

Lincoln University
A Component Unit of the State of Missouri

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017

Lincoln University
A Component Unit of the State of Missouri
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Curators
Lincoln University
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Lincoln University (the "University"), a component unit of the State of Missouri, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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., the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Lincoln University Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Lincoln University as of June 30, 2018 and 2017, and the respective changes in financial position and where applicable, cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Auxiliary System Revenue Fund – Schedules of Revenues and Expenses and the Athletic Facilities Revenue Fund – Schedule of Revenues and Expenses as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Auxiliary System Revenue Fund – Schedules of Revenues and Expenses and the Athletic Facilities Revenue Fund – Schedule of Revenues and Expenses 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of Lincoln University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
October 30, 2018

Lincoln University
A Component Unit of the State of Missouri
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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, 2018 and 2017, with selected comparative information for the year ended June 30, 2016. 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 State of Missouri 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 two Colleges: the College of Arts and Sciences and the College of Agriculture, Environmental and Human Sciences; and three Schools: Education, Business and Nursing, along with the Office of Graduate Studies. During fiscal year 2018, Lincoln University offered nine undergraduate degrees: Bachelor of Arts (B.A.), Bachelor of Liberal Studies (B.L.S.), Bachelor of Science (B.S.), Bachelor of Science in Education (B.S.Ed.), and 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 with all business graduate degree programs being offered using an online modality. 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 teaching and guidance and counseling; Master of Business Administration (M.B.A.) with an emphasis in management, accounting, public administration/policy and management information systems; Master of Science (M.S.) in environmental science, natural sciences and integrated agricultural systems. The Master of Arts (M.A.) in education with an emphasis in Historical Black Colleges and Universities (HBCU) was added in fall 2016 and is currently under review. A new degree program, Education Specialist (Ed.S.) in Clinical Mental Health Counseling was approved by the Board of Curators in September 2018.

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 Position - This statement presents information on all University assets, deferred outflows, liabilities and deferred inflows. 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 Position - 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 position 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 Position

A summarized comparison of the University's assets, liabilities and net position at June 30, 2018, 2017 and 2016, is as follows:

| | 2018 | 2017 | 2016 |
|--|-----------------------|-----------------------|-----------------------|
| | (In Millions) | | |
| Assets and Deferred Outflows of Resources | | | |
| Current assets | \$ 31.0 | \$ 29.7 | \$ 29.5 |
| Capital assets, net | 86.4 | 87.5 | 83.4 |
| Other noncurrent assets | 3.4 | 3.4 | 3.5 |
| Deferred outflows of resources | <u>14.3</u> | <u>13.9</u> | <u>5.6</u> |
| Total assets and deferred outflows of resources | <u><u>135.1</u></u> | <u><u>134.5</u></u> | <u><u>122.0</u></u> |
| Liabilities and Deferred Inflows of Resources | | | |
| Current liabilities | 7.9 | 7.6 | 8.7 |
| Noncurrent liabilities | 66.2 | 62.6 | 51.7 |
| Deferred inflows of resources | <u>1.5</u> | <u>1.3</u> | <u>0.5</u> |
| Total liabilities and deferred inflows of resources | <u><u>75.6</u></u> | <u><u>71.5</u></u> | <u><u>60.9</u></u> |
| Net Position | | | |
| Net investment in capital assets | 66.4 | 66.5 | 62.1 |
| Restricted – nonexpendable | 0.1 | 0.1 | 0.1 |
| Restricted – expendable | 4.6 | 3.4 | 3.1 |
| Unrestricted | <u>(11.6)</u> | <u>(7.0)</u> | <u>(4.2)</u> |
| Total net position | <u><u>\$ 59.5</u></u> | <u><u>\$ 63.0</u></u> | <u><u>\$ 61.1</u></u> |

During the 2018 fiscal year, total assets and deferred outflows of resources increased by \$0.6 million, total liabilities and deferred inflows of resources increased by \$4.1 million. The total net position decreased by \$3.5 million compared to fiscal year 2017. In fiscal year 2018, the University's current assets of \$31.0 million were sufficient to cover current liabilities of \$7.9 million. The current ratio remained stable at 3.9 in 2018 and 2017.

The University's liabilities and deferred inflows of resources totaled \$75.6 million at June 30, 2018, and \$71.5 million at June 30, 2017. Noncurrent liabilities totaled \$66.2 million in 2018 and \$62.6 million in 2017. Noncurrent liabilities are comprised of net pension liability as required by Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71 (see *Note 6*), postemployment benefit liability as required by GASB Statement No. 75 (see *Note 7*) as well as bonds and notes payable. The change in liabilities and deferred inflows of resources in fiscal year 2018 was primarily a result of an increase in net pension liability of \$4.4 million and an increase in postemployment benefit liability of \$0.7 million.

Statement of Revenues, Expenses and Changes in Net Position

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

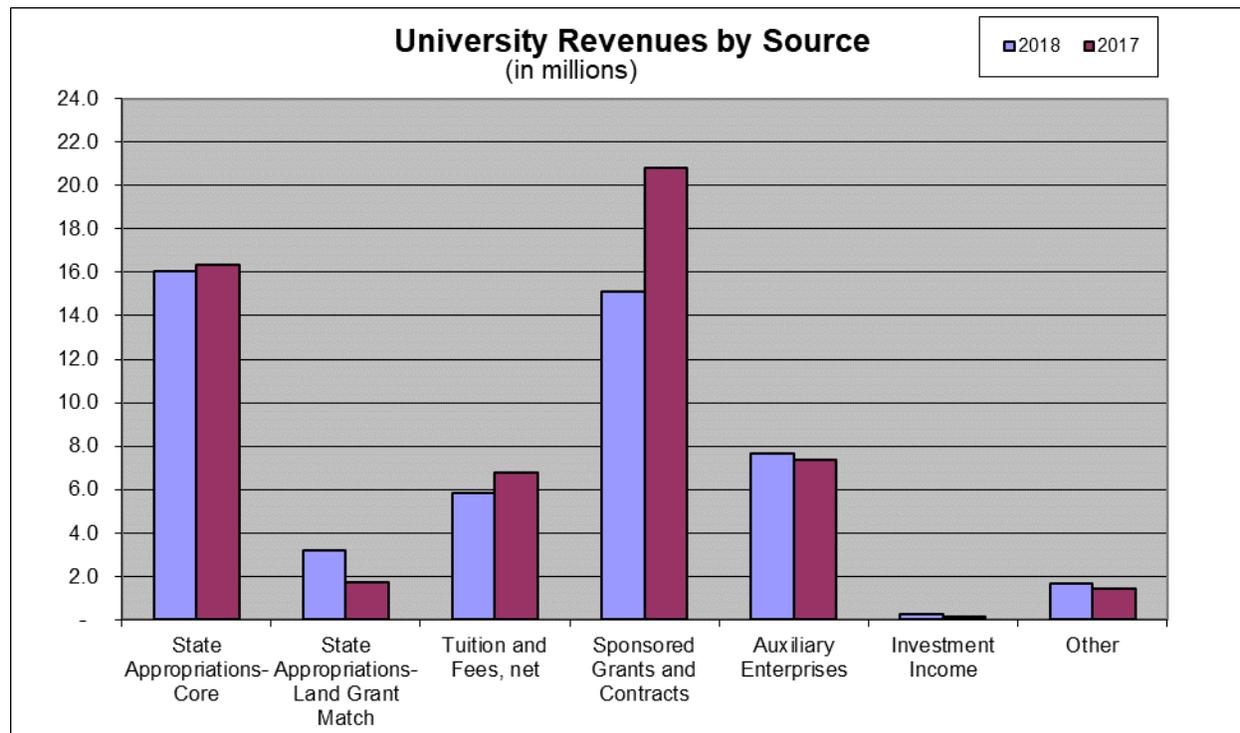
A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2018, 2017 and 2016, is as follows:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|----------------|----------------|----------------|
| | (In Millions) | | |
| Operating revenues | \$ 13.6 | \$ 14.2 | \$ 13.9 |
| Operating expenses | <u>51.7</u> | <u>55.0</u> | <u>51.8</u> |
| Operating loss | (38.1) | (40.8) | (37.9) |
| Net nonoperating revenues | <u>34.4</u> | <u>39.1</u> | <u>40.2</u> |
| Income (loss) before other revenues, expenses, gains or losses | (3.7) | (1.7) | 2.3 |
| Impairment gain on fire damage, net of insurance recovery | 0.0 | 1.6 | 0.1 |
| Capital appropriations | 0.2 | 1.1 | 2.8 |
| Capital grants and gifts | <u>0.7</u> | <u>0.9</u> | <u>0.7</u> |
| Increase (decrease) in net position | <u>(2.8)</u> | <u>1.9</u> | <u>5.9</u> |
| Net position, beginning of year, as previously reported | 63.0 | — | — |
| Cumulative effect of change in accounting principle | <u>(0.7)</u> | <u>—</u> | <u>—</u> |
| Net position, beginning of year, as restated | <u>62.3</u> | <u>61.1</u> | <u>55.2</u> |
| Net position, end of year | <u>\$ 59.5</u> | <u>\$ 63.0</u> | <u>\$ 61.1</u> |

The total operating loss for fiscal year 2018 was \$38.1 million, most of which was offset by nonoperating revenues of \$34.4 million. The largest component of nonoperating revenues is state appropriations followed by federal grants and contracts. Although, these revenues support operating expenses, Governmental Accounting Standards Board (GASB) mandates that these revenues be recorded as nonoperating revenues. Despite decreased operating expenses, the decrease in operating and nonoperating revenues was such that there was an overall loss of \$3.7 million in fiscal year 2018, an increase of 2.0 million compared to the overall loss of \$1.7 million in fiscal year 2017. This loss is due primarily to an increase of \$1.4 million in net pension expense related to GASB Statements No. 68 and No. 71 as compared to fiscal year 2017.

Revenues (Operating and Nonoperating)

The following graph displays the components of the University's revenues for fiscal years 2018 and 2017:



As shown above, the largest component of total revenues (operating and nonoperating) is core state appropriations followed by sponsored grants and contracts. Core state appropriations account for 32% of University revenues. In fiscal year 2017, the University received core state appropriations totaling \$16.3 million, net of 3% reserves and additional withholdings of 11.5%. For fiscal year 2018, the University was appropriated \$16.1 million, net of 3% reserves. Also in fiscal year 2018, there was a net increase of \$1.5 million in land grant match compared to fiscal year 2017 with net land grant match appropriations totaling \$3.2 million in fiscal year 2018 and \$1.7 million in fiscal year 2017.

Student tuition and fees revenue of \$5.8 million is shown net of \$9.5 million in scholarship allowances, \$3.1 million in tuition discounts and \$0.5 million in bad debt.

The following table represents the details of the University's grants and contracts revenue for the year ended June 30, 2018:

| | |
|---|---------------------|
| Federal sources | |
| Department of Agriculture | \$ 4,246,402 |
| Department of Education (excluding financial aid) | 2,778,427 |
| Department of Defense | 179,822 |
| Department of Health and Human Services | 340,967 |
| National Aeronautics and Space Administration | 31,076 |
| National Science Foundation | 396,677 |
| Other Federal Sources | 117,881 |
| Total federal sources | <u>8,091,252</u> |
| Nonfederal sources | |
| State, local and private | — |
| Total nonfederal sources | — |
| Total all sources | <u>\$ 8,091,252</u> |

Operating Revenues

The following table summarizes the University's operating revenues by source for the years ended June 30, 2018, 2017 and 2016:

| | 2018 | 2017 | 2016 |
|--|----------------------|----------------|----------------|
| | (In Millions) | | |
| Tuition and fees, net | \$ 5.8 | \$ 6.8 | \$ 6.6 |
| Grants and contracts | 0.2 | 0.2 | 0.6 |
| Sales and services of educational activities | 0.1 | 0.1 | 0.1 |
| Auxiliary enterprises, net | 7.0 | 6.7 | 6.2 |
| Other | <u>0.5</u> | <u>0.4</u> | <u>0.4</u> |
| Total operating revenues | <u>\$ 13.6</u> | <u>\$ 14.2</u> | <u>\$ 13.9</u> |

Overall operating revenues for fiscal year 2018 decreased by \$0.6 million from fiscal year 2017. Tuition and fees decreased in fiscal year 2018 by \$1.0 million compared to fiscal year 2017. This decrease in tuition and fees is a result of a decrease in enrollment despite a 2% increase in tuition and fee rates. The reduction in net tuition and fees was also due to an increase of \$0.4 million in scholarship allowances, \$0.4 million in tuition discounts and \$0.1 million in bad debt compared to fiscal year 2017. Net auxiliary enterprises increased by \$0.3 million compared to fiscal year 2017. This growth is a result of both a 3% increase in room and board rates as well as an increase in the number of residential students compared to fiscal year 2017.

In fiscal year 2017, operating revenues increased slightly from fiscal year 2016. Tuition and fees increased due to an increase in the student activity fee and the implementation of the new student athletic fee. The student body approved an increase in the student activity fee from \$6.75/credit hour to \$10/credit hour. The student body also approved a new student athletic fee of \$10/credit hour. Further, the technology fee was increased from \$150 to \$173.94 per term. The increase in tuition and fees was offset by a decrease of \$0.3 million in scholarship allowance, an increase of \$0.5 million in tuition discounts and an increase of \$0.2 million in bad debt. Auxiliary enterprises increased in fiscal year 2018 by \$0.5 million compared to fiscal year 2017. This increase is a result of an increase in the standard double occupancy room rate ranges from \$1,533 – \$2,285 to \$1,700 – \$2,355. The unlimited meal plan rate was also increased from \$1,502 to \$1,580.

Operating Expenses

The following table summarizes the University's operating expenses for the years ended June 30, 2018, 2017 and 2016:

| | 2018 | 2017 | 2016 |
|-------------------------------|----------------------|----------------|----------------|
| | (In Millions) | | |
| Compensation | \$ 20.7 | \$ 23.7 | \$ 24.0 |
| Benefits | 10.7 | 9.7 | 7.0 |
| Contractual services | 8.9 | 8.7 | 8.3 |
| Supplies and materials | 1.3 | 1.5 | 1.5 |
| Depreciation and amortization | 5.4 | 5.8 | 5.8 |
| Utilities/communications | 2.0 | 1.8 | 1.9 |
| Scholarships and fellowships | 0.1 | 0.2 | 0.2 |
| Other | <u>2.6</u> | <u>3.6</u> | <u>3.1</u> |
| Total operating expenses | <u>\$ 51.7</u> | <u>\$ 55.0</u> | <u>\$ 51.8</u> |

During fiscal year 2018, operating expenses were \$51.7 million, a decrease of \$3.3 million compared to 2017. The largest component of operating expenses is compensation which decreased by \$3.0 million in 2018 due to a net reduction in employees of 15%. The second largest component of operating expenses is benefits which increased by \$1.0 million primarily due to an increase in net pension expense related to GASB Statements No. 68 and No. 71. As a result of anticipated reductions in state matching funds associated with the federal appropriations from the U.S. Department of Agriculture, National Institute of Food and Agriculture, the University reduced expenses associated with the Extension and Research programs. This reduction, along with a reduction in travel expenses, accounts for a decrease in other expenses of \$1.0 million.

Operating expenses in 2017 increased to \$55.0 million from \$51.8 million in 2016. The largest component of operating expenses is compensation which decreased by \$0.3 million compared to 2016. The largest increase in expenses was in benefits which grew by \$2.7 million from 2016. This increase was due to an increase in net pension expense related to GASB Statements No. 68 and No. 71. Contractual services increased by \$0.4 million primarily due to an increase in the facilities management expenses which began midway in fiscal year 2016. Other expenses increased by \$0.5 million due primarily to the return of unmatched land grant funds to the Department of Agriculture. All other categories predominately remained steady.

