

LINCOLN CHILD CENTER

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES,
and
ADDITIONAL INFORMATION**

JUNE 30, 2014 and 2013

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-20
Supplemental Schedules:	
Schedule of Expenditures of Federal Awards	21
Statement of Expenditures of County of Alameda Grants	22-23
Additional Information:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	24
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	25-26
Schedule of Findings and Questioned Costs	27



Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lincoln Child Center

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln Child Center (a nonprofit organization), which comprise the Statement of Financial Positions as of June 30, 2014 and 2013, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Lincoln Child Center as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Lincoln Child Center as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Statement of Expenditures of County of Alameda County Grants is also presented for additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 on our consideration of Lincoln Child Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Child Center internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
December 9, 2014

LINCOLN CHILD CENTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	2014	As Restated 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 1,056,404	\$ 5,226,288
Accounts receivable, net of allowance of \$41,064 and \$31,341	2,606,130	2,094,207
Pledges receivable (Note 5)	52,240	19,098
Prepaid expenses	174,328	179,657
Total current assets	3,889,102	7,519,250
Non-current assets		
Investments (Note 3)	8,882,105	7,145,748
Property and equipment (Note 6)	2,887,493	484,194
Receivable from split-interest agreement (Note 7)	1,458,712	807,224
Note receivable (Note 8)	2,800,000	2,800,000
Total non-current assets	16,028,310	11,237,166
Total assets	\$ 19,917,412	\$ 18,756,416
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 643,258	\$ 708,633
Accrued liabilities (Note 9)	1,691,461	1,033,292
Line of credit (Note 10)	250,000	-
Current portion of notes payable (Note 11)	13,143	12,302
Total current liabilities	2,597,862	1,754,227
Non-current liabilities		
Non-current portion of notes payable (Note 11)	13,262	26,747
Contingency liability (Note 8)	2,800,000	2,800,000
Total non-current liabilities	2,813,262	2,826,747
Total liabilities	5,411,124	4,580,974
Net assets		
Unrestricted	8,820,322	9,017,630
Unrestricted - Board designated (Note 2)	59,625	709,625
Total unrestricted net assets	8,879,947	9,727,255
Temporarily restricted (Note 13)	2,815,406	1,637,252
Permanently restricted (Note 14)	2,810,935	2,810,935
Total net assets	14,506,288	14,175,442
Total liabilities and net assets	\$ 19,917,412	\$ 18,756,416

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

LINCOLN CHILD CENTER

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2014 and 2013

	Year ended June 30, 2014				As Restated Year ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support								
Program revenues (Note 15)	\$ 15,927,643	\$ -	\$ -	\$ 15,927,643	\$ 12,606,886	\$ -	\$ -	\$ 12,606,886
Contributions	82,433	665,840		748,273	140,621	134,750		275,371
Net gain on investments	382,393	567,921		950,314	218,567			218,567
Change in value of split-interest agreement		292,572		292,572	-	100,415		100,415
In-kind contributions (Note 2)	254,786			254,786				-
Interest and dividends	210,623			210,623	352,156			352,156
Other revenue	59,257			59,257	7,100			7,100
Special events	38,550			38,550	-			-
Cost settlement adjustments				-	240,967			240,967
Net assets released from purpose restrictions	348,179	(348,179)		-	110,683	(110,683)		-
Net assets released from time restrictions				-	57,734	(57,734)		-
Total revenue and support	17,303,864	1,178,154	-	18,482,018	13,734,714	66,748	-	13,801,462
Expenses								
Program services	14,286,566			14,286,566	11,113,748			11,113,748
Support services	3,281,735			3,281,735	2,678,391			2,678,391
Total expenses	17,568,301	-	-	17,568,301	13,792,139	-	-	13,792,139
Change in net assets before net gain on disposal of property and equipment and legal fees	(264,437)	1,178,154	-	913,717	(57,425)	66,748	-	9,323
Net gain on disposal of property and equipment				-	3,157,524			3,157,524
Legal fees (Note 12)	(582,871)			(582,871)				-
Change in net assets	(847,308)	1,178,154	-	330,846	3,100,099	66,748	-	3,166,847
Net assets, beginning of year	9,727,255	1,637,252	2,810,935	14,175,442	6,627,156	1,570,504	2,810,935	11,008,595
Net assets, end of year	\$ 8,879,947	\$ 2,815,406	\$ 2,810,935	\$ 14,506,288	\$ 9,727,255	\$ 1,637,252	\$ 2,810,935	\$ 14,175,442

