be met. The University was not able to provide documentation of a waiver for the total amount of the matching requirement not met.</p>	Resolved
10-1	<p>CFDA Number 84.032 Federal Family Education Loans U.S. Department of Education Student Financial Aid Cluster Program Year 2009-2010</p> <p>Out of a population of 376 student enrollment status changes requiring FFEL lender notification, a sample of 25 students status changes were selected for testing. Three student enrollment status changes were not communicated to FFEL lenders on a timely basis. Four student enrollment status change dates were communicated incorrectly to FFEL lenders.</p>	Unresolved. See Finding 12-1.