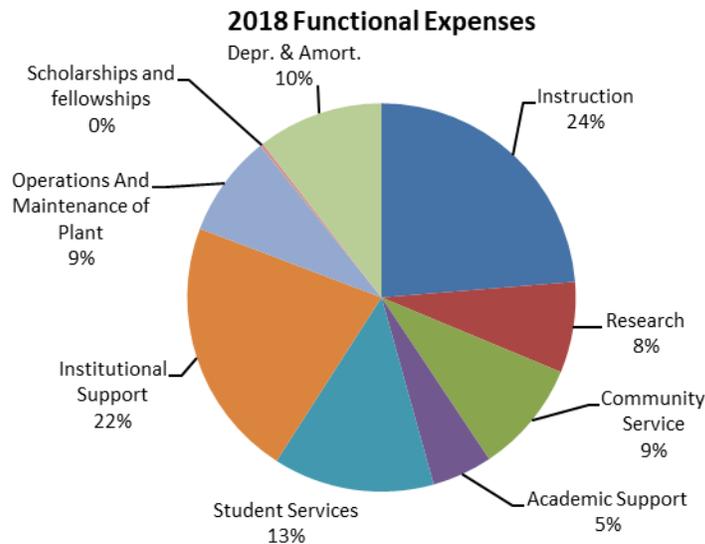
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A comparative summary of the University's expenses by functional classification for the years ended June 30, 2018, 2017 and 2016, is as follows:

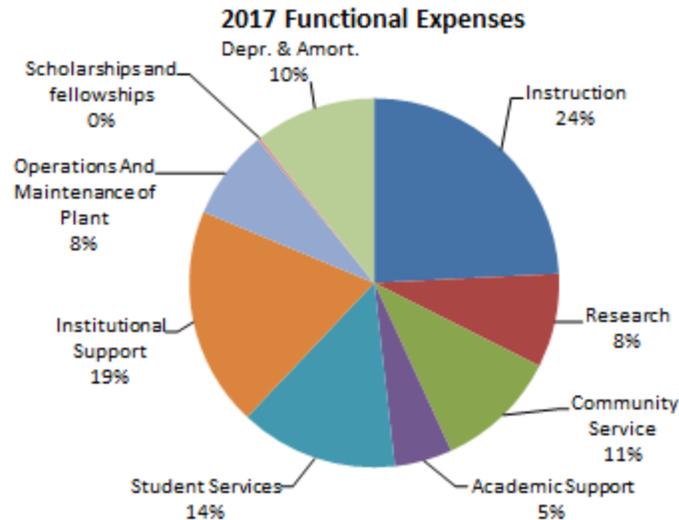
Expenses by Functional Category

| | 2018 | 2017 | 2016 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| | (In Millions) | | |
| Instruction | \$ 12.3 | \$ 13.3 | \$ 12.2 |
| Research | 3.9 | 4.5 | 4.7 |
| Community service | 4.8 | 5.9 | 5.7 |
| Academic support | 2.6 | 2.8 | 2.9 |
| Student services | 7.0 | 7.6 | 6.5 |
| Institutional support | 11.2 | 10.6 | 10.8 |
| Operations and maintenance of plant | 4.4 | 4.3 | 3.0 |
| Scholarships and fellowships | 0.1 | 0.2 | 0.2 |
| Depreciation and amortization | <u>5.4</u> | <u>5.8</u> | <u>5.8</u> |
| Total expenses | \$ <u>51.7</u> | \$ <u>55.0</u> | \$ <u>51.8</u> |

The University's total operating expenses directly support the primary mission of the University: Instruction, Research and Community Service. In 2018, the total of these three categories was \$20.0 million or 40.6% of the total expenses compared to \$23.7 million or 43.1% of total expenses in 2017. Instruction is the largest component of expenses by functional category. In fiscal year 2018, instruction expense decreased by \$1.0 million compared to fiscal year 2017 due to reductions in staff and reclassification of positions. In fiscal year 2017, the instruction expense increased by \$1.1 million primarily due to an increase in net pension expense related to GASB Statements No. 68 and No. 71.

The following graphic illustrations present total expenses by function:





Nonoperating Revenues and Expenses

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2018, 2017 and 2016:

Nonoperating Revenues and Expenses

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|----------------|----------------|----------------|
| | (In Millions) | | |
| State appropriations | \$ 19.3 | \$ 18.1 | \$ 18.3 |
| Federal grants and contracts | 14.6 | 20.3 | 21.0 |
| State grants and contracts | 0.3 | 0.3 | 0.3 |
| Interest on indebtedness | (1.1) | (1.0) | (1.0) |
| Investment income | 0.2 | 0.1 | 0.1 |
| Other | <u>1.1</u> | <u>1.3</u> | <u>1.5</u> |
| Total nonoperating revenues and expenses | <u>\$ 34.4</u> | <u>\$ 39.1</u> | <u>\$ 40.2</u> |

State appropriations is the largest component of the University's nonoperating revenues followed by federal grants and contracts. The federal grants and contracts decreased by \$5.7 million in 2018 due to the close out of prior Title III grants in 2017. Prior to fiscal year 2018, the University anticipated state appropriation match funding being reduced, and the University reacted by reducing staff in extension and research. The University is currently working on rebuilding the research and extension programs.

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, 2018, 2017 and 2016:

Cash Flows

| | 2018 | 2017 | 2016 |
|---|---------------|-----------|-----------|
| | (In Millions) | | |
| Cash Provided by (Used in) | | | |
| Operating activities | \$ (26.6) | \$ (33.1) | \$ (32.3) |
| Noncapital financing activities | 34.2 | 39.1 | 39.7 |
| Capital and related financing activities | (4.1) | (5.6) | (6.1) |
| Investing activities | (6.9) | 4.2 | 1.8 |
| Net Increase in Cash and Cash Equivalents | (3.4) | 4.6 | 3.1 |
| Cash and Cash Equivalents, Beginning of the Year | 12.2 | 7.6 | 4.5 |
| Cash and Cash Equivalents, End of the Year | \$ 8.8 | \$ 12.2 | \$ 7.6 |

In fiscal year 2018, cash and cash equivalents decreased by \$3.4 million compared to 2017. Approximately \$26.6 million of cash was used for operating activities, offset by \$34.2 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 2018, cash used for operating activities decreased by \$6.5 million compared to 2017. The change in operating activities relates to the overall decrease in cash used for expenses related to payments to suppliers and employees. The net cash provided by noncapital financing activities decreased by \$4.9 million primarily due to the reduction in gifts and grants for other than capital purposes.

Cash used for capital and related financing activities in 2018 was \$4.1 million, a decrease of \$1.5 million compared to 2017. This decrease was primarily due to a decrease in capital state appropriations in 2018 and the receipt of insurance proceeds due to the fire at Dickinson Research Center in 2017.

Cash provided by investing activities in fiscal year 2018 decreased by \$11.1 million compared to 2017 due to an increasingly favorable investment market. In comparison to 2017, the University purchased \$8.6 million more in investments, while the sales of investments decreased by \$2.7 million.

In fiscal year 2017, cash and cash equivalents increased by \$4.6 million compared to 2016. Approximately \$33.1 million of cash was used for operating activities, offset by \$39.1 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.

The change in operating activities in 2017 was an overall increase in cash used of \$0.8 million. The change in operating activities relates to the overall increase in cash used for expenses, a decrease in cash provided by tuition and fees, and a decrease in cash provided by federal grants and contracts offset by an increase in auxiliary enterprise activities.

There was a decrease in cash received from noncapital financing activities in 2017 of \$0.6 million. The change in noncapital financing activities was affected by the decrease in state appropriations as well as the decrease in federal grants and contracts.

The net decrease in cash used for capital and related financing activities in 2017 compared to 2016 was \$0.5 million. The change was due to a decrease in cash from capital state appropriations as well as an increase in cash used for purchases of capital assets and capital improvement projects offset by the receipt of revenue bond proceeds.

Cash provided by investing activities in fiscal year 2017 was \$4.2 million compared to \$1.8 million in 2016. This is an increase of \$2.4 million. By comparison, the University purchased \$3.2 million more in investments, while the sales of investments increased by \$5.6 million. The University employs an investment strategy to maximize investment opportunities. While interest rates continue to improve, investment opportunities are limited. Interest revenue increased by 16% in fiscal year 2017 compared to 2016. 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.

Capital Assets

At June 30, 2018, the University had approximately \$86.4 million invested in capital assets, net of accumulated depreciation of approximately \$108.8 million. At June 30, 2017, the University had approximately \$87.5 million invested in capital assets, net of accumulated depreciation of approximately \$104.3 million.

Depreciation charges for the current year totaled approximately \$5.4 million. The following table summarizes the University's capital assets, net of accumulated depreciation, as of June 30, 2018, 2017 and 2016.

Capital Assets, Net

| | 2018 | 2017 | 2016 |
|-----------------------------------|----------------------|----------------|----------------|
| | (In Millions) | | |
| Land and land improvements | \$ 7.8 | \$ 7.7 | \$ 6.8 |
| Buildings | 73.7 | 73.9 | 66.8 |
| Furniture, fixtures and equipment | 3.3 | 3.8 | 3.9 |
| Infrastructure | 0.6 | 0.3 | 0.3 |
| Library materials | 0.1 | 0.1 | 0.1 |
| Construction in progress | <u>0.9</u> | <u>1.7</u> | <u>5.5</u> |
| Total capital assets, net | <u>\$ 86.4</u> | <u>\$ 87.5</u> | <u>\$ 83.4</u> |

Major construction projects that began in fiscal year 2017 and were completed in fiscal year 2018 include the Reed Stadium renovations (\$2,104,537), Founders Hall and Martin Luther King Hall restroom renovations project (\$684,225), lower level build-out of the LINC Recreation and Wellness Center for athletics (\$852,333), Myrtle Smith Livingston Tennis Court replacement (\$596,697), Beef Hoop Facility at Carver Farm (\$113,887) and a chiller replacement at Richardson Fine Arts Center (\$54,800). These projects were funded by local funds, United States Tennis Association grants, research grant funds, funds received from the City of Jefferson Parks and Recreation Department, House Bill 19 funds from the State for deferred maintenance and bond funding.

Major projects that began in fiscal year 2018 and will be complete in fiscal year 2019 include the Dawson Hall chiller replacement (\$351,734), Founders Hall chiller replacement (\$296,000), renovations to 917 Leslie Boulevard for the Small Business Development Center (\$96,158) and Anthony Hall window replacement (\$252,515). These projects are funded by local funds and Title III grant funds.

Revenue Bonds

As of June 30, 2018, the University had approximately \$22.7 million in outstanding revenue bonds compared to \$24.3 million in 2017, a decrease of \$1.6 million.

Revenue Bond Debt

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---------------|----------------|----------------|----------------|
| | (In Millions) | | |
| Revenue bonds | \$ <u>22.7</u> | \$ <u>24.3</u> | \$ <u>23.0</u> |

Student Enrollment

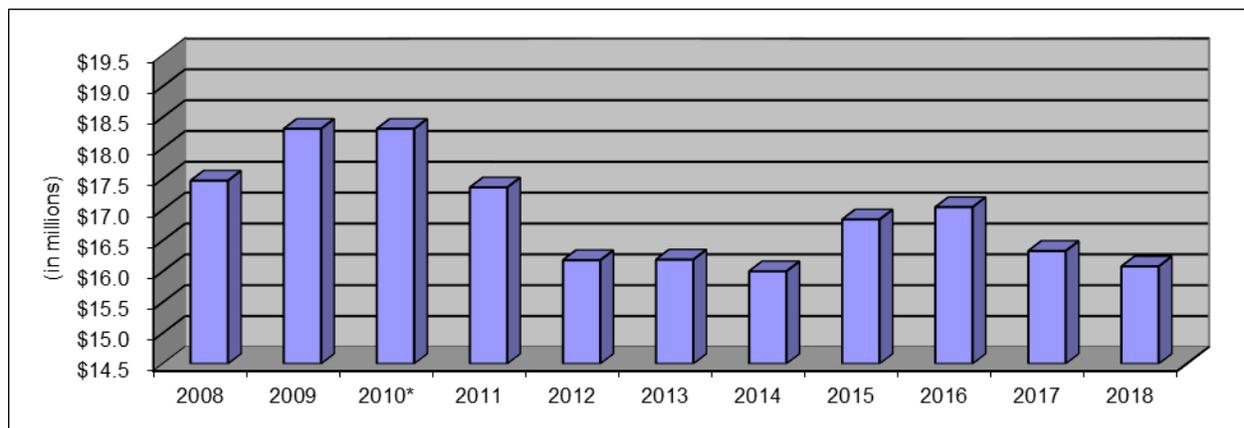
Following are highlights of student demographics for the fall 2017, 2016 and 2015 semesters of fiscal years 2018, 2017 and 2016, respectively.

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|------------------------------|--------------|--------------|--------------|
| Undergraduate | 2,512 | 2,618 | 2,821 |
| Graduate | <u>107</u> | <u>120</u> | <u>123</u> |
| Total students | <u>2,619</u> | <u>2,738</u> | <u>2,944</u> |
| Full-time | 1,844 | 1,902 | 2,027 |
| Part-time | 775 | 836 | 917 |
| Male | 1,117 | 1,167 | 1,318 |
| Female | 1,502 | 1,571 | 1,626 |
| Credit hours generated | 30,341 | 32,191 | 34,318 |
| Student full-time equivalent | 2,035 | 2,160 | 2,301 |
| Resident | 979 | 911 | 931 |
| Commuter | <u>1,640</u> | <u>1,827</u> | <u>2,013</u> |
| Total students | <u>2,619</u> | <u>2,738</u> | <u>2,944</u> |

| | 2018 | 2017 | 2016 |
|---|---------------------|---------------------|---------------------|
| In-state | 1,949 | 2,164 | 2,373 |
| Out-state | 612 | 510 | 504 |
| International | <u>58</u> | <u>64</u> | <u>67</u> |
| Total students | <u><u>2,619</u></u> | <u><u>2,738</u></u> | <u><u>2,944</u></u> |
| Total number of degrees awarded | 409 | 379 | 342 |
| Number of students in dual-credit courses | 448 | 461 | 515 |
| Associate degree programs | 5 | 6 | 8 |
| Undergraduate degree programs | 42 | 45 | 47 |
| Graduate degree programs | <u>14</u> | <u>14</u> | <u>13</u> |
| Total degree programs | <u><u>61</u></u> | <u><u>65</u></u> | <u><u>68</u></u> |

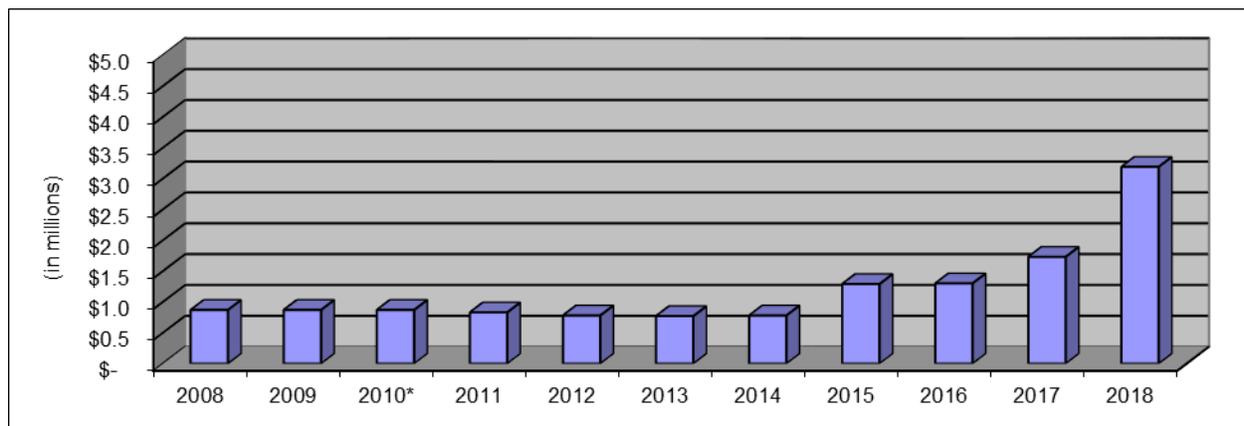
Trends

Core State Appropriations by Fiscal Year

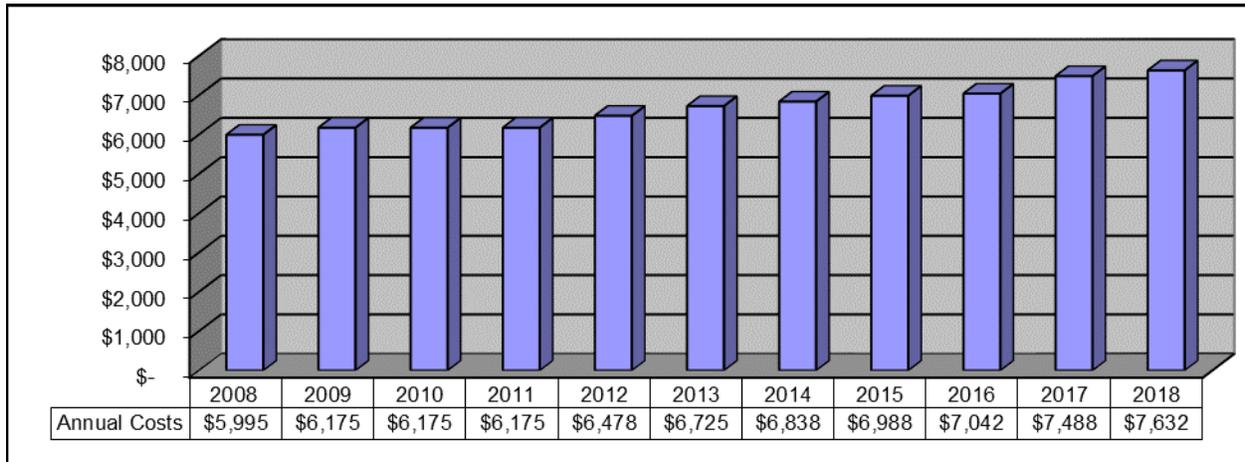


*Excludes the one-time state appropriations for the Caring for Missourian program.