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

LINCOLN CHILD CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2014 and 2013

	Year ended June 30, 2014				Year ended June 30, 2013					
	Total Program Services	Support Services		Total Support Services	Total Program Services	Support Services		Total Support Services	Total Expenses	
		Management and General	Fundraising	Total Expenses		Management and General	Fundraising			
Salaries	\$ 8,522,877	\$ 1,286,580	\$ 234,763	\$ 1,521,343	\$ 10,044,220	\$ 6,591,071	\$ 1,072,671	\$ 309,977	\$ 1,382,648	\$ 7,973,719
Payroll taxes and benefits	2,159,517	398,125	50,816	448,941	2,608,458	1,704,484	238,115	49,952	288,067	1,992,551
Total personnel costs	10,682,394	1,684,705	285,579	1,970,284	12,652,678	8,295,555	1,310,786	359,929	1,670,715	9,966,270
Professional fees	859,724	376,570	149,163	525,733	1,385,457	769,232	283,071	36,207	319,278	1,088,510
Occupancy	917,989	56,986	33,947	90,933	1,008,922	664,804	221,642	16,602	238,244	903,048
Client-related expenses	664,867	1,751		1,751	666,618	600,562	1,266		1,266	601,828
Office expenses	365,648	162,650	50,214	212,864	578,512	332,747	161,570	46,711	208,281	541,028
Training and recruiting	312,822	84,784	5,090	89,874	402,696	132,235	40,385	9,992	50,377	182,612
In-kind expenses		254,786		254,786	254,786				-	-
Transportation	159,126	21,281	5,090	26,371	185,497	59,016	20,987	8,143	29,130	88,146
Depreciation	152,185	15,886	8,757	24,643	176,828	116,750	100,900	3,733	104,633	221,383
Insurance and taxes	159,427	13,052	3,188	16,240	175,667	142,122	18,936	4,861	23,797	165,919
Other	12,384	39,227	2,075	41,302	53,686	725	18,929	2,165	21,094	21,819
Special events	-		26,954	26,954	26,954	-		11,576	11,576	11,576
Total functional expenses	\$ 14,286,566	\$ 2,711,678	\$ 570,057	\$ 3,281,735	\$ 17,568,301	\$ 11,113,748	\$ 2,178,472	\$ 499,919	\$ 2,678,391	\$ 13,792,139

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

LINCOLN CHILD CENTER

STATEMENTS OF CASH FLOWS For the years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 330,846	\$ 3,166,847
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	176,828	221,383
Net (gain) on sale of property	-	(3,157,524)
Net (gain) on investments	(950,314)	(218,567)
Change in value of split-interest agreement	(292,572)	(100,415)
Split-interest agreement	(358,916)	-
Change in value of conditional asset retirement obligation	-	(124,254)
Contingency liability	-	2,800,000
Change in allowance for uncollectible accounts	9,723	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(521,646)	(94,152)
(Increase) decrease in pledges receivable	(33,142)	38,636
(Increase) in note receivable	-	(2,800,000)
Decrease in prepaid expenses	5,329	35,227
(Decrease) increase in accounts payable	(65,375)	156,296
Increase in accrued liabilities	658,169	318,433
	(1,041,070)	241,910
Cash flows from investing activities:		
Purchase of investments	(2,166,811)	(2,454,140)
Proceeds from sales of properties	-	7,500,000
Purchase of property and equipment	(2,580,127)	(770,815)
Proceeds from sales of investments	1,380,768	612,420
	(3,366,170)	4,887,465
Cash flows from financing activities:		
Payments on line of credit	(3,150,000)	-
Proceeds from borrowings on line of credit	3,400,000	-
Proceeds from borrowings on notes payable	-	26,109
Principal payments on notes payable	(12,644)	(2,216,604)
	237,356	(2,190,495)
Net (decrease) increase in cash and cash equivalents	(4,169,884)	2,938,880
Cash and cash equivalents, beginning of year	5,226,288	2,287,408
Cash and cash equivalents, end of year	\$ 1,056,404	\$ 5,226,288
Supplemental disclosure:		
Operating activities reflect interest paid of:	\$ 17,209	\$ 74,885