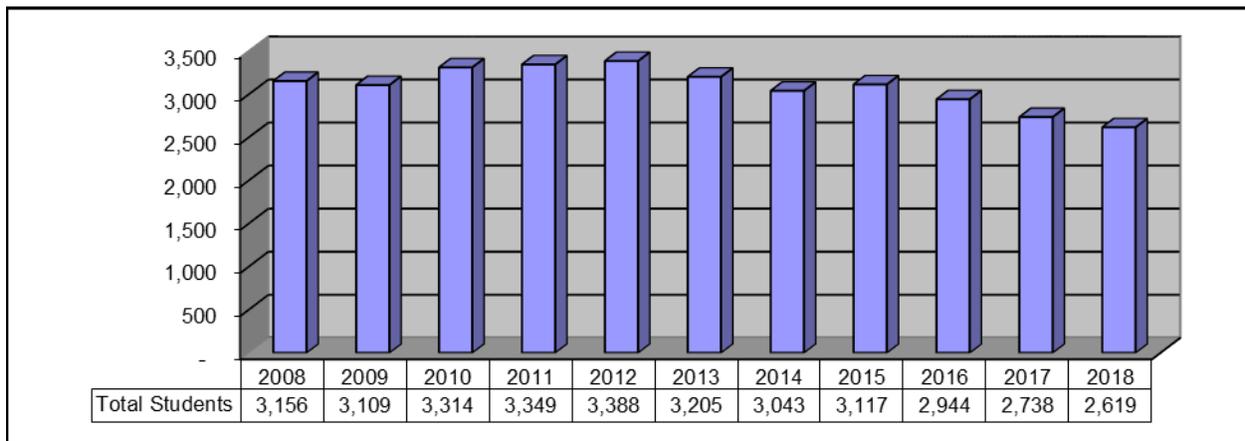
Land Grant Match State Appropriations by Fiscal Year



Full-Time Resident Tuition and Required Fees per Year



Student Enrollment for Fall Semesters by Fiscal Year



Fiscal Year 2019 Outlook

General Fund Operating Budget

The Lincoln University Board of Curators approved a \$36.2 million general fund operating budget for fiscal year 2019. State appropriations are the largest component of the 2019 budget. In 2019, the University anticipates state appropriations of \$19,856,087. This amount reflects a 3% increase in overall appropriations from the amount received in fiscal year 2018. The entirety of this increase was earmarked by the state to support the University’s 1890 land grant match.

Capital Projects

Upcoming projects identified for design and/or construction during fiscal year 2019 include the construction of a new Dickinson Research Center, new satellite Extension Office in Sikeston, Missouri, various HVAC renovations to include Page Library, Young Hall and Scruggs University Center chiller replacements, Mitchell Hall rehabilitation project and Pawley Theatre renovation project. Projects will be funded by Title III, 1890 Facilities grant funds, local funds, insurance proceeds and National Park Service grant funding.

Other Significant Factors

On June 1, 2018, Dr. Jerald Jones Woolfolk was appointed as the 20th President of Lincoln University. Prior to her announcement as President of Lincoln University, she served as the Vice President of Student Affairs and Enrollment Management at the State University of New York (SUNY) Oswego. While at Oswego, she also held positions as a Visiting Associate Professor and the Interim Chief Diversity and Inclusion Officer.

On August 13, 2018, the Lincoln University Board of Curators signed a collective bargaining agreement with LUMNEA/MNEA (Missouri National Education Association) which covers tenured and tenured-track academic faculty whose academic appointment is 0.75 FTE or higher excluding supervisory, managerial and confidential employees. This agreement is in effect through December 31, 2020, and thereafter until the parties agree on a successor agreement or reach impasse. This represents 17% of the University's employees.

The comprehensive evaluation with reaffirmation of accreditation by the Higher Learning Commission (HLC) is set for 2022 – 2023. Lincoln University is reviewed for accreditation based on HLC's Standard Pathway. The University will begin its internal assurance of compliance process in fall 2019 appointing necessary committees to complete the reaffirmation of accreditation.

The Accreditation Commission for Education in Nursing (ACEN) accredited the Bachelor of Science in Nursing (BSN) program after a site visit in November 2015. The entire nursing program was reviewed for reaccreditation in October 2017 leading to continuing accreditation. The nursing program continues its 100% pass rate on the National Council Licensure Examination (NCLEX).

Lincoln University's Social Work program was accredited by the Council on Social Work Education (CSWE) in 2013. The program is currently undergoing the reaffirmation of continuing accreditation and will have an onsite visit in spring 2019.

The University is currently reviewing all of its academic programs and gearing up to pursue programmatic accreditation for education programs.

Lincoln University
A Component Unit of the State of Missouri
Statements of Net Position
June 30, 2018 and 2017

Assets

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 7,328,157 | \$ 12,117,242 |
| Short-term investments | 17,918,690 | 9,400,075 |
| Accounts receivable, net of allowance; 2018 – \$818,255, 2017 – \$588,901 | 1,398,463 | 1,582,648 |
| Federal and state grants receivable | 4,057,171 | 3,511,530 |
| State appropriations receivable | - | 69,974 |
| Capital project receivable | 61,696 | 588,598 |
| Revenue bonds proceeds receivable | - | 2,232,552 |
| Prepaid expenses | 6,963 | 12,144 |
| Other | 269,367 | 172,256 |
| | 31,040,507 | 29,687,019 |
| Total current assets | | |
| Noncurrent Assets | | |
| Restricted cash equivalents | 1,471,223 | 85,625 |
| Restricted investments | - | 1,368,446 |
| Short-term endowment investments | 631,000 | 336,965 |
| Long-term endowment investments | 947,000 | 1,218,000 |
| Bond insurance costs | 390,205 | 410,742 |
| Capital assets, net | 86,373,226 | 87,526,862 |
| | 89,812,654 | 90,946,640 |
| Total noncurrent assets | | |
| | 120,853,161 | 120,633,659 |

Deferred Outflows of Resources

| | | |
|---|-------------------|-------------------|
| Loss on refunding of bonds | 191,485 | 247,530 |
| Deferred outflows of resources related to pension | 14,072,943 | 13,648,509 |
| | 14,264,428 | 13,896,039 |
| Total deferred outflows of resources | | |

Liabilities

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,707,722 | \$ 3,134,520 |
| Accrued compensated absences | 613,452 | 821,080 |
| Postemployment benefit obligation | - | 51,352 |
| Unearned revenue | 3,822,893 | 1,851,147 |
| Current portion of long-term debt | <u>1,752,737</u> | <u>1,707,702</u> |
| Total current liabilities | <u>7,896,804</u> | <u>7,565,801</u> |
| Noncurrent Liabilities | | |
| Deposits held in custody for others | 45,995 | 49,045 |
| Accrued compensated absences | 566,264 | 404,413 |
| Postemployment benefit obligation | - | 11,797 |
| Total other postemployment benefit liability | 792,104 | - |
| Long-term debt | 22,202,739 | 23,981,188 |
| Net pension liability | <u>42,624,658</u> | <u>38,177,503</u> |
| Total noncurrent liabilities | <u>66,231,760</u> | <u>62,623,946</u> |
| Total liabilities | <u>74,128,564</u> | <u>70,189,747</u> |

Deferred Inflows of Resources

| | | |
|--|------------------|------------------|
| Deferred inflows of resources related to pension | <u>1,489,643</u> | <u>1,303,822</u> |
|--|------------------|------------------|

Net Position

| | | |
|--|----------------------|----------------------|
| Net investment in capital assets | 66,461,761 | 66,560,689 |
| Restricted nonexpendable for endowment | 51,564 | 51,564 |
| Restricted expendable for | | |
| Research | 260,937 | 228,883 |
| Debt service | 84,742 | 60,662 |
| Term endowment | 1,359,248 | 1,346,909 |
| Other | 2,897,801 | 1,793,502 |
| Unrestricted | <u>(11,616,671)</u> | <u>(7,006,080)</u> |
| Total net position | <u>\$ 59,499,382</u> | <u>\$ 63,036,129</u> |

Lincoln University
A Component Unit of the State of Missouri
Lincoln University Foundation, Inc.
Statements of Financial Position
June 30, 2018 and 2017

Assets

| | <u>2018</u> | <u>2017</u> |
|--|--------------------------|-------------------------|
| Cash and cash equivalents | \$ 987,282 | \$ 994,745 |
| Contributions receivable | 117,227 | 112,285 |
| Accrued investment income | - | 1,567 |
| Investments | 9,420,718 | 8,680,267 |
| Cash surrender value of life insurance | <u>5,495</u> | <u>5,495</u> |
| Total assets | <u>\$ 10,530,722</u> | <u>\$ 9,794,359</u> |

Liabilities and Net Assets

Liabilities

| | | |
|-----------------------|--------------------|--------------------|
| Accounts payable | \$ 64,076 | \$ 35,559 |
| Note payable | <u>198,629</u> | <u>228,629</u> |
| Total liabilities | <u>262,705</u> | <u>264,188</u> |

Net Assets

| | | |
|--------------------------------------|--------------------------|-------------------------|
| Unrestricted | 215,465 | 155,109 |
| Temporarily restricted | 5,303,663 | 4,785,574 |
| Permanently restricted | <u>4,748,889</u> | <u>4,589,488</u> |
| Total net assets | <u>10,268,017</u> | <u>9,530,171</u> |
| Total liabilities and net assets | <u>\$ 10,530,722</u> | <u>\$ 9,794,359</u> |

Lincoln University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Operating Revenues | | |
| Tuition and fees (net of scholarship allowances of \$9,512,064 – 2018 and \$9,115,970 – 2017 and bad debt expense of \$489,907 – 2018 and \$351,940 – 2017) | \$ 5,852,061 | \$ 6,765,232 |
| Federal grants and contracts | 179,822 | 185,281 |
| State grants and contracts | 26,440 | 29,800 |
| Sales and services of educational activities | 50,305 | 54,881 |
| Auxiliary enterprises (net of scholarship allowances of \$329,283 – 2018 and \$464,574 – 2017 and bad debt expense of \$122,249 – 2018 and \$87,928 – 2017) | 6,990,887 | 6,668,233 |
| Other | 544,805 | 470,266 |
| | <u>13,644,320</u> | <u>14,173,693</u> |
| Operating Expenses | | |
| Compensation and benefits | 31,395,980 | 33,406,296 |
| Contractual services | 8,882,236 | 8,742,898 |
| Travel | 1,160,621 | 1,600,191 |
| Supplies and materials | 1,325,399 | 1,463,512 |
| Scholarships and fellowships | 146,770 | 153,224 |
| Depreciation and amortization | 5,409,988 | 5,814,983 |
| Communications | 71,290 | 110,867 |
| Utilities | 1,909,971 | 1,722,525 |
| Other | 1,455,246 | 2,011,332 |
| | <u>51,757,501</u> | <u>55,025,828</u> |
| Operating Loss | <u>(38,113,181)</u> | <u>(40,852,135)</u> |
| Nonoperating Revenues (Expenses) | | |
| State appropriations | 19,274,087 | 18,063,885 |
| Federal grants and contracts | 14,601,198 | 20,312,797 |
| Recovery of administrative costs | 8,510 | 16,735 |
| State and local grants and contracts | 288,234 | 297,522 |
| Student fees for capital projects | 640,802 | 691,834 |
| Loss on disposal of capital assets | (615,051) | (218,755) |
| Investment income | 264,722 | 140,480 |
| Interest on capital asset-related debt | (1,082,818) | (1,042,289) |
| Other nonoperating revenues | 1,052,557 | 871,373 |
| | <u>34,432,241</u> | <u>39,133,582</u> |
| Net nonoperating revenues | <u>34,432,241</u> | <u>39,133,582</u> |

Lincoln University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Loss Before Other Revenues, Expenses, Gains or Losses | \$ (3,680,940) | \$ (1,718,553) |
| Gain on Dickinson Research Facility Fire | - | 1,604,224 |
| Capital Appropriations - State | 155,899 | 1,065,285 |
| Capital Grants and Gifts | <u>752,270</u> | <u>960,689</u> |
| Increase (Decrease) in Net Position | <u>(2,772,771)</u> | <u>1,911,645</u> |
| Net Position, Beginning of Year, as Previously Reported | 63,036,129 | - |
| Cumulative Effect of Change in Accounting Principle | <u>(763,976)</u> | <u>-</u> |
| Net Position, Beginning of Year, as Restated | <u>62,272,153</u> | <u>61,124,484</u> |
| Net Position, End of Year | <u><u>\$ 59,499,382</u></u> | <u><u>\$ 63,036,129</u></u> |

Lincoln University
A Component Unit of the State of Missouri
Lincoln University Foundation, Inc.
Statements of Activities
Years Ended June 30, 2018 and 2017

| | 2018 | | | Total |
|---------------------------------------|--------------|---------------------------|---------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenues and Other Support | | | | |
| Contributions | \$ 15,210 | \$ 483,023 | \$ 97,911 | \$ 596,144 |
| Special events | 122,897 | 11,491 | - | 134,388 |
| Investment return | 121 | 824,992 | 47,966 | 873,079 |
| Other revenue | 116,222 | - | - | 116,222 |
| Total revenues | 254,450 | 1,319,506 | 145,877 | 1,719,833 |
| Transfers | 193,494 | (218,628) | 25,134 | - |
| Net assets released from restrictions | 594,399 | (582,789) | (11,610) | - |
| Total revenues and other support | 1,042,343 | 518,089 | 159,401 | 1,719,833 |
| Expenses | | | | |
| Program services | | | | |
| Scholarships | 280,782 | - | - | 280,782 |
| Direct payments | 281,144 | - | - | 281,144 |
| Total program expenses | 561,926 | - | - | 561,926 |
| Support services | | | | |
| Management and general | 231,503 | - | - | 231,503 |
| Fundraising | 188,558 | - | - | 188,558 |
| Total support services | 420,061 | - | - | 420,061 |
| Total expenses | 981,987 | - | - | 981,987 |
| Change in net assets | 60,356 | 518,089 | 159,401 | 737,846 |
| Net Assets, Beginning of Year | 155,109 | 4,785,574 | 4,589,488 | 9,530,171 |
| Net Assets, End of Year | \$ 215,465 | \$ 5,303,663 | \$ 4,748,889 | \$ 10,268,017 |

See Notes to Financial Statements

| 2017 | | | | |
|---------------------|-----------------------------------|-----------------------------------|--------------|--|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
| \$ 166,356 | \$ 633,755 | \$ 251,139 | \$ 1,051,250 | |
| 104,685 | 16,060 | - | 120,745 | |
| 1,321 | 1,007,171 | 28,669 | 1,037,161 | |
| 149,445 | - | - | 149,445 | |
| 421,807 | 1,656,986 | 279,808 | 2,358,601 | |
| - | - | - | - | |
| 492,371 | (492,371) | - | - | |
| 914,178 | 1,164,615 | 279,808 | 2,358,601 | |
| 209,323 | - | - | 209,323 | |
| 258,233 | - | - | 258,233 | |
| 467,556 | - | - | 467,556 | |
| 122,072 | - | - | 122,072 | |
| 272,118 | - | - | 272,118 | |
| 394,190 | - | - | 394,190 | |
| 861,746 | - | - | 861,746 | |
| 52,432 | 1,164,615 | 279,808 | 1,496,855 | |
| 102,677 | 3,620,959 | 4,309,680 | 8,033,316 | |
| \$ 155,109 | \$ 4,785,574 | \$ 4,589,488 | \$ 9,530,171 | |

Lincoln University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|----------------------|
| Operating Activities | | |
| Tuition and fees | \$ 5,940,402 | \$ 6,454,615 |
| Grants and contracts | 206,262 | 215,081 |
| Payments to suppliers | (12,953,700) | (16,113,434) |
| Payments to employees | (27,325,810) | (30,729,948) |
| Sales and services of auxiliary enterprises | 7,090,347 | 6,633,673 |
| Sales and services of educational activities | 50,305 | 54,881 |
| Other receipts and deposits | 423,901 | 383,792 |
| | <u>(26,568,293)</u> | <u>(33,101,340)</u> |
| Net cash used in operating activities | | |
| Noncapital Financing Activities | | |
| State appropriations | 19,274,087 | 18,063,885 |
| Gifts and grants for other than capital purposes | 13,868,571 | 20,155,166 |
| Other receipts | 1,061,067 | 888,108 |
| | <u>34,203,725</u> | <u>39,107,159</u> |
| Net cash provided by noncapital financing activities | | |
| Capital and Related Financing Activities | | |
| State appropriations for capital improvements | 225,873 | 1,438,214 |
| Capital grants and gifts | 957,407 | 1,405,446 |
| Student fees for capital projects | 640,801 | 691,834 |
| Purchase of capital assets | (5,407,989) | (10,608,599) |
| Insurance proceeds from building fire | - | 1,739,666 |
| Building fire cleanup payments | - | (135,442) |
| Proceeds from capital debt | 2,232,552 | 2,347,442 |
| Principal paid on capital debt | (1,731,930) | (1,462,097) |
| Interest paid on capital debt | (1,047,151) | (1,015,748) |
| | <u>(4,130,437)</u> | <u>(5,599,284)</u> |
| Net cash used in capital and related financing activities | | |
| Investing Activities | | |
| Investment income | 264,722 | 140,480 |
| Proceeds from sales and maturities of investments | 24,736,479 | 27,427,032 |
| Purchases of investments | (31,909,683) | (23,357,827) |
| | <u>(6,908,482)</u> | <u>4,209,685</u> |
| Net cash provided by (used in) investing activities | | |
| Increase (Decrease) in Cash and Cash Equivalents | (3,403,487) | 4,616,220 |
| Cash and Cash Equivalents, Beginning of Year | <u>12,202,867</u> | <u>7,586,647</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 8,799,380</u> | <u>\$ 12,202,867</u> |

Lincoln University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|-----------------|-----------------|
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Cash and cash equivalents | \$ 7,328,157 | \$ 12,117,242 |
| Restricted cash equivalents | 1,471,223 | 85,625 |
| | \$ 8,799,380 | \$ 12,202,867 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating loss | \$ (38,113,181) | \$ (40,852,135) |
| Depreciation and amortization | 5,409,988 | 5,814,983 |
| Changes in operating assets and liabilities | | |
| Receivables, net | 336,415 | (209,596) |
| Prepaid expenses, bond insurance costs and other assets | 5,182 | 5,306 |
| Deferred outflows of resources related to pension | (424,434) | (8,287,042) |
| Accounts payable and accrued liabilities | 1,668,609 | (531,889) |
| Deposits held in custody for others | (3,050) | (45,724) |
| Accrued compensated absences | (45,777) | (137,128) |
| Postemployment benefit obligation | - | 8,735 |
| Total other postemployment benefits | (35,021) | - |
| Net pension liability | 4,447,155 | 10,379,138 |
| Deferred inflows of resources related to pension | 185,821 | 754,012 |
| | \$ (26,568,293) | \$ (33,101,340) |
| Supplemental Cash Flows Information | | |
| Accounts payable incurred for capital asset purchases | \$ 181,602 | \$ 1,309,415 |
| Capital project receivable incurred for construction in progress | \$ 61,696 | \$ 609,341 |

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2018 and 2017

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, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary 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 or voluntary nonexchange transactions. Government-mandated or voluntary 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Change in Accounting Principle

In 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and expenses for other postemployment benefits that are provided to retirees.

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2018 and 2017

The University has not restated its financial statements as of and for the year ended June 30 2017, because the actuarial information was not readily available for that period, thus making the restatement of the 2017 financial statements not practical.

| | |
|--|----------------|
| Unrestricted net position, beginning of year, as previously reported | \$ (7,006,080) |
| Cumulative effect of change in accounting principle | |
| OPEB liability (measurement date of June 30, 2017) - GASB 75 | (827,125) |
| Total OPEB obligation - GASB 45 | 63,149 |
| | (763,976) |
| | |
| Unrestricted net position, beginning of year, as restated | \$ (7,770,056) |

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, liabilities and deferred inflows and outflows of resources 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 position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018, cash equivalents consisted of money market treasury funds held with brokers. At June 30, 2017, cash equivalents consisted of money market treasury funds held with brokers and repurchase agreements.

Investments and Investment Income

Investments in U.S. Treasury, U.S. agency and government-sponsored enterprises obligations and money market 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.

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Capital Project Receivable

On February 5, 2015, the Board of Curators approved a Cost Share Agreement for Architect Services through Construction of a Joint Multipurpose Facility with the City of Jefferson Parks and Recreation Commission. The agreement states that each party will pay for one-half of the cost of the architect to perform the work identified in the architect's services proposal dated January 27, 2015, at a cost not to exceed \$789,932 plus additional agreed-upon reimbursable expenses. On February 9, 2016, the City of Jefferson Parks and Recreation Commission signed a Letter of Commitment stating that the Commission would pay 60 percent of the original construction contract value of \$11,569,803. The University invoices the Parks and Recreation Commission 60 percent of the contractor's invoice on a monthly basis. As of June 30, 2018 and 2017, the outstanding balance due to the University was \$61,696 and \$609,341, respectively.

Bond Insurance Costs

Bond insurance costs incurred on the revenue bond issues have been capitalized and are being amortized over the life of the bonds using the straight-line method. Total amortization was \$20,537 for the years ended June 30, 2018 and 2017.

Deferred Outflows of Resources

The University reports the consumption of net position that relates to future reporting periods as deferred outflows of resources in a separate section of its statements of net position.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition 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 |

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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. Total interest capitalized was:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Total interest expense incurred on borrowings for project | \$ 23,046 | \$ 34,067 |
| Interest income from investment of proceeds of borrowings for project | - | - |
| Net interest cost capitalized | <u>\$ 23,046</u> | <u>\$ 34,067</u> |
| Interest capitalized | \$ 23,046 | \$ 34,067 |
| Interest charged to expense | 1,082,818 | 1,042,289 |
| Total interest incurred | <u>\$ 1,105,864</u> | <u>\$ 1,076,356</u> |

In July 2015, the Dickinson Research Facility was substantially damaged in a fire. The University received insurance recoveries totaling \$1,739,666 during the year ended June 30, 2017. Additional noncapitalized expenses of \$135,442 were incurred during the year ended June 30, 2017, resulting in a gain of \$1,604,224 recognized in the statement of revenues, expenses and changes in net position.

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 position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Unearned Revenue

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

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Cost-Sharing Defined Benefit Pension Plan

As a component unit of the State of Missouri, the University participates in the Missouri State Employees' Plan (MSEP), a cost-sharing multiple-employer defined benefit pension plan as defined by GASB 68. MSEP is administered by the Missouri State Employee's Retirement System (MOSERS), also a component unit of the State of Missouri. In accordance with the provision of GASB 68, the University accounts for and reports its participation in the single-employer plan as if it was a cost-sharing employer. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of MOSERS and additions to/deductions from MOSERS' fiduciary net position has been determined on the same basis as they are reported by MOSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Defined Benefit Other Postemployment Benefit Plan

The University has a single-employer defined benefit other postemployment benefit (OPEB) plan, providing health insurance to certain retired professor emeriti. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources

The University reports the acquisition of net position that relates to future reporting periods as deferred inflows of resources in a separate section of its statements of net position.

Net Position

Net position of the University is classified in four components. Net investment in capital assets 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 position is made up of 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 position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the University, such as permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

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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.

Tuition and Fees Revenue

Tuition and fees revenue is recognized in the terms to which it relates. The summer term is allocated by number of days falling within each fiscal year.

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 position. 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.

Tuition Discount Programs

Student tuition and fee revenues are reduced by tuition discounts awarded to qualifying students. Currently the University offers tuition discounts for participants in the Neighboring States Program and Midwest Student Exchange Program where in-state tuition rates are granted to out-of-state students. The University also offers a graduate tuition reduction to University graduates where undergraduate rates are charged for the first nine graduate hours.

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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 the 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, 2018 and 2017, the Foundation distributed \$122,541 and \$124,090 to the University for both restricted and unrestricted purposes, respectively. During 2018 and 2017, the University transferred \$0 and \$74,084, respectively, of endowment funds to the Foundation for management purposes. During 2017, the University received Soldier's Memorial from the Foundation with a net book value of \$714,335. 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 Foundation's financial information in the University's financial reporting entity for these differences.

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.

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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 or 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, 2018 and 2017, the University's bank balances were \$7,964,020 and \$14,126, respectively. None of these deposits were exposed to custodial credit risk at June 30, 2018 and 2017.

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 and in bank repurchase agreements.

At June 30, 2018 and 2017, the University had the following investments and maturities:

| Type | Fair Value | June 30, 2018 | | | |
|--|----------------------|----------------------|-------------------|-------------|--------------|
| | | Maturities in Years | | | |
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Certificates of deposit | \$ 2,072,000 | \$ 1,125,000 | \$ 947,000 | \$ - | \$ - |
| U.S. Treasury obligations | 9,471,790 | 9,471,790 | - | - | - |
| Money market treasury funds | 1,410,433 | 1,410,433 | - | - | - |
| Government-sponsored enterprises obligations | 7,952,900 | 7,952,900 | - | - | - |
| | <u>\$ 20,907,123</u> | <u>\$ 19,960,123</u> | <u>\$ 947,000</u> | <u>\$ -</u> | <u>\$ -</u> |

| Type | Fair Value | June 30, 2017 | | | |
|--|----------------------|----------------------|---------------------|-------------|--------------|
| | | Maturities in Years | | | |
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Repurchase agreements | \$ 12,097,016 | \$ 12,097,016 | \$ - | \$ - | \$ - |
| Certificates of deposit | 6,632,965 | 5,414,965 | 1,218,000 | - | - |
| U.S. Treasury obligations | 1,498,965 | 1,498,965 | - | - | - |
| Money market treasury funds | 25,426 | 25,426 | - | - | - |
| Government-sponsored enterprises obligations | 4,191,557 | 4,191,557 | - | - | - |
| | <u>\$ 24,445,929</u> | <u>\$ 23,227,929</u> | <u>\$ 1,218,000</u> | <u>\$ -</u> | <u>\$ -</u> |

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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, 2018 and 2017, the University’s investments in government-sponsored enterprises obligations not directly guaranteed by the U.S. government were rated AA+ by Standard & Poor’s 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, 2018 and 2017, 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. At June 30, 2018 and 2017, the University’s investments in government-sponsored enterprises obligations of the following entities constituted the following percentages of total investments:

| | 2018 | 2017 |
|--|-------------|-------------|
| Federal National Mortgage Association (FNMA) | 7% | 0% |
| Federal Home Loan Mortgage Corporation (FHLMC) | 0% | 9% |
| Federal Home Loan Bank (FHLB) | 24% | 2% |
| Federal Farm Credit Bank (FFCB) | 7% | 7% |

Summary of Carrying Values

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

| | 2018 | 2017 |
|----------------|---------------|---------------|
| Carrying value | | |
| Deposits | \$ 7,388,947 | \$ 80,424 |
| Investments | 20,907,123 | 24,445,929 |
| | \$ 28,296,070 | \$ 24,526,353 |

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

| | 2018 | 2017 |
|----------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 7,328,157 | \$ 12,117,242 |
| Short-term investments | 17,918,690 | 9,400,075 |
| Restricted cash equivalents | 1,471,223 | 85,625 |
| Restricted investments | - | 1,368,446 |
| Short-term endowment investments | 631,000 | 336,965 |
| Long-term endowment investments | 947,000 | 1,218,000 |
| | \$ 28,296,070 | \$ 24,526,353 |

Investment Income

Investment income for the years ended June 30, 2018 and 2017, consisted of:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Interest and dividend income | \$ 140,341 | \$ 98,579 |
| Net realized and unrealized losses on investments | 124,381 | 41,901 |
| | \$ 264,722 | \$ 140,480 |

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 no more than 50 percent of the total aggregate endowment fund income related to the grant award. During the years ended June 30, 2018 and 2017, \$0 was transferred out of the endowment fund to the operating fund.

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Note 4: Capital Assets

Capital assets activity for the years ended June 30, 2018 and 2017, were:

| | Beginning Balance | 2018 | | | Ending Balance |
|--------------------------------------|----------------------|---------------------|-------------------|-------------|----------------------|
| | | Additions | Disposals | Transfers | |
| Land | \$ 3,887,991 | \$ 76,293 | \$ 208,117 | \$ - | \$ 3,756,167 |
| Land improvements | 6,562,871 | 641,606 | 295,689 | 65,762 | 6,974,550 |
| Buildings and improvements | 144,365,856 | 2,354,499 | 457,319 | 1,493,589 | 147,756,625 |
| Infrastructure | 4,437,031 | 405,411 | - | 7,500 | 4,849,942 |
| Furniture, fixtures and equipment | 28,737,436 | 580,065 | 478,294 | - | 28,839,207 |
| Library materials | 2,159,117 | 715 | 2,440 | - | 2,157,392 |
| Construction in progress | 1,675,356 | 790,280 | 967 | (1,566,851) | 897,818 |
| | <u>191,825,658</u> | <u>4,848,869</u> | <u>1,442,826</u> | <u>-</u> | <u>195,231,701</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 2,749,238 | 316,608 | 107,896 | - | 2,957,950 |
| Buildings and improvements | 70,391,840 | 3,929,464 | 279,578 | - | 74,041,726 |
| Infrastructure | 4,075,721 | 100,360 | - | - | 4,176,081 |
| Furniture, fixtures and equipment | 24,926,575 | 1,041,715 | 439,861 | - | 25,528,429 |
| Library materials | 2,155,422 | 1,307 | 2,440 | - | 2,154,289 |
| | <u>104,298,796</u> | <u>5,389,454</u> | <u>829,775</u> | <u>-</u> | <u>108,858,475</u> |
| Net capital assets | <u>\$ 87,526,862</u> | <u>\$ (540,585)</u> | <u>\$ 613,051</u> | <u>\$ -</u> | <u>\$ 86,373,226</u> |

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| | Beginning Balance | Additions | 2017 | | Ending Balance |
|--------------------------------------|----------------------|---------------------|-------------------|-------------|----------------------|
| | | | Disposals | Transfers | |
| Land | \$ 3,785,153 | \$ 102,838 | \$ - | \$ - | \$ 3,887,991 |
| Land improvements | 5,775,014 | 885,165 | 326,120 | 228,812 | 6,562,871 |
| Buildings and improvements | 133,123,221 | 6,165,738 | - | 5,076,897 | 144,365,856 |
| Infrastructure | 4,140,518 | 296,513 | - | - | 4,437,031 |
| Furniture, fixtures and equipment | 27,875,134 | 1,202,194 | 344,250 | 4,358 | 28,737,436 |
| Library materials | 2,158,969 | 148 | - | - | 2,159,117 |
| Construction in progress | 5,586,863 | 1,599,924 | 201,364 | (5,310,067) | 1,675,356 |
| | <u>182,444,872</u> | <u>10,252,520</u> | <u>871,734</u> | <u>-</u> | <u>191,825,658</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 2,705,762 | 254,898 | 211,422 | - | 2,749,238 |
| Buildings and improvements | 66,327,816 | 4,064,024 | - | - | 70,391,840 |
| Infrastructure | 3,841,015 | 234,706 | - | - | 4,075,721 |
| Furniture, fixtures and equipment | 24,016,309 | 1,237,062 | 326,796 | - | 24,926,575 |
| Library materials | 2,151,665 | 3,757 | - | - | 2,155,422 |
| | <u>99,042,567</u> | <u>5,794,447</u> | <u>538,218</u> | <u>-</u> | <u>104,298,796</u> |
| Net capital assets | <u>\$ 83,402,305</u> | <u>\$ 4,458,073</u> | <u>\$ 333,516</u> | <u>\$ -</u> | <u>\$ 87,526,862</u> |

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Note 5: Noncurrent Liabilities