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

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization

Lincoln Child Center (“Lincoln”) is a not-for-profit agency founded in 1883 as an orphanage, the West Oakland Home. Today, Lincoln is a multi-service organization providing services in Contra Costa and Alameda counties through 13 programs that are focused on in-home and in-school based services to children and youth, the majority of whom have experienced significant trauma. With a 130 year history of serving our communities’ most vulnerable children, and particularly foster youth, Lincoln has transformed its approach in the past 10 years from a focus on residential care to programs that have family engagement and strengthening at the heart of service provision. Its mission is to promote the resiliency and success of children, youth and families impacted by trauma, poverty and other challenging socioeconomic circumstances through coordinated mental health, education and family support services.

Lincoln provides services to children and youth in the child welfare, behavioral health and juvenile justice, and education systems. Over 80% of our clients fall below the federal poverty line, and many are exposed to domestic violence, substance abuse, racial inequities and other traumatic experiences.

Lincoln receives a majority of its funding from county and state agencies, with certain portions originating from the federal government. The balance of the funding comes from investment earnings, private donations, grants, and special fundraising activities. Lincoln currently operates the following interrelated programs.

Intensive Services Programs: 1) EXCEL and Intensive Counseling Enriched Classrooms: offers educationally-related mental health services in schools for special education students; 2) Therapeutic Behavior Services (“TBS”): supports children and youth at risk of losing their home or school placement. 3) Multi-Dimensional Family Therapy (“MDFT”): provides intensive family and individual therapy for youth ages 11-18 with co-occurring substance abuse and mental health disorders; 4) Intensive Home Based Services (“IHBS”): helps children and youth in transition stabilize their permanent home placement.

Early Intervention and Prevention Programs: 1) Project Permanence: supports children and youth referred from social services and/or probation needing support stabilizing home placements; 2) School Engagement Program: provides services to K-12 graders that help reduce barriers to school attendance. 3) Kinship Support Services: supports relative caregivers who are raising their relative children; 4) Early Childhood Mental Health Consultation (“ECMHC”): provides consultation to Child Development Center teachers and parents about the developmental needs and strengths of 3-5 year olds; 5) Oakland Freedom Schools: is a five-week summer program emphasizing literacy and cultural pride developed by the Children’s Defense Fund; 6) Family Resource Center: a school-based resource hub for East Oakland parents offering legal, housing, and medical services, healing circles in response to trauma, parent education groups, Zumba fitness, and yoga; 7) CEO Youth: an entrepreneurship and job skills program; 8) Helping Open Pathways to Education (“HOPE”): provides early intervention mental health services to students in schools and contributes to a school-wide positive culture; 9) Families Together Project (“FTP”): offers workshops and support groups to parents and caregivers with children who may have social, emotional, and academic challenges.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Lincoln are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Unrestricted Board Designated. These are comprised of resources that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net assets accounting, these funds are included in unrestricted net assets at June 30, 2014 and 2013.

Temporarily Restricted. Lincoln reports grants and contributions, investments and other income as temporarily restricted support if they are received with donor stipulations that limit the use to a fiscally sponsored project. All funds transferred for a newly sponsored project into Lincoln are temporarily restricted for the sponsored project. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Lincoln and the fiscally sponsored projects to expend all of the income (or other economic benefits) derived from the donated assets. As at the end of the year June 30, 2014, Lincoln had \$2,810,935 in permanently restricted net assets.

Cash and Cash Equivalents

Lincoln has defined cash and cash equivalents as cash in banks and money market fund and investment accounts with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are receivables from governmental agencies. The allowance represents an estimated amount of accounts receivable estimated to be potentially uncollectible.

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Management provides an allowance for doubtful accounts receivable that is based on a review of outstanding receivables, historic collection information, and existing economic conditions.

Concentration of Credit Risks

Lincoln places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Lincoln has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2014 and 2013, consists of government contract receivables due from county, state, federal granting agencies. Concentrations of credit risks with respect to trade receivables are limited, as the majority of Lincoln's receivables consist of earned fees from contract programs granted by governmental agencies.