The following is a summary of noncurrent obligation transactions for the University for the years ended June 30, 2018 and 2017:

| | Beginning Balance | 2018 | | Ending Balance | Current Portion |
|--|----------------------|---------------------|---------------------|----------------------|---------------------|
| | | Additions | Deductions | | |
| Long-term debt | | | | | |
| Revenue bonds payable | | | | | |
| Series 2007 | \$ 17,140,000 | \$ - | \$ 525,000 | \$ 16,615,000 | \$ 550,000 |
| Series 2015A | 2,374,871 | - | 651,836 | 1,723,035 | 733,194 |
| Series 2015B | 2,248,712 | - | 112,365 | 2,136,347 | 45,107 |
| Series 2017 | 2,480,563 | - | 265,026 | 2,215,537 | 243,161 |
| Loan payable - DNR | | | | | |
| Energize MO | 1,415,065 | - | 177,703 | 1,237,362 | 181,275 |
| Reoffering premium | 29,679 | - | 1,484 | 28,195 | - |
| Total long-term debt | <u>25,688,890</u> | <u>-</u> | <u>1,733,414</u> | <u>23,955,476</u> | <u>1,752,737</u> |
| Other noncurrent liabilities | | | | | |
| Accrued compensated absences | 1,225,493 | 571,268 | 617,045 | 1,179,716 | 613,452 |
| Deposits held in custody for others | 49,045 | 2,750 | 5,800 | 45,995 | - |
| Total other postemployment benefits liability | 827,125 | 28,658 | 63,679 | 792,104 | - |
| Net pension liability | <u>38,177,503</u> | <u>7,181,401</u> | <u>2,734,246</u> | <u>42,624,658</u> | <u>-</u> |
| Total other noncurrent liabilities | <u>40,279,166</u> | <u>7,784,077</u> | <u>3,420,770</u> | <u>44,642,473</u> | <u>613,452</u> |
| Total noncurrent liabilities | <u>\$ 65,968,056</u> | <u>\$ 7,784,077</u> | <u>\$ 5,154,184</u> | <u>\$ 68,597,949</u> | <u>\$ 2,366,189</u> |

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| | Beginning Balance | 2017 | | Ending Balance | Current Portion |
|--|----------------------|----------------------|---------------------|----------------------|---------------------|
| | | Additions | Deductions | | |
| Long-term debt | | | | | |
| Revenue bonds payable | | | | | |
| Series 2007 | \$ 17,645,000 | \$ - | \$ 505,000 | \$ 17,140,000 | \$ 525,000 |
| Series 2015A | 3,020,410 | - | 645,539 | 2,374,871 | 651,836 |
| Series 2015B | 2,366,632 | - | 117,920 | 2,248,712 | 112,365 |
| Series 2017 | - | 2,500,000 | 19,437 | 2,480,563 | 240,798 |
| Loan Payable - DNR | | | | | |
| Energize MO | 1,589,266 | - | 174,201 | 1,415,065 | 177,703 |
| Reoffering premium | 31,163 | - | 1,484 | 29,679 | - |
| Total long-term debt | <u>24,652,471</u> | <u>2,500,000</u> | <u>1,463,581</u> | <u>25,688,890</u> | <u>1,707,702</u> |
| Other noncurrent liabilities | | | | | |
| Accrued compensated absences | 1,353,886 | 691,858 | 820,251 | 1,225,493 | 821,080 |
| Deposits held in custody for others | 94,769 | 8,191 | 53,915 | 49,045 | - |
| Postemployment benefit obligation | 71,854 | 42,647 | 51,352 | 63,149 | 51,352 |
| Net pension liability | <u>27,798,365</u> | <u>13,082,126</u> | <u>2,702,988</u> | <u>38,177,503</u> | <u>-</u> |
| Total other noncurrent liabilities | <u>29,318,874</u> | <u>13,824,822</u> | <u>3,628,506</u> | <u>39,515,190</u> | <u>872,432</u> |
| Total noncurrent liabilities | <u>\$ 53,971,345</u> | <u>\$ 16,324,822</u> | <u>\$ 5,092,087</u> | <u>\$ 65,204,080</u> | <u>\$ 2,580,134</u> |

Revenue Bonds Payable

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 percent to 5.125 percent beginning December 1, 2007. Principal maturities began June 1, 2009, and continue until 2037. Proceeds from issuance of 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 percent of principal plus accrued interest to the redemption date.

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On November 20, 2015, the University issued \$3,610,582 of Auxiliary System Refunding Revenue Bonds, Series 2015A and \$2,513,530 of Auxiliary System Revenue Bonds, Series 2015B. The Series 2015A and 2015B bonds bear interest, payable semiannually, at rates of 1.94 percent and 2.56 percent, respectively, beginning June 1, 2016. Principal maturities begin June 1, 2016, and continue until 2025. Proceeds from the issuance of the Series 2015A bonds were used to pay the costs of refunding the Auxiliary System Revenue Bonds, Series 2005, and to pay certain costs of issuance related to the Series 2015A bond issue. Proceeds from the issuance of the Series 2015B bonds were used to provide funds to pay costs associated with the renovation of Martin Hall and to pay certain costs of issuance related to the Series 2015B bond issue. The Martin Hall renovation costs are paid by the University and then the University is reimbursed by disbursement of the bond proceeds.

On February 15, 2017, the University issued \$2,500,000 of Athletic System Revenue Bonds, Series 2017. The Series 2017 bonds bear interest, payable quarterly, at a rate of 3.25 percent, beginning June 1, 2017. Principal maturities begin March 1, 2018, and continue until 2027. Proceeds from the issuance of the Series 2017 bonds were used to provide funds to pay costs associated with the improvement of certain athletic facilities and to pay certain costs of issuance related to the Series 2017 bond issue. The athletic facilities include Dwight T. Reed Stadium and Annex and the basement level of the LINC Recreation and Wellness Center. The athletic facilities improvement costs are paid by the University, and then the University is reimbursed by disbursement from the bond proceeds. As of June 30, 2017, the total bond proceeds disbursed to the University were \$267,448. The balance of \$2,232,552 is recorded as bond proceeds receivable at June 30, 2017. As of June 30, 2018, the total bond proceeds had been disbursed to the University.

The revenue bond issues, payable from and secured by net revenues of the Auxiliary Activity Fund, require the University to establish and fund Debt Service Reserve Funds and maintain a Debt Service Coverage Ratio of 1.15.

The revenue bond issues, payable from and secured by net revenues of the Athletic Facilities, require the University to establish and fund a Debt Service Reserve Fund and maintain a Debt Service Coverage Ratio of 1.00.

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The debt service requirements as of June 30, 2018, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|---------------------------------|-----------------------------|----------------------|----------------------|
| 2019 | \$ 2,567,121 | \$ 1,571,462 | \$ 995,659 |
| 2020 | 2,561,264 | 1,613,893 | 947,371 |
| 2021 | 2,380,248 | 1,483,365 | 896,883 |
| 2022 | 2,141,681 | 1,296,167 | 845,514 |
| 2023 | 2,130,456 | 1,333,603 | 796,853 |
| 2024 - 2028 | 8,812,099 | 5,606,429 | 3,205,670 |
| 2029 - 2033 | 6,925,525 | 4,895,000 | 2,030,525 |
| 2034 - 2037 | 5,531,906 | 4,890,000 | 641,906 |
| | <u>\$ 33,050,300</u> | <u>\$ 22,689,919</u> | <u>\$ 10,360,381</u> |

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 \$1,863,000 bearing interest at 2 percent. The proceeds of the loan were used to implement the Energy Conservation Measures as designated by the MDNR and payments began in June 2015. The loan requires semiannual payments equal to one-half of the annual energy savings until paid in full. During 2015, the final loan amount was reduced to \$1,857,912 due to the return of excess proceeds in the amount of \$5,088. The semiannual principal and interest payments, in the amount of \$102,560, are due June 1 and November 1.

The debt service requirements of the loan as of June 30, 2018, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|---------------------------------|-----------------------------|---------------------|------------------|
| 2019 | \$ 205,120 | \$ 181,275 | \$ 23,845 |
| 2020 | 205,120 | 184,918 | 20,202 |
| 2021 | 205,120 | 188,635 | 16,485 |
| 2022 | 205,120 | 192,427 | 12,693 |
| 2023 | 205,120 | 196,294 | 8,826 |
| 2024 - 2025 | 299,629 | 293,813 | 5,816 |
| | <u>\$ 1,325,229</u> | <u>\$ 1,237,362</u> | <u>\$ 87,867</u> |

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Note 6: Pension Plans

MOSERS

Plan Description

The Missouri State Employees' Plan (MSEP) is a cost-sharing multiple-employer, defined benefit public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000, which are administered by the Missouri State Employees' Retirement System (MOSERS or the "System") in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the System are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo. Responsibility for the operation and administration of the System is vested in the 11-member MOSERS Board of Trustees as defined by state law. Due to the nature of MOSERS' reliance on funding from the state of Missouri and other state government agencies and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Generally, all full-time state employees hired before July 2000, who were not covered under another state-sponsored retirement plan, are eligible for membership in the MSEP (closed plan). Full-time state employees hired after July 2000, and before January 2011, are eligible for membership in the MSEP 2000. Employees hired for the first time on or after January 2011 are eligible for membership in the MSEP 2011 tier of the MSEP 2000. The MSEP provides retirement, survivor and disability benefits. MOSERS issues an annual Comprehensive Annual Financial Reporting (CAFR), a publicly available financial report that can be obtained at www.mosers.org.

Benefits Provided

MOSERS provides retirement, disability and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific funding structure in which the employee participates, which is based on the employee's hire date. Information on the three funding structures administered by MOSERS (MSEP, MSEP 2000 and MSEP 2011) and how eligibility and the benefit amount is determined for each funding structure may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 28.

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Contributions

Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. No employee contribution is required for the MSEP and MSEP 2000 plans. Employees in the MSEP 2011 plan are required to contribute 4.00 percent of their annual pay. The University's required contribution rate for all plans for the year ended June 30, 2018, was 19.45 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution rate for the MOSERS plan years ended June 30, 2017 and 2016, was 16.97 percent, which are the years of measurement for the net pension liability. Contributions to the pension plan from the University were \$2,811,886 and \$2,734,246 for the years ended June 30, 2018 and 2017, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the University reported a liability of \$42,624,658 and \$38,177,503, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

The University's proportion of the net pension liability was based on the University's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2017 and 2016. At June 30, 2017, the University's proportion was 0.8186 percent, which was a decrease of 0.0038 percent from its proportion measured as of June 30, 2016. At June 30, 2016, the University's proportion was 0.8224 percent, which was a decrease of 0.0436 percent from its proportion measured as of June 30, 2015.

During the MOSERS plan year ended June 30, 2017, the vesting requirements were changed for the MSEP 2011 plan from 10 years of credited service to 5 years for members employed on or after January 1, 2018. There were no other changes in benefit terms during the MOSERS plan year ended June 30, 2017, that affected the measurement of total pension liability. There were no changes in benefit terms during the MOSERS plan year ended June 30, 2016, that affected the measurement of total pension liability.

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For the years ended June 30, 2018 and 2017, the University recognized pension expense of \$7,020,428 and \$5,580,354, respectively. At June 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2018 | |
|---|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 236,145 | \$ 671,320 |
| Changes of assumptions | 3,740,260 | 106,979 |
| Net difference between projected and actual earning on pension plan investments | 7,140,283 | - |
| Changes in University proportion and differences between the University's contributions and the University proportionate share of contributions | 144,369 | 711,344 |
| University's contributions subsequent to the measurement date | <u>2,811,886</u> | <u>-</u> |
| Total | <u><u>\$ 14,072,943</u></u> | <u><u>\$ 1,489,643</u></u> |
| | 2017 | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 393,189 | \$ 111,544 |
| Changes of assumptions | 3,975,020 | 229,474 |
| Net difference between projected and actual earning on pension plan investments | 6,237,818 | - |
| Changes in University proportion and differences between the University's contributions and the University proportionate share of contributions | 308,236 | 962,804 |
| University's contributions subsequent to the measurement date | <u>2,734,246</u> | <u>-</u> |
| Total | <u><u>\$ 13,648,509</u></u> | <u><u>\$ 1,303,822</u></u> |

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At June 30, 2018 and 2017, the University reported \$2,811,886 and \$2,734,246, respectively, as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018 and 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30,</u> | <u>Amount Recognized</u> |
|-----------------------------|------------------------------|
| 2019 | \$ 3,158,453 |
| 2020 | 4,321,755 |
| 2021 | 1,748,671 |
| 2022 | <u>542,535</u> |
| | <u><u>\$ 9,771,414</u></u> |

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.50% |
| Salary increases | 3.25% to 8.75% including inflation |
| Wage inflation | 3.00% |
| Investment rate of return | 2017: 7.50%, compounded annually, net after investment expenses and including inflation 2016: 7.65%, compounded annually, net after investment expenses and including inflation |

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2015. In addition, the MOSERS Board reaffirmed its previous decision to reduce the investment return assumption from 7.65 percent to 7.50 percent for the June 30, 2017, valuation. There were no other changes in assumptions.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2015. As a result of this actuarial experience study, the MOSERS Board made various demographic and economic assumption changes to more closely reflect actual experience. The most significant changes included lowering the assumed annual investment rate of return from 8.00 percent to 7.65 percent and the adoption of the above mortality tables. The changes in assumptions recorded as deferred inflows and outflows of resources were due to these changes from the actuarial experience study.

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Mortality rates used in the June 30, 2017 and 2016, actuarial valuations for post-retirement mortality are based on the RP-2014 Healthy Annuitant mortality table, projected to 2026 with Scale MP-2015 and scaled by 120 percent. The pre-retirement mortality table used is the RP-2014 Employee mortality table, projected to 2026 with Scale MP-2015 and scaled by 95 percent for males and 90 percent for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2017, are summarized in the following table:

| Asset Class | Policy Allocation | Long-Term Expected Real Rate of Return* | Weighted Average Long-Term Expected Real Rate of Return |
|-----------------------------|--------------------------|--|--|
| Opportunistic global equity | 38.00% | 5.50% | 2.10% |
| Nominal bonds | 44.00% | 1.00% | 0.50% |
| Commodities | 20.00% | 4.50% | 0.90% |
| Inflation-linked bonds | 39.00% | 0.80% | 0.30% |
| Alternative beta | 31.00% | 4.50% | 1.40% |
| | <u>172.00%</u> | | <u>5.20%</u> |

*Represent best estimates of geometric rates of return for each major asset class included

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Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2016, are summarized in the following table:

| Asset Class | Policy Allocation | Long-Term Expected Real Rate of Return* | Weighted Average Long-Term Expected Real Rate of Return |
|--------------------|--------------------------|--|--|
| Beta Balanced | 80.00% | 5.70% | 4.60% |
| Illiquids** | 20.00% | 7.30% | 1.50% |
| | <u>100.00%</u> | | <u>6.10%</u> |

* Represent best estimates of geometric rates of return for each major asset class included

** Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent and 7.65 percent at June 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|----------------------------|--------------------------------------|----------------------------|
| University's proportionate share of the net pension liability | \$ 54,880,220 | \$ 42,624,658 | \$ 32,316,228 |

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Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MOSERS financial report.

Payable to the Pension Plan

At June 30, 2018 and 2017, the University reported a payable of \$13,350 and \$7,685, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2018 and 2017, respectively.

CURP

Beginning July 1, 2002, in accordance with Section 104.1200 through 104.1215 of the Revised Statutes of Missouri, employees hired who meet the criteria of an "education employee" participate in the College and University Retirement Plan (CURP). It is a noncontributory 401(a) defined contribution plan for education employees at regional colleges/universities in Missouri. The MOSERS has been given the responsibility by law to implement and oversee the administration of the plan. The TIAA-CREF group of companies is the third-party administrator for the CURP and manages the investment options under the plan. Contributions made by the University are self-directed by participants into their selected individual accounts. By law, the CURP contribution rate is equal to 1 percent less than the normal cost contribution rate of the Missouri State Employees' Plan 2000 (MSEP 2000). 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 6.19 percent and 5.67 percent of annual covered payroll for 2018 and 2017, respectively. The University's contributions to the plan for the years ended June 30, 2018 and 2017, were \$221,028 and \$267,109, respectively, which equaled the required contributions for each year.

Note 7: Other Postemployment Benefit Plan

Plan Description

In addition to the pension benefits described in *Note 6*, the University provides health care benefits, through a commercial insurance carrier, to certain retirees (the OPEB Plan). The plan is a single-employer defined benefit OPEB plan. The Lincoln University Board of Curators, which is appointed by the Governor with the approval of the State Legislature, has the authority to establish and amend benefit provisions of the plan. The OPEB Plan's assets are not accumulated in trust.

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The plan is operated as a fully insured arrangement. For retiree plan participants that have obtained professor emeritus status and retired July 1, 2008, and prior, the University pays the full amount of the health and prescription drug insurance premium for the lifetime of the retiree. To be eligible for professor emeritus status an employee must have 1) held the rank of full professor, have served the University for at least 20 years and have made a major, positive impact on the growth, development and/or image of the University; or 2) held the rank of associate professor, have served the University for at least 30 years and have made a major, positive impact on the growth, development and/or image of the University.

Retiree plan participants that have not obtained professor emeritus status are required to contribute the entire amount of the monthly premium to the plan. The University charges pre-65 retirees, that do not have professor emeritus status, a higher premium than active employees to more closely reflect market value. The factor applied to the premium rates for pre-65 retirees is based on the State of Missouri Health System's pre-65 retiree group rate relative to its active employee rate. Medicare eligible retirees without professor emeritus status are referred for enrollment in Medicare supplement insurance independent of the University's plan.

Benefits Provided

The OPEB Plan provides medical and prescription drug premium benefits to professor emeritus retirees. Benefits are provided through a third-party insurer. The current prescription drug premiums range from \$83.30 to \$94.50 per month. The current Medicare Supplement premiums, which are Issue-Age rated, range from \$153.72 to \$282.75 per month. In addition, two retirees receive \$5,000 of life insurance coverage through the University's group plan. The University's group rate is 40 cents per thousand per month. The age-banded rate for those 75 and older is assumed to be \$9.19 per thousand per month.

The employees covered by the benefit terms at June 30, 2018 and 2017, are:

| | 2018 | 2017 |
|---|-------------|-------------|
| Professor emeritus retirees receiving health and prescription drug coverage | 17 | 17 |
| Retirees receiving group life insurance coverage | 2 | 2 |
| | 19 | 19 |

GASB 75 Disclosures (2018)

Total OPEB Liability

The University's total OPEB liability of \$792,104 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

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The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

| | |
|------------------------------|--|
| Discount rate | 3.30% (prior year 3.35%) |
| Health care cost trend rates | 5.00% per year for Medicare Supplement coverage; 10.00% for 2018, decrease 1% per year to an ultimate rate of 6% for 2022 and later years for prescription drug coverage |

The discount rate used for the plan was the 20-year, tax-exempt municipal bond rate as there are no assets in the plan. The rate was determined by taking the average of the published yields from the S&P Municipal Bond 20 Year High Grade and the Fidelity GO AA-20 Years indexes.

Mortality rates were based on the RPH-2014 Adjusted to 2006 White Collar Headcount-weighted Mortality table with MP-2017 Full Generational Improvement.

The actuarial assumptions used in the June 30, 2018, valuation were based on the ongoing actuarial analysis.

Changes in Total OPEB Liability

Changes in total OPEB liability are:

| | |
|-----------------------------------|--------------------------|
| Balance at July 1, 2017 | \$ 827,125 |
| Interest | 26,642 |
| Changes in assumptions and inputs | 2,016 |
| Benefit payments | <u>(63,679)</u> |
| Net changes | <u>(35,021)</u> |
| Balance at June 30, 2018 | <u><u>\$ 792,104</u></u> |

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Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The total OPEB liability of the University has been calculated using a discount rate of 3.30 percent. The following presents the total OPEB liability using a discount rate 1 percent higher and 1 percent lower than the current discount rate.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|-----------------------------------|--------------------|----------------------------------|--------------------|
| University's total OPEB liability | \$ 858,437 | \$ 792,104 | \$ 734,202 |

The total OPEB liability of the University has been calculated using health care cost trend rates of 5.00 percent to 10 percent. The following presents the total OPEB liability using health care cost trend rates 1 percent higher and 1 percent lower than the current health care cost trend rates.

| | 1% Decrease | Current Health Care Cost Trend Rates | 1% Increase |
|-----------------------------------|--------------------|---|--------------------|
| University's total OPEB liability | \$ 738,619 | \$ 792,104 | \$ 851,976 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the University recognized OPEB expense of \$28,658. At June 30, 2018, the University did not report deferred outflows of resources or deferred inflows of resources related to OPEB, as the average expected service life of current retirees is zero.

GASB 45 Disclosures (2017)

Funding Policy

The contribution requirements of plan members and the University are established and may be amended by the Lincoln University Board of Curators. The required contribution is based on projected pay-as-you-go financing requirements. All participating retirees, except professors who have obtained emeritus status, are required to contribute the entire amount of the monthly premium to the plan. Premiums are determined annually on a pooled basis for the University's healthcare plan. For the year ended June 30, 2017, the University contributed \$51,352, to the plan for premiums of 18 professor emeritus retirees. There were 17 professor emeritus retirees covered by the plan at June 30, 2017. The University's contributions represented 100 percent of total 2017 premiums. During the years ended June 30, 2017, the University did not have any retirees in the pre-65 health insurance plan.

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Annual OPEB Cost and Net OPEB Obligation

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 No. 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:

| | |
|--|---------------|
| Annual required contribution | \$ 43,907 |
| Interest on net OPEB obligation | 2,515 |
| Adjustment to the annual required contribution | (3,775) |
| Annual OPEB expense | 42,647 |
| Employer contributions made | 51,352 |
| Decrease in net OPEB obligation | (8,705) |
| Net OPEB obligation at June 30, 2016 | 71,854 |
| Net OPEB obligation at June 30, 2017 | \$ 63,149 |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2017 and the two preceding years were as follows:

| Fiscal Year End | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------------|---------------------------------|---|--------------------------------|
| June 30, 2015 | \$ 49,000 | 120.1% | \$ 87,159 |
| June 30, 2016 | \$ 42,379 | 136.1% | \$ 71,854 |
| June 30, 2017 | \$ 42,647 | 120.4% | \$ 63,149 |

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Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

| | | |
|--|-------------------|-------------|
| Actuarial accrued liability for benefits | \$ 807,535 | |
| Actuarial value of assets | - | - |
| Total unfunded actuarial accrued liability (UAAL) | \$ 807,535 | 807,535 |
| Funded ratio | | 0.0% |
| Annual covered payroll | \$ 20,454,877 | |
| Ratio of unfunded actuarial accrued liability to covered payroll | | 3.9% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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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 | 3.5% |
| Healthcare cost trend rate | Increase 5% per year for Medicare Supplement; Increase 8% per year for prescription |

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, 2018 and 2017, there was no accrual recorded in the statements of net position.

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.

Labor Agreement

On August 13, 2018, the Lincoln University Board of Curators signed a collective bargaining agreement with LUMNEA/MNEA (Missouri National Education Association) which covers tenured and tenured-track academic faculty whose academic appointment is 0.75 FTE or higher excluding supervisory, managerial, and confidential employees. This agreement is in effect through December 31, 2020, and thereafter until the parties agree on a successor agreement or reach impasse. This represents 17 percent of the University's employees.

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Note 9: 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 10: Natural Classifications with Functional Classifications

For the years ended June 30, 2018 and 2017, the following tables represent operating expenses with both natural and functional classifications:

| | Compensation and Benefits | Contractual Services | Travel | 2018 Supplies and Materials | Utilities | Communications and Other | Total |
|---|--------------------------------------|---------------------------------|---------------------|--|---------------------|-------------------------------------|----------------------|
| Instruction | \$ 11,475,590 | \$ 344,372 | \$ 114,076 | \$ 123,573 | \$ 296 | \$ 214,345 | \$ 12,272,252 |
| Research | 2,739,499 | 510,761 | 88,682 | 307,328 | 147,711 | 119,900 | 3,913,881 |
| Community service | 3,733,313 | 460,909 | 239,639 | 99,647 | 103,843 | 211,341 | 4,848,692 |
| Academic support | 2,064,062 | 266,581 | 45,305 | 37,981 | 296 | 186,780 | 2,601,005 |
| Student services | 4,939,251 | 685,920 | 495,706 | 384,490 | - | 439,153 | 6,944,520 |
| Institutional support | 6,191,439 | 4,170,186 | 177,569 | 162,456 | 172,136 | 348,777 | 11,222,563 |
| Operations and maintenance of plant | 252,826 | 2,443,507 | (356) | 209,924 | 1,485,689 | 6,240 | 4,397,830 |
| Scholarships and fellowships | - | - | - | - | - | - | 146,770 |
| Depreciation and amortization | - | - | - | - | - | - | 5,409,988 |
| | <u>\$ 31,395,980</u> | <u>\$ 8,882,236</u> | <u>\$ 1,160,621</u> | <u>\$ 1,325,399</u> | <u>\$ 1,909,971</u> | <u>\$ 1,526,536</u> | <u>\$ 51,757,501</u> |

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2018 and 2017

| | Compensation and Benefits | Contractual Services | Travel | 2017 Supplies and Materials | Utilities | Communications and Other | Total |
|---|--------------------------------------|---------------------------------|---------------------|--|---------------------|-------------------------------------|----------------------|
| Instruction | \$ 12,322,781 | \$ 397,083 | \$ 205,138 | \$ 165,125 | \$ 337 | \$ 224,891 | \$ 13,315,355 |
| Research | 2,948,302 | 620,760 | 117,224 | 227,232 | 145,078 | 467,596 | 4,526,192 |
| Community service | 4,722,806 | 473,852 | 302,931 | 129,472 | 97,070 | 188,639 | 5,914,770 |
| Academic support | 2,101,486 | 310,788 | 66,903 | 70,731 | 2,819 | 220,095 | 2,772,822 |
| Student services | 5,022,408 | 1,062,178 | 671,538 | 398,600 | 718 | 461,882 | 7,617,324 |
| Institutional support | 6,027,441 | 3,485,729 | 237,166 | 118,183 | 160,416 | 554,298 | 10,583,233 |
| Operations and maintenance of plant | 261,072 | 2,392,508 | (709) | 354,169 | 1,316,087 | 4,798 | 4,327,925 |
| Scholarships and fellowships | - | - | - | - | - | - | 153,224 |
| Depreciation and amortization | - | - | - | - | - | - | 5,814,983 |
| | <u>\$ 33,406,296</u> | <u>\$ 8,742,898</u> | <u>\$ 1,600,191</u> | <u>\$ 1,463,512</u> | <u>\$ 1,722,525</u> | <u>\$ 2,122,199</u> | <u>\$ 55,025,828</u> |

Note 11: Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

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June 30, 2018 and 2017

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

| Description | 2018 | | | |
|--|----------------------|----------------------|---------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Money market treasury funds | \$ 1,410,433 | \$ 1,410,433 | \$ - | \$ - |
| U.S. Treasury obligations | 9,471,790 | 9,471,790 | - | - |
| Government-sponsored enterprises obligations | <u>7,952,900</u> | <u>-</u> | <u>7,952,900</u> | <u>-</u> |
| Total investments measured at fair value | <u>\$ 18,835,123</u> | <u>\$ 10,882,223</u> | <u>\$ 7,952,900</u> | <u>\$ -</u> |

| Description | 2017 | | | |
|--|---------------------|---------------------|---------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Money market treasury funds | \$ 25,426 | \$ 25,426 | \$ - | \$ - |
| U.S. Treasury Obligations | 1,498,965 | 1,498,965 | - | - |
| Government-sponsored enterprises obligations | <u>4,191,557</u> | <u>-</u> | <u>4,191,557</u> | <u>-</u> |
| Total investments measured at fair value | <u>\$ 5,715,948</u> | <u>\$ 1,524,391</u> | <u>\$ 4,191,557</u> | <u>\$ -</u> |

Note 12: Lincoln University Foundation, Inc.

Financial Statements

The financial statements of Lincoln University Foundation, Inc. are presented in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of position, a statement of activities and a statement of cash flows.

Lincoln University
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Notes to Financial Statements
June 30, 2018 and 2017

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. Contributions receivable at June 30 were as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| Total pledged contributions receivable | \$ 121,046 | \$ 116,565 |
| Discount on long-term pledged contributions receivable | (3,819) | (4,280) |
| Net pledged contributions receivable | 117,227 | 112,285 |
| Current pledged contributions receivable | (61,046) | (15,565) |
| Long-term pledged contributions receivable | \$ 56,181 | \$ 96,720 |

Under FASB ASC, 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, 2018 and 2017, with an estimated value of \$157,810 and \$190,471, respectively.

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.

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Notes to Financial Statements
June 30, 2018 and 2017

The aggregate amount of investments summarized by major type at June 30, 2018 and 2017, was as follows:

| | 2018 | |
|-------------------------|---------------------|---------------------|
| | Cost | Fair Value |
| Fixed income securities | \$ 1,748,210 | \$ 1,709,572 |
| Equity securities | 5,182,311 | 7,315,024 |
| Real asset mutual funds | 407,304 | 396,122 |
| | <hr/> | <hr/> |
| Total investments | <u>\$ 7,337,825</u> | <u>\$ 9,420,718</u> |
| | | |
| | 2017 | |
| | Cost | Fair Value |
| Fixed income securities | \$ 1,699,725 | \$ 1,706,141 |
| Equity securities | 5,107,119 | 6,591,565 |
| | 384,998 | 382,561 |
| | <hr/> | <hr/> |
| Total investments | <u>\$ 7,191,842</u> | <u>\$ 8,680,267</u> |

Investment return consisted of the following for the years ended June 30, 2018 and 2017:

| | 2018 | 2017 |
|-----------------------------|-------------------|---------------------|
| Dividends and interest | \$ 266,359 | \$ 215,291 |
| Realized gains and losses | 12,253 | (25,881) |
| Unrealized gains and losses | 594,467 | 847,751 |
| | <hr/> | <hr/> |
| Total investment return | <u>\$ 873,079</u> | <u>\$ 1,037,161</u> |

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2018 and 2017

Note Payable

On July 15, 2015, the Foundation signed a promissory note in the amount of \$248,629. The note payable bears interest at a variable rate with quarterly interest payments due beginning on October 15, 2015, and with any remaining accrued interest and principal due in full on the date of maturity, July 15, 2016. The note, with the most recent extension dated June 27, 2018, has been extended with similar terms to July 15, 2019. The note balance was \$198,629 and \$228,629 at June 30, 2018 and 2017, respectively. Interest expense totaled \$7,045 and \$9,079 for the years ended June 30, 2018 and 2017, respectively.

Restrictions on Net Assets

Donors may restrict their contributions through the use of a Memorandum of Understanding (MOU) which accompanies their donation when their fund is established. Funds may be either permanently or temporarily restricted. Permanently restricted funds require maintenance of corpus, with earnings available as defined on the funds' MOU. Temporarily restricted funds allow for some portion of the donation, as well as earnings, to be spent.

The Foundation classifies its funds into four categories, as follows:

- Permanently Restricted Endowment Activity
- Temporarily Restricted Activity-Scholarship Funds
- Temporarily Restricted Activity-Special Purpose Funds
- Temporarily Restricted Activity-Term Endowment Funds

Permanently Restricted Endowment Activity includes those donor funds where the MOU requires maintenance of corpus. The MOUs allow for allocation of management fee from these funds, and define how investment earnings are to be allocated among the corpus or temporarily restricted components. Scholarships and expenses may be paid from the temporarily restricted balance of these funds. The Foundation calculates the required corpus each year, based on the activity within each fund and adjusts between permanently restricted and permanently restricted net assets the amount needed to report the permanently restricted net assets equal to the required corpus as of the year ended.

Temporarily restricted Scholarship and Special Purpose Funds are also defined by the respective MOU for the fund. The primary difference between these funds is that the scholarship funds are used primarily for scholarships, and the special purpose funds are used for a number of other types of activities (radio station, athletic programs, academic programs and maintenance needs, to name a few).

Temporarily restricted term endowment funds are used primarily for scholarships, and are different from permanently restricted endowment funds in that the corpus is not permanently restricted and can be used to provide benefits.

Lincoln University
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Notes to Financial Statements
June 30, 2018 and 2017

The total of temporarily restricted nonendowment funds is as follows at June 30, 2018 and 2017:

| | 2018 | 2017 |
|-----------------------|--------------|--------------|
| Scholarship funds | \$ 394,517 | \$ 390,022 |
| Special purpose funds | 507,161 | 424,059 |
| Term endowment funds | 955,322 | 952,821 |
| | \$ 1,857,000 | \$ 1,766,902 |

Endowment Funds

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

| | | 2018 | | | |
|------------------|-----------------|---------------------|-------------------------------|-------------------------------|--------------|
| | | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | | | | | |
| Donor-restricted | endowment funds | \$ - | \$ 3,446,663 | \$ 4,748,889 | \$ 8,195,552 |
| | | \$ - | \$ 3,446,663 | \$ 4,748,889 | \$ 8,195,552 |
| | | \$ - | \$ 3,446,663 | \$ 4,748,889 | \$ 8,195,552 |
| | | 2017 | | | |
| | | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | | | | | |
| Donor-restricted | endowment funds | \$ - | \$ 3,018,672 | \$ 4,589,488 | \$ 7,608,160 |
| | | \$ - | \$ 3,018,672 | \$ 4,589,488 | \$ 7,608,160 |
| | | \$ - | \$ 3,018,672 | \$ 4,589,488 | \$ 7,608,160 |

Lincoln University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2018 and 2017

Fair Value of Assets

For assets and liabilities required to be reported at fair value, FASB ASC 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 Level 1 and Level 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy as prescribed by FASB ASC 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.