Lincoln holds investments in the form of mutual funds, corporate bonds and common stocks of publicly held companies, as well as U.S. Governmental debt securities. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

Approximately 86% and 91% of revenue and support generated by Lincoln for the years ended June 30, 2014 and 2013 respectively were related to government contracts.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Lincoln is required to measure pledged contributions, split interest agreements, certain investments, and in-kind contributions at fair value. The specific techniques used to measure fair value for each element is described in the notes below that relate to each element.

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. The fair value of donated materials and services has been measured on a non-recurring basis using quoted prices of similar assets in inactive markets (Level 2 inputs). For the year ended June 30, 2014, Lincoln received in-kind contributions of \$254,786.

Income Taxes

Lincoln is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Lincoln in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Lincoln's returns are subject to examination by federal and state taxing authorities, generally for three and four years respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing fiscal sponsorship by Lincoln have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Lincoln primarily uses units of service, full-time equivalents, or square footage to allocate indirect costs.

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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Reclassification

Certain amounts from the June 30, 2013 financial statements have been reclassified to conform to the June 30, 2014 presentation.

Subsequent Events

Management has evaluated subsequent events through December 9, 2014 the date which the financial statements were available.

3. Investments

Investments at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Equities	\$4,808,466	\$4,739,828
Fixed income	2,112,015	1,475,384
Other Investments	<u>1,961,624</u>	<u>930,536</u>
	<u>\$8,882,105</u>	<u>\$7,145,748</u>

Investment income on the Statement of Activities is shown net of management fees of \$66,267.

4. Fair Value Measurements

The table below presents the balances of the respective components of the assets or liabilities measured at fair value at June 30, 2014 on a recurring basis:

June 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Corporate bonds	\$ -	\$1,220,966	\$ -	\$1,220,966
Agency securities		542,489		542,489
Government securities	319,544			319,544
Mortgage pools		<u>29,016</u>		<u>29,016</u>
Total fixed income	<u>\$319,544</u>	<u>\$1,792,471</u>	<u>\$ -</u>	<u>\$2,112,015</u>

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities				
Large growth	\$ 2,182,450	\$	\$	\$2,182,450
Large core	1,237,050			1,237,050
Large value	1,056,655			1,056,655
Mid growth	200,586			200,586
Other	106,282			106,282
Large blend	<u>25,443</u>	<u> </u>	<u> </u>	<u>25,443</u>
Total equities	<u>\$4,808,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,808,466</u>
Other investments				
Other	1,103,493			1,103,493
Short term bonds		538,479		538,479
Emerging markets	141,423			141,423
Global real estate	74,102			74,102
Large core	59,850			59,850
Energy limited partnership	35,618			35,618
Others	<u>8,659</u>	<u> </u>	<u> </u>	<u>8,659</u>
Total other investments	<u>1,423,145</u>	<u>538,479</u>	<u>-</u>	<u>1,961,624</u>
Total investments	<u>6,551,155</u>	<u>2,330,950</u>	<u>-</u>	<u>8,882,105</u>
Split-interest agreement	<u>-</u>	<u>1,458,712</u>	<u>-</u>	<u>1,458,712</u>
Fair value at June 30, 2014	<u>\$6,551,155</u>	<u>\$3,789,662</u>	<u>\$ -</u>	<u>\$10,340,817</u>
<u>June 30, 2013</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$4,739,828	\$ -	\$ -	\$4,739,828
Bond funds		1,475,384		1,475,384
Mutual funds	930,536			930,536
Split interest agreement		807,224		807,224
Fair value at June 30, 2013	<u>\$5,670,364</u>	<u>\$2,282,608</u>	<u>\$ -</u>	<u>\$7,952,972</u>

The fair value of investment components have been measured on a recurring basis using quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

The fair value of the split-interest agreement has been measured on a recurring basis by calculating the present value of future distributions expected to be received, using published life expectancy and a 7.75% discount rate (Level 2 inputs).

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
In-kind contributions	\$ -	\$254,786	\$ -	\$254,786

The fair value of in-kind contributions has been measured on a non-recurring basis using quoted prices for similar services and assets in inactive markets (Level 2 inputs).

5. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2014 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2014. Total amount of pledges receivable is \$52,240 as of June 30, 2014 and are expected to be collected within one year. There were pledges receivables of \$19,098 at June 30, 2013.