Lincoln University
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Notes to Financial Statements
June 30, 2018 and 2017

The Foundation's assets measured at fair value on a recurring basis as of June 30, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall, were as follows:

| Description | 2018 | | | |
|---------------------------|---------------------|---------------------|-------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| State and municipal bonds | \$ 106,128 | \$ - | \$ 106,128 | \$ - |
| Fixed income mutual funds | 1,603,444 | 1,603,444 | - | - |
| Real asset mutual funds | 396,122 | 396,122 | - | - |
| Equity mutual funds | | | | |
| Growth funds | 2,310,137 | 2,310,137 | - | - |
| Mid-cap blend funds | 914,327 | 914,327 | - | - |
| Value funds | 1,024,585 | 1,024,585 | - | - |
| Index funds | 1,040,030 | 1,040,030 | - | - |
| International funds | 1,383,394 | 1,383,394 | - | - |
| Emerging markets funds | 642,551 | 642,551 | - | - |
| Total equity mutual funds | <u>7,315,024</u> | <u>7,315,024</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$ 9,420,718</u> | <u>\$ 9,314,590</u> | <u>\$ 106,128</u> | <u>\$ -</u> |

| Description | 2017 | | | |
|---------------------------|---------------------|---------------------|-------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| State and municipal bonds | \$ 108,171 | \$ - | \$ 108,171 | \$ - |
| Fixed income mutual funds | 1,597,970 | 1,597,970 | - | - |
| Real asset mutual funds | 382,561 | 382,561 | - | - |
| Equity mutual funds | | | | |
| Growth funds | 1,959,298 | 1,959,298 | - | - |
| Mid-cap blend funds | 811,784 | 811,784 | - | - |
| Value funds | 976,304 | 976,304 | - | - |
| Index funds | 976,274 | 976,274 | - | - |
| International funds | 1,361,069 | 1,361,069 | - | - |
| Emerging markets funds | 506,836 | 506,836 | - | - |
| Total equity mutual funds | <u>6,591,565</u> | <u>6,591,565</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$ 8,680,267</u> | <u>\$ 8,572,096</u> | <u>\$ 108,171</u> | <u>\$ -</u> |

Note 13: Subsequent Events

Subsequent events have been evaluated through October 30, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

Lincoln University
A Component Unit of the State of Missouri
Required Supplementary Information
Schedule of the University's Proportionate Share of the Net Pension Liability
Missouri State Employees' Retirement System
Last Four Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 |
|---|---------------|---------------|--------------|--------------|
| University's proportion of the net pension liability | 0.8186% | 0.8224% | 0.8660% | 0.8448% |
| University's proportionate share of the net pension liability | \$ 42,624,658 | \$ 38,177,503 | \$27,798,365 | \$19,918,271 |
| University's covered-employee payroll | \$ 16,112,220 | \$ 15,928,030 | \$16,754,310 | \$15,852,748 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 264.55% | 239.69% | 165.92% | 125.65% |
| Plan fiduciary net position as a percentage of the total pension liability | 60.41% | 63.60% | 72.62% | 79.49% |

*The amounts presented for each fiscal year were determined as of the end of the preceding fiscal year.

This schedule presents the information available to the University and will include ten-year trend information once available.

Lincoln University
A Component Unit of the State of Missouri
Required Supplementary Information
Schedule of University Pension Contributions
Missouri State Employees' Retirement System
Last Five Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 2,811,886 | \$ 2,734,246 | \$ 2,702,988 | \$ 2,843,875 | \$ 2,757,130 |
| Contributions in relation to the contractually required contribution | <u>2,811,886</u> | <u>2,734,246</u> | <u>2,702,988</u> | <u>2,843,875</u> | <u>2,757,130</u> |
| Contribution deficiency | <u>\$ -</u> |
| University's covered-employee payroll | \$ 14,456,872 | \$ 16,112,220 | \$ 15,928,030 | \$ 16,754,310 | \$ 15,852,748 |
| Contributions as a percentage of covered-employee payroll | 19.45% | 16.97% | 16.97% | 16.97% | 17.39% |

This schedule presents the information available to the University and will include ten-year trend information once available.

Notes to Schedule:

Benefit Changes

During the MOSERS plan year ended June 30, 2017, the vesting requirements were changed for the MSEP 2011 plan from 10 years of credited service to 5 years for members employed on or after January 1, 2018. There were no other changes in benefit terms during the MOSERS plan year ended June 30, 2017, that affected the measurement of total pension liability.

There were no changes to benefit terms for MOSERS for the other years presented above.

Changes of Assumptions

The assumed investment rate of return was reduced from 7.65 percent to 7.50 percent for the June 30, 2017, valuation. There were no other changes in actuarial assumptions for the June 30, 2017, valuation.

Actuarial assumptions used in the June 30, 2016, valuation were changed as follows:

| | |
|-----------------------------------|---|
| Salary increases: | 3.25% to 8.75% including inflation |
| Wage inflation: | 3.00% |
| Investment rate of return: | 7.65% |
| Post-retirement mortality tables: | RP-2014 Healthy Annuitant projected to 2026 with Scale MP-2015 and scaled by 120% |
| Pre-retirement mortality tables: | RP-2014 Employee projected to 2026 with Scale MP-2015 and scaled by 95% for males and 90% for females |

Lincoln University
A Component Unit of the State of Missouri
Required Supplementary Information
Schedule of University Pension Contributions
Missouri State Employees' Retirement System
Last Five Fiscal Years

There were no changes to actuarial assumptions used in the June 30, 2015, valuation, other than the assumption that there would be no pay increases for fiscal year ending June 30, 2016.

There were no changes to actuarial assumptions used in the June 30, 2014, valuation.

Lincoln University
A Component Unit of the State of Missouri
Required Supplementary Information
Schedule of Changes in the University's Total OPEB Liability and Related Ratios
June 30, 2018

| | |
|---|--------------------------|
| Total OPEB Liability | |
| Interest | \$ 26,642 |
| Changes in assumptions and inputs | 2,016 |
| Benefit payments | <u>(63,679)</u> |
| Net Change in Total OPEB Liability | (35,021) |
| Total OPEB Liability - Beginning | <u>827,125</u> |
| Total OPEB Liability - Ending | <u><u>\$ 792,104</u></u> |
| Covered-Employee Payroll* | \$ - |
| Total OPEB Liability as a Percentage of Covered-Employee Payroll | N/A |

*OPEB valuation includes only current retirees.

This schedule presents the information available to the University and will include ten-year trend information once available.

Notes to Schedule:

Benefit Changes

There were no changes to benefit terms for the year ended June 30, 2018.

Changes of Assumptions

The following changes were made to actuarial assumptions during the year ended June 30, 2018:

- The assumed mortality was updated to reflect the Society of Actuaries RPH-2014 Adjusted to 2006 White Collar Headcount-weighted Mortality table with MP-2017 Full Generational Improvement.
- The per capita costs and trend assumptions were updated as part of the ongoing actuarial analysis.
- The discount rate was changed from 3.50 percent (GASB 45) to 3.35 percent as of the beginning of the year and 3.30 percent as of the end of the year in accordance with GASB 75.
- The life insurance benefit for two retirees was valued and included in the results.

Supplementary Information

Lincoln University
A Component Unit of the State of Missouri
Auxiliary System Revenue Fund
Schedules of Revenues and Expenses
Years Ended June 30, 2018 and 2017

| | 2018 | | | | | Total |
|--|---------------------|---------------------|------------------|----------------------|---------------------|---------------------|
| | Residence Halls | Cafeteria | Bookstore | Vending and Other | Student Union | |
| Revenues | | | | | | |
| Residence hall contracts | \$ 4,008,026 | \$ - | \$ - | \$ - | \$ - | \$ 4,008,026 |
| Housing system appropriation | 640,802 | - | - | - | - | 640,802 |
| Food service | - | 3,328,148 | - | - | - | 3,328,148 |
| Bookstore | - | - | 39,349 | - | - | 39,349 |
| Other | - | - | - | 46,659 | - | 46,659 |
| Vending | - | - | - | 20,238 | - | 20,238 |
| | <u>4,648,828</u> | <u>3,328,148</u> | <u>39,349</u> | <u>66,897</u> | <u>-</u> | <u>8,083,222</u> |
| Direct Expenses | | | | | | |
| Salaries and wages | 253,002 | - | - | 100,037 | 21,255 | 374,294 |
| Fringe benefits | 89,469 | - | - | 35,767 | 5,911 | 131,147 |
| Equipment purchases | - | 5,131 | - | 7,412 | - | 12,543 |
| Contractual services | 683,442 | 2,182,802 | 1,133 | 90 | 125,404 | 2,992,871 |
| Travel | 1,819 | - | - | 955 | - | 2,774 |
| Supplies, cost of sales | 43,433 | - | - | 299 | 8,320 | 52,052 |
| Communications | 8,880 | (6,328) | - | 560 | 1,680 | 4,792 |
| Utilities | 784,747 | - | - | 485 | 296 | 785,528 |
| Other operating | 361,217 | 12 | - | 7,724 | 892 | 369,845 |
| | <u>2,226,009</u> | <u>2,181,617</u> | <u>1,133</u> | <u>153,329</u> | <u>163,758</u> | <u>4,725,846</u> |
| Excess (Deficiency) of Revenues Over Direct Expenses | <u>\$ 2,422,819</u> | <u>\$ 1,146,531</u> | <u>\$ 38,216</u> | <u>\$ (86,432)</u> | <u>\$ (163,758)</u> | <u>3,357,376</u> |
| Indirect Expenses | | | | | | |
| Bad debts | | | | | | 122,249 |
| Audit | | | | | | 11,814 |
| | | | | | | <u>134,063</u> |
| Excess of Revenues Over Expenses | | | | | | 3,223,313 |
| Mandatory Transfer for Principal and Interest on Indebtedness | | | | | | (2,244,683) |
| Nonmandatory Transfer to Plant Fund | | | | | | <u>(1,007,612)</u> |
| Net Increase (Decrease) for the Year | | | | | | (28,982) |
| Net Position, Beginning of Year | | | | | | <u>3,579,139</u> |
| Net Position, End of Year | | | | | | <u>\$ 3,550,157</u> |

| 2017 | | | | | |
|---------------------|---------------------|------------------|----------------------|---------------------|---------------------|
| Residence Halls | Cafeteria | Bookstore | Vending and Other | Student Union | Total |
| \$ 3,843,052 | \$ - | \$ - | \$ - | \$ - | \$ 3,843,052 |
| 691,834 | - | - | - | - | 691,834 |
| - | 3,200,661 | - | - | - | 3,200,661 |
| - | - | 91,239 | - | - | 91,239 |
| - | - | - | 62,711 | - | 62,711 |
| - | - | - | 23,072 | - | 23,072 |
| <u>4,534,886</u> | <u>3,200,661</u> | <u>91,239</u> | <u>85,783</u> | <u>-</u> | <u>7,912,569</u> |
| 335,520 | - | - | 80,147 | 34,496 | 450,163 |
| 117,639 | 4,920 | - | 30,266 | 5,693 | 158,518 |
| 1,326 | - | - | 1,858 | - | 3,184 |
| 623,030 | 2,114,437 | 1,133 | - | 120,575 | 2,859,175 |
| 11,282 | - | - | - | - | 11,282 |
| 50,480 | - | - | 3,416 | - | 53,896 |
| 10,090 | (7,251) | (1,332) | 1,033 | 1,713 | 4,253 |
| 666,377 | - | - | - | 271 | 666,648 |
| 510,667 | 67 | - | 7,850 | - | 518,584 |
| <u>2,326,411</u> | <u>2,112,173</u> | <u>(199)</u> | <u>124,570</u> | <u>162,748</u> | <u>4,725,703</u> |
| <u>\$ 2,208,475</u> | <u>\$ 1,088,488</u> | <u>\$ 91,438</u> | <u>\$ (38,787)</u> | <u>\$ (162,748)</u> | <u>3,186,866</u> |
| | | | | | 87,928 |
| | | | | | <u>11,475</u> |
| | | | | | <u>99,403</u> |
| | | | | | 3,087,463 |
| | | | | | (2,239,748) |
| | | | | | <u>(787,562)</u> |
| | | | | | 60,153 |
| | | | | | <u>3,518,986</u> |
| | | | | | <u>\$ 3,579,139</u> |

Lincoln University
A Component Unit of the State of Missouri
Athletic Facilities Revenue Fund
Schedule of Revenues and Expenses
Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Revenues | | |
| Student athletic fees | | |
| Student athletic fees | \$ 544,295 | \$ 281,240 |
| Student experience expenses | (199,319) | (300) |
| Net student athletic fees | <u>344,976</u> | <u>280,940</u> |
| Football ticket sales | 22,254 | - |
| Facility rental fees | 4,500 | - |
| Sponsorships | - | - |
| Donations | - | - |
| Other | - | - |
| | <u>371,730</u> | <u>280,940</u> |
| Direct Expenses | | |
| Property insurance | - | - |
| Building maintenance | - | - |
| Custodial and grounds | 89,609 | - |
| Utilities | 47,404 | - |
| | <u>137,013</u> | <u>-</u> |
| Excess of Revenues Over Direct Expenses | 234,717 | 280,940 |
| Transfers In | 137,013 | - |
| Transfers Out | (70,000) | - |
| Mandatory Transfer for Principal and Interest on Indebtedness | <u>(321,481)</u> | <u>(80,286)</u> |
| Net Increase (Decrease) for the Year | (19,751) | 200,654 |
| Net Position, Beginning of Year | <u>200,654</u> | <u>-</u> |
| Net Position, End of Year | <u>\$ 180,903</u> | <u>\$ 200,654</u> |

This schedule presents revenues and expenses of the Athletic Facilities Revenue Fund for the years ended June 30, 2018 and 2017. Capital improvements funded by the Athletic System Revenue Bonds were not yet completed at June 30, 2017, therefore direct expenses for the operation of the Athletic Facilities are not presented above for the year ended June 30, 2017.