6. Property and Equipment

Property and equipment at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$2,842,771	\$ 402,388
Furniture and equipment	560,365	430,970
Automobiles	72,359	72,359
Software	<u>21,145</u>	<u>10,795</u>
	3,496,640	916,512
Less: accumulated depreciation	<u>(609,147)</u>	<u>(432,318)</u>
	<u>\$2,887,493</u>	<u>\$ 484,194</u>

Depreciation and amortization expense for the years ended June 30, 2014 and 2013 were \$176,828 and \$221,383 respectively.

7. Split-Interest Agreement

Lincoln holds a remainder interest in two irrevocable split-interest agreements. The fair value for the contribution receivable from a beneficial interest in a charitable remainder trust within the Level 2 inputs is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and discount rates of 7.75% and 3.34% respectively. These agreements are valued at net present value at June 30, 2014 and 2013, based on Internal Revenue Service guidelines as follows:

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

7. Split-Interest Agreement, continued

	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	<u>Significant Other Observable Assets (Level 2)</u>	<u>Fair Value</u>	<u>Significant Other Observable Assets (Level 2)</u>
A charitable remainder trust naming Lincoln as a beneficiary with a 22.22% interest. Lincoln does not have possession of the assets or control of the trust administration.	\$1,099,796	\$1,099,796	\$807,224	\$807,224
A charitable remainder trust naming Lincoln as a beneficiary with a 50% interest. Lincoln does not have possession of the assets or control of the trust administration.	<u>358,916</u>	<u>358,916</u>	-	-
Total	<u>\$1,458,712</u>	<u>\$1,458,712</u>	<u>\$807,224</u>	<u>\$807,224</u>

8. Note Receivable and Contingency Liability

Note receivable of \$2,800,000 at June 30, 2014 consists of the outstanding amount due from the entity that acquired Lincoln's properties. This amount is being retained and will be paid to Lincoln after all issues relating to the development of the property, which has been opposed by the property's neighbors have been resolved. Since any costs arising from resolving this issue will be applied against the note receivable, a contingency liability of \$2,800,000 has been provided for by Lincoln at June 30, 2014. Note receivable and contingency liability balances at June 30, 2013 were \$2,800,000, respectively.

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

9. Accrued Liabilities

Accrued liabilities at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Accrued vacation	\$ 504,803	\$ 444,064
Accrued payroll, taxes, and benefits	496,238	351,760
Deferred rent credits	258,263	-
Accrued workers compensation	216,204	32,226
Deferred revenue	153,849	192,965
Other accrued liabilities	40,794	-
Accrued unemployment liability	<u>21,310</u>	<u>12,277</u>
	<u>\$1,691,461</u>	<u>\$1,033,292</u>

Lincoln has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2014 and 2013, of \$21,310 and \$12,277, respectively, represents estimated future claims arising from payroll paid to date. Unemployment expense for the years ended June 30, 2014 and 2013 were \$75,076 and \$63,259, respectively.

10. Line of Credit

Lincoln has a revolving line of credit with Wells Fargo Bank, in the amount of \$1,000,000, at an interest rate equal to the bank's prime rate plus 1.5%. Interest rates at June 30, 2014 and 2013 were 4.25% and 5.0%, with maturity dates of August 09, 2015 and April 10, 2014, respectively. There was a \$250,000 outstanding balance at June 30, 2014 whereas at June 30, 2013, there was no outstanding balance. During the year ended June 30, 2014, the average borrowing on the line of credit was approximately \$260,000.

11. Notes Payable

Notes payable at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Note payable to Honda Financial Services unsecured, monthly payments of \$679, including interest at 3.45%, due June 16, 2015, Note payable to Dublin Chevrolet secured by vehicle, monthly payments of \$480, including interest at 3.9%, due November 22, 2017.	\$26,405	\$39,049
Less: current portion	<u>(13,143)</u>	<u>(12,302)</u>
	<u>\$13,262</u>	<u>\$26,747</u>

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

11. Notes Payable, continued

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2015	\$13,143
2016	5,344
2017	5,344
2018	<u>2,574</u>
	<u>\$26,405</u>

12. Commitments and Contingencies

Obligations Under Operating Leases

Lincoln leases various facilities and equipments under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2015	\$ 194,332
2016	455,137
2017	500,225
2018	474,525
2019	470,698
Thereafter	<u>2,083,058</u>
	<u>\$4,177,975</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2014 and 2013 were \$712,645 and \$330,189, respectively.

Contracts

Lincoln's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Lincoln has no provisions for the possible disallowance of program costs on its financial statements.

Legal Fees

Lincoln incurred \$582,871 in legal costs during the year for costs related to the current litigation surrounding its property that was sold in 2013 and the neighbors of the said property (see Note 8).

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

13. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Florence French Trust/Darrow & Helen Chase Trust	\$1,458,712	\$ 807,224
Endowment fund	1,027,339	596,526
Other funds- various programs	109,631	61,278
Philip Harley Memorial Fund	98,562	98,562
Champlin House - residential program	58,306	68,306
Freedom School	57,500	-
Kinship program	5,356	5,356
	<u>\$2,815,406</u>	<u>\$1,637,252</u>

For the years ended June 30, 2014 and 2013, net assets released from restrictions were \$348,179 and \$168,417, which consist of \$348,179 released for purpose restrictions in 2014, while \$110,683 was released from purpose restrictions and \$57,734 for time restrictions in 2013.

14. Permanently Restricted Net Assets and Endowment Funds

Permanently restricted net assets represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends wherefrom may be expended for unrestricted purposes. At June 30, 2014 and 2013, permanently restricted net assets were \$2,810,935.

Generally accepted accounting principles provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization and also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and Board-designated endowment funds).

Lincoln's Endowment Fund is held in its investment funds with Charles Schwab. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Lincoln classifies as permanently restricted net assets, (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

14. Permanently Restricted Net Assets and Endowment Funds, continued

Investment Objectives, Asset Allocation, and the Disbursement Policy

Lincoln has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Lincoln has a moderate risk tolerance, with a goal of steadily increasing the corpus of the endowment funds over an extended period of time in a way that is consistent with the desired level of risk.

Lincoln's spending policy is anticipated to be withdrawals that will not result in the value of the portfolio being reduced to below the permanently restricted net assets and will be 5% of the average market value calculated from the prior twelve quarter-end balances (3-year trailing value).

Endowment net assets composition by type of fund as of June 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Donor restricted endowment	<u>\$1,027,339</u>	<u>\$2,810,935</u>	<u>\$3,838,274</u>

Changes in endowment net assets for the years ended June 30, 2014 and 2013:

	<u>2014</u>		Total Endowment Assets
	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 596,526	\$2,810,935	\$3,407,461
Investment return:			
Net appreciation (realized and unrealized)	567,921		567,921
Investment income expended	<u>(137,108)</u>	<u>-</u>	<u>(137,108)</u>
Endowment net assets, end of year	<u>\$1,027,339</u>	<u>\$2,810,935</u>	<u>\$3,838,274</u>

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

14. Permanently Restricted Net Assets and Endowment Funds, continued

	<u>2013</u>		Total
	<u>Temporarily</u>	<u>Permanently</u>	<u>Endowment</u>
	<u>Restricted</u>	<u>Restricted</u>	<u>Assets</u>
Endowment net assets, beginning of year	\$ -	\$2,810,935	\$2,810,935
Investment return:			
Net appreciation (realized and unrealized)	<u>596,526</u>	<u>-</u>	<u>596,526</u>
Endowment net assets, end of year	<u>\$596,526</u>	<u>\$2,810,935</u>	<u>\$3,407,461</u>

Endowment net assets at June 30, 2014 and 2013 consist of the following investment portfolios held with Charles Schwab:

	<u>2014</u>	<u>2013</u>
2 nd Century Fund	<u>\$2,407,131</u>	\$2,121,966
Edoff Fund	<u>1,354,495</u>	1,217,995
Siegmund Fund	<u>76,648</u>	<u>67,498</u>
	<u>\$3,838,274</u>	<u>\$3,407,459</u>

Investment earnings including gains and losses on the Edoff and Siegmund Funds are temporarily restricted for use in educational instruction and activities for the children at Lincoln. Investment earnings on the 2nd Century Fund may be used for general operations.

15. Program Service Fees from Government Agencies/Contracts and Grants

Program service fees from government agencies/contracts and grants for the years ended June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Community-based services	<u>\$10,801,588</u>	\$ 8,472,412
Other programs	<u>2,303,315</u>	722,772
Day treatment	<u>1,639,982</u>	1,772,666
Non-public school	<u>1,182,758</u>	1,398,069
Residential treatment	<u>-</u>	<u>240,967</u>
	<u>\$15,927,643</u>	<u>\$12,606,886</u>

During the year ended June 30, 2011, Lincoln discontinued operations on its residential treatment program. Residential treatment program revenues for the year ended June 30, 2013 represent revenues related to costs associated with closing operations. There were no cost incurred related to the closing of the program for the year ended June 30, 2014.