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|--|---------------------------|---|---------------------------------------|-------------------------------|
| Student Financial Assistance Cluster | | | | |
| U.S. Department of Education | | | | |
| Federal Pell Grant Program | 84.063 | | \$ - | \$ 6,722,097 |
| Federal Work-Study Program | 84.033 | | - | 168,948 |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | - | 127,296 |
| Federal Direct Student Loans | 84.268 | | - | 14,070,700 |
| | | | - | 21,089,041 |
| Research and Development Cluster | | | | |
| U.S. Department of Agriculture | | | | |
| Cooperative Research, Education and Extension Service | 10.205 | | - | 1,221,576 |
| Sustainable Market Development & Resource Use for Specialty Crops | 10.216 | | - | 820 |
| Socio-Economic Factor & Adoption of Energy Crops | 10.310 | | - | 3,847 |
| High Through-Put NanoSensor for Accurate & Sensitive Detection of E-Coli | 10.310 | | 39,987 | 148,863 |
| Hydrologic Regime & Nitrogen Cycling: Understanding the Difference Between Claypan and Loess Watersheds in Missouri | 10.216 | | 36,821 | 65,319 |
| Prediction & Control of the Performance of Anaerobic Digestion of Animal Manure through Metagenomics for Renewable Energy | 10.216 | | - | 3,118 |
| Determination of Dietary Indispensable Amino Acid Requirements for Juvenile Bluegill | 10.216 | | - | 53,504 |
| Integrated Research in Single E-Coli Cell Detection & Interactive Education to Build Capacity in Food Safety & Security | 10.216 | | 67,079 | 191,539 |
| Recruitment/Retention at Lincoln University through Experiential Learning, Curriculum Development/Changes and Partnerships with Missouri High Schools | 10.216 | | - | 61,256 |
| Evaluation of Soilless Root Support Substrates for Control of Nitrate & Phosphorus Pollution from Vegetable Production in Non-Recirculating Hydroponic Systems | 10.216 | | - | 38,115 |
| Pathogen Detection System | 10.000 | | 9,670 | 19,703 |
| Increased Body Mass Index Resulting in Decreased Oral Fat Sensitivity: Implications in Biomarkers of Obesity and Metabolic Syndrome | 10.216 | | - | 31,059 |
| Use of Simulation Modules to Enhance Learning Chemistry and its Applications in Agriculture and Environmental Sciences | 10.216 | | - | 53,457 |
| Scale Appropriate Strategies | 10.307 | | - | 86,818 |
| Spacial Variability of Soil Greenhouse Gas Emissions & Soil Microbial Diversity & Function in Conventional & Alternate Land Use Systems in Floodplain Soils | 10.216 | | - | 9,920 |
| Disseminating Geospatial Information Science & Technology Knowledge to K-12 Educators & Youth | 10.216 | | - | 4,289 |
| Families Integrating Nature, Conservation & Agriculture - The FINCA Model | 10.216 | | - | 2,766 |
| Collaboration with K-12 Institutions & Community Colleges to Enhance Recruitment & Retention in Agriculture & Environmental Sciences | 10.216 | | - | 2,557 |
| SCRIP Kenya-Tomato Foliar Diseases | 10.961 | | - | 3,072 |

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---------------------------|---|---------------------------------------|-------------------------------|
| Research and Development Cluster (Continued) | | | | |
| U.S. Department of Agriculture | | | | |
| Improving Phytosanitary, Monitoring and Control Methods for Selected Invasive Insect Pests Threatening U.S. Specialty Crops | 10.001 | | \$ - | \$ 30,063 |
| U.S. Department of Agriculture/University of Minnesota | | | | |
| Detection and Prevention of Footrot Outbreak in Sheep and Goats | 10.215 | H004403706 | - | 33,675 |
| Evaluation of Early Maturing Cereal Rye / Hair Vetch Cover Crop Varieties and Their Effects on Subsequent Cash Crop Planting Date, Maturity and Yield in Organic No-Till Summer Squash Production | 10.215 | H004991243 | - | 1,014 |
| U.S. Department of Agriculture/Langston University | | | | |
| Comparison of Biological Control of Red Cedar with Goats to Conventional Methods of Control | 10.216 | 14-02864 | 2,238 | 2,238 |
| U.S. Department of Agriculture/Missouri Department of Agriculture | | | | |
| Evaluating Production & Value-Added Potential of Wild Leek and Other Native Greens | 10.170 | 6 | - | (292) |
| Evaluating Plant Volatile Organic Compounds as Potential Species-Specific Attractants in the Spotted Wing Drosophila Monitoring Traps | 10.170 | 7 | 828 | 828 |
| Using Biocontrol Agents to Combat Soil-Borne Vegetable Diseases in Missouri | 10.170 | 16SCBGPMO0003 | - | 11,646 |
| U.S. Department of Agriculture/University of Missouri | | | | |
| Facilitating Improved Environmental & Soil Quality Though Biodiversity & Crop/Livestock Integration on Organic Farms | 10.303 | C00058319-1 | - | 3,214 |
| Optimizing Monitoring & Mass Trapping Systems for Spotted Wing Drosophila | 10.170 | C00054863-1 | | 140 |
| National Science Foundation | | | | |
| A Model for Achieving Success in STEM (AMASS) | 47.076 | | - | 70,012 |
| Collaborative Research: Structure & Quaternary Kinematics of Amagmatic Rifting in the Central Afar Triple Junction | 47.050 | | - | 28,988 |
| Catalyst Project: Computational Research on Music & Audio | 47.076 | | - | 20,095 |
| Catalyst Project: Computational Research on Music & Audio (Participant Costs) | 47.076 | | - | 5,084 |
| National Science Foundation/University of Missouri | | | | |
| The Missouri Transect: Climate, Plants & Community | 47.079 | C00043573-5 | - | 3,244 |
| The Missouri Transect: Climate, Plants & Community | 47.083 | C00043573-5 | - | 194,890 |
| Collaborative Research on Plant Stress Response Through Innovations in Pnemonics and Molecular Imaging Technologies | 47.079 | C00045071-2 | - | 14,260 |
| National Science Foundation/Harris-Stowe State University | | | | |
| MoSLAMP | 47.076 | 1619639 | - | 60,105 |
| Department of Health and Human Services/Iowa State University | | | | |
| Strategy for Successful Implementation of FSMA in the North Central Region through Adoption of a Systems Approach and Stakeholder Engagement Framework | 93.103 | 430-30-01B | - | 9,111 |
| | | | 156,623 | 2,489,913 |

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|--|---------------------------|---|---------------------------------------|-------------------------------|
| Highway Safety Cluster | | | | |
| Department of Transportation National Highway Traffic Safety Administration/Missouri Department of Transportation/University of Missouri PIP - Partners in Prevention | 20.600 | None | \$ - | \$ (974) |
| Department of Transportation National Highway Traffic Safety Administration/Missouri Department of Transportation/University of Central Missouri Fourth of July DWI Enforcement Campaign | 20.616 | SAF085-0404 | - | 152 |
| Drive Sober or Get Pulled Over | 20.616 | SAF085-0404 | - | 596 |
| Click It or Ticket (CIOT) Enforcement Campaign | 20.600 | SAF083-0404 | - | 152 |
| Youth Alcohol Enforcement Campaign | 20.616 | SAF085-0404 | - | 76 |
| | | | <u>-</u> | <u>2</u> |
| Cooperative Extension Service | | | | |
| U.S. Department of Agriculture Cooperative Extension Programs | 10.500 | | - | 1,305,266 |
| RREA – Renewable Resource Extension Account | 10.500 | | - | 12,381 |
| EFNEP – Expanded Food Nutritional Program | 10.500 | | - | 169,973 |
| CES: Capital Improvements | 10.500 | | - | 184,965 |
| U.S. Department of Agriculture/University of Minnesota NCR - SARE | 10.500 | 0001106019 | - | 279 |
| U.S. Department of Agriculture/University of Missouri Assistive Technology Program for Farmers with Disabilities | 10.500 | C00048679-2 | - | 2,418 |
| | | | <u>-</u> | <u>1,675,282</u> |
| Wildlife Services | | | | |
| U.S. Department of Agriculture Fiscal Year 2017 Wildlife Initiative Program | 10.028 | | - | 5,096 |
| Fiscal Year 2018 Wildlife Initiative Program | 10.028 | | - | 4,888 |
| U.S. Department of Agriculture/Tuskegee University Feral Swine Outreach | 10.028 | None | - | 4,049 |
| | | | <u>-</u> | <u>14,033</u> |
| Soil and Water Conservation | | | | |
| U.S. Department of Agriculture Enhancing Farm Profitability & Livelihood of Minority & Limited Resource Farmers, Agricultural Producers and the Rural Community in the Designated Strike-Force Counties of Missouri | 10.902 | | - | 152,904 |
| Promotion of Farm Bill Programs through Education | 10.902 | | 278 | 12,658 |
| Enhancing Natural Resource Management Capabilities through the LU GIS Center of Excellence | 10.902 | | - | 81,310 |
| | | | <u>278</u> | <u>246,872</u> |

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|--|---------------------------|---|---------------------------------------|-------------------------------|
| U.S. Department of Agriculture Enhancing Farm Profitability & Livelihood of Minority & Socially Disadvantaged Farmers & Ranchers & Veteran Farmers & Ranchers in Southeast Missouri | 10.443 | | \$ - | \$ 134,253 |
| CFP 2017 - Jordan Resilient Agriculture | 10.962 | | 39,241 | 43,165 |
| Ag Discovery Summer Enrichment Program | 10.025 | | - | 31,965 |
| U.S. Department of Agriculture/University of Missouri Missouri IPM Program | 10.329 | C00048575-1 | - | 5,470 |
| Strengthening IPM for Agriculture & Communities in Missouri | 10.329 | C00059092-1 | - | 11,677 |
| | | | - | 17,147 |
| U.S. Department of Health and Human Services/Missouri Department of Health and Senior Services Pregnancy Prevention Program | 93.235 | AOC14380022 | - | 257,763 |
| Implementation of Violence Prevention Strategy | 93.136 | AOC16380122 | - | 69,072 |
| U.S. Department of Health and Human Services/University of Kansas The Heartland Sexual Assault Policies & Prevention on Campuses Project | 93.088 | FY2017-015 | - | 4,690 |
| U.S. Department of Health and Human Services/Missouri Department of Insurance Providing Educational Opportunities for Seniors through the Lunch and Learn Series and Senior Summer School | 93.000 | None | - | 330 |
| Higher Education Institutional Aid U.S. Department of Education | | | | |
| Title III SAFRA - Fiscal Year 10 Awards | 84.031 | | - | 61,687 |
| Title III - Fiscal Year 12 Awards | 84.031 | | - | 623,852 |
| Title III SAFRA - Fiscal Year 15 Awards | 84.031 | | - | 820,207 |
| Title III - Fiscal Year 17 Awards | 84.031 | | - | 1,267,587 |
| | | | - | 2,773,333 |
| U.S. Department of Education/Mineral Area College Carl D Perkins Grant | 84.048 | 163-163 / 117-117 | - | 5,093 |
| U.S. Department of Education/State of Missouri State Fiscal Stabilization Fund (SFSF) - Government Services | 84.397 | None | - | 6,796 |
| NASA/Missouri University of Science and Technology Missouri Space Grant Consortium | 43.001 | C00029558-07 | - | 31,076 |

The accompanying notes are an integral part of this Schedule.

Lincoln University
A Component Unit of the State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---------------------------|---|---------------------------------------|-------------------------------|
| National Park Service African American Civil Rights Grants - Preservation of Mitchell Hall | 15.000 | | \$ - | \$ 15,000 |
| Institute of Museum and Library Services/Missouri State Library Digital Imaging | 45.310 | 2016-LSD6- DIG16CN6-8284 | - | 4,250 |
| Small Business Administration/University of Missouri Missouri Small Business Development Center | 59.000 | C00051641-3 C00055924 | - | 30,188 |
| U.S. Department of Defense Office of the Secretary of Defense Outsourcing the Academic Phase of Training for the U.S. Army Prime Power School | 12.630 | | 149,962 | 179,822 |
| U.S. Department of Energy/North Carolina A&T State University Pipeline Development of Skilled Workforce Through Advanced Manufacturing | 81.000 | 270111F | - | (1,125) |
| Consortium for Pipeline Development of Skilled Workforce through Advanced Manufacturing | 81.123 | 270129C | - | 41,250 |
| U.S. Department of Homeland Security/Oak Ridge Institute for Science and Education A Surveillance Study on the Prevalence of Brucellosis and Pseudorabies in Feral Swine | 97.000 | None | - | 28,318 |
| | | | <u>\$ 346,104</u> | <u>\$ 29,187,529</u> |

Lincoln University
A Component Unit of the State of Missouri
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Lincoln University under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Federal Direct Student Loan balances are not included in the University’s financial statements. Loans disbursed during the year are included in federal expenditures presented in the Schedule.

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

Independent Auditor's Report

Board of Curators
Lincoln University
Jefferson City, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Lincoln University (the "University"), a component unit of the State of Missouri, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 30, 2018, which contained an "Emphasis of Matter" paragraph regarding the adoption of a new accounting standard. Our report includes a reference to other auditors who audited the financial statements of Lincoln University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of Lincoln University Foundation, Inc., a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Board of Curators
Lincoln University

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

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Springfield, Missouri
October 30, 2018

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Curators
Lincoln University
Jefferson City, Missouri

Report on Compliance for Each Major Federal Program

We have audited Lincoln University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lincoln University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, that is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

Board of Curators
Lincoln University

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

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

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

BKD, LLP

Springfield, Missouri
October 30, 2018

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

7. The University's major programs were:

| Cluster/Program | CFDA Number |
|--|--------------------|
| Student Financial Assistance Cluster: | |
| Federal Pell Grant Program | 84.063 |
| Federal Work-Study Program | 84.033 |
| Federal Supplemental Educational Opportunity Grants | 84.007 |
| Federal Direct Student Loans | 84.268 |
| Research and Development Cluster | |
| Payments to 1890 Land-Grant Colleges and Tuskegee University | 10.205 |
| 1890 Institution Capacity Building Grants | 10216 |
| Agriculture and Food Research Initiative (AFRI) | 10.310 |
| Pathogen Detection System | 10.000 |
| Organic Agriculture Research and Extension Initiative | 10.307 |
| Scientific Cooperation and Research | 10.961 |
| Agricultural Research Basic and Applied Research | 10.001 |
| Sustainable Agriculture Research and Education | 10.215 |
| Specialty Crop Block Grant Program - Farm Bill | 10.170 |
| Integrated Programs | 10.303 |
| Education and Human Resources | 47.076 |
| Geosciences | 47.050 |
| Office of International Science and Engineering | 47.079 |
| Office of Integrative Activities | 47.083 |
| Food and Drug Administration Research | 93.103 |
| Cooperative Extension Service | 10.500 |

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The University qualified as a low-risk auditee? Yes No

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Finding |
|-----------------------------|----------------------------|
| | No matters are reportable. |

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Findings Required to be Reported by Uniform Guidance

| Reference Number | Finding |
|-------------------------|--|
| 2018-001 | <p style="text-align: center;">Student Financial Assistance Cluster, CFDA Number 84.268 Federal Direct Student Loans, CFDA Number 84.063 Federal Pell Grant Program, U.S. Department of Education Program Year 2017-2018</p> <p style="text-align: center;">Criteria or Specific Requirement – Special Tests: Enrollment Reporting 34 CFR Sections 690.83 (b)(2) and 685.309</p> <p>Condition – Twenty-five student enrollment status changes were not communicated to the National Student Loan Data System (NSLDS) on a timely basis or were reported incorrectly.</p> <p>Questioned costs – None</p> <p>Context – Out of a population of 1,955 student enrollment status changes requiring notification transmitted to NSLDS, a sample of 40 student enrollment status changes was selected for testing. Our sample was not and was not intended to be statistically valid. Two student enrollment changes were not reported within the required 60-day requirement. Eleven student enrollment changes were not reported to NSLDS. Five student enrollment changes were not reported with the correct enrollment level. Seven student enrollment changes were not reported with the correct effective date.</p> <p>Effect – NSLDS was not properly notified of student enrollment status changes of Direct Loan and Pell Grant recipients.</p> <p>Cause – The Registrar's Office and the Enrollment Services Technical Coordinator do not have adequate processes and controls around enrollment reporting to ensure reporting is accurate and timely.</p> <p>Identification as a repeat finding – 2017-001</p> |

Lincoln University
A Component Unit of the State of Missouri
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Findings Required to be Reported by Uniform Guidance

| Reference Number | Finding |
|-------------------------|---|
| 2018-001 (Continued) | <p>Recommendation – The Registrar's Office and the Enrollment Services Technical Coordinator should review processes and controls around enrollment reporting and consider substantial changes to address this recurring finding.</p> <p>Views of Responsible Officials and Planned Corrective Actions – After review of the NSLDS findings, it was determined that the majority of the statuses were not being calculated correctly. The census date/pre census date fields should change each time the process is run.</p> <p>To rectify that system, the SITS screen will be modified each time the system is run. The process will also include the following;</p> <ol style="list-style-type: none"> 1. Clearinghouse information is submitted monthly. 2. The NSLDS system will be monitored 2 weeks following the clearinghouse submission to ensure the NSLDS captures all information. |

Lincoln University
A Component Unit of the State of Missouri
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

| Reference Number | Finding |
|-------------------------|---|
| 2017-001 | <p style="text-align: center;">Student Financial Assistance Cluster, CFDA Number 84.268 Federal Direct Student Loans, CFDA Number 84.063 Federal Pell Grant Program, U.S. Department of Education Program Year 2016-2017</p> <p style="text-align: center;">Criteria or Specific Requirement – Special Tests: Enrollment Reporting 34 CFR Sections 690.83 (b)(2) and 685.309</p> <p>Condition – Twenty-three student enrollment status changes were not communicated to the National Student Loan Data System (NSLDS) on a timely basis or were reported incorrectly.</p> <p>Questioned costs – None</p> <p>Context – Out of a population of 1,907 student enrollment status changes requiring notification transmitted to NSLDS, a sample of 40 student enrollment status changes was selected for testing. Six student enrollment changes were not reported within the required 60-day requirement. Eight student enrollment changes were not reported to NSLDS. Five student enrollment changes were not reported with the correct enrollment level. Four student enrollment changes were not reported with the correct effective date. Our sample was not and was not intended to be statistically valid.</p> <p>Effect – NSLDS was not properly notified of student enrollment status changes of Direct Loan and Pell Grant recipients.</p> <p>Cause – The Registrar's Office does not have adequate processes and controls around enrollment reporting to ensure reporting is accurate and timely.</p> <p>Identification as a repeat finding – 2016-002</p> <p>Status - Unresolved. See Finding 2018-001. The University did not implement corrective processes in order to prevent reoccurrence during fiscal year 2018.</p> |