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

16. Employee Benefit Plan

Lincoln has a defined contribution plan available to substantially all employees. Contributions are based on tenure and range from 2% to 8% for union employees and 4% to 9% for non-union employees. Employer contributions under this plan for the years ended June 30, 2014 and 2013 were \$387,942 and \$373,018, respectively.

17. Restatement of Net Assets

Beginning net assets at July 1, 2013, have been restated to appropriately classify unexpended endowment fund earnings from unrestricted net assets to temporary restricted net assets. The totals for June 30, 2013 presented in these financial statements have been restated to reflect the corrected balances as follows:

	As Previously Reported	Adjustment	As Restated
<u>Statements of Financial Position and Activities:</u>			
Net Assets			
Unrestricted net assets	\$10,323,781	\$(596,526)	\$ 9,727,255
Temporarily restricted net assets	1,040,726	596,526	1,637,252
Permanently restricted net assets	<u>2,810,935</u>	-	<u>2,810,935</u>
Total net assets	<u>\$14,175,442</u>	<u>\$ -</u>	<u>\$14,175,442</u>

SUPPLEMENTAL SCHEDULE

LINCOLN CHILD CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2014

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA No.</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Federal Program Expenditure</u>
Federal Awards					
U.S. Department of Health and Human Services ("DHHS"):					
Pass-through, County of Contra Costa:					
Medical Assistance Program (a)	24-925-24	93.778	07/01/12 - 06/30/13	\$ 4,084,533	\$ 1,899,288
Pass-through, County of Alameda					
Foster Care - Title IV-E, Creating Entrepreneurship Opportunities (CEO) for Youth Program (a)	900117-8293	93.658	07/01/12 - 06/30/13	105,000	38,441
Pass-through, Chabot-Las Positas Community College District					
Foster Care - Title IV-E, Contract Education and Training (a)		93.658	07/01/12 - 06/30/13	<u>500,000</u>	<u>375,000</u>
Total DHHS				<u>4,689,533</u>	<u>2,312,729</u>
U.S. Department of Agriculture ("USDA"):					
Pass-through, State of California Department of Education:					
School Breakfast Program	01003-SN-01-NPS	10.553	07/01/12 - 06/30/13		10,426
National School Lunch Program	01003-SN-01-NPS	10.555	07/01/12 - 06/30/13		<u>18,756</u>
Total USDA					<u>29,182</u>
Total Federal Awards				<u>\$ 4,689,533</u>	<u>\$ 2,341,911</u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

- 1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- 2) Lincoln is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

LINCOLN CHILD CENTER

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS

For the year ended June 30, 2014

	Day Treatment	Outpatient	NPS/1-ICE	ICE-Fremont High School	TBS	Project Permanence	Project Permanence	School Engagement Program	Total
	RU# 01834	RU# 01835	RU# 018339	RU# 01KZ1	RU# 01FB3	RU 01FB1	RU 01FB1	RU# 01FB2	
Contract number									
Contract period:	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	
Total contract amount	<u>\$ 1,143,955</u>	<u>\$ 227,150</u>	<u>\$ 423,895</u>	<u>\$ 270,778</u>	<u>\$ 708,199</u>	<u>\$ 2,369,827</u>	<u>\$ 300,000</u>	<u>\$ 783,150</u>	<u>\$ 6,226,954</u>
Salaries	\$ 769,350	\$ 71,059	\$ 151,905	\$ 162,313	\$ 418,343	\$ 1,198,267	\$ 152,707	\$ 372,408	\$ 3,296,352
Benefits	184,507	16,972	42,621	25,403	108,871	303,258	38,647	104,150	824,429
Total salaries and benefits	<u>953,857</u>	<u>88,031</u>	<u>194,526</u>	<u>187,716</u>	<u>527,214</u>	<u>1,501,525</u>	<u>191,354</u>	<u>476,558</u>	<u>4,120,781</u>
Client-property damage	1,894	349	209			36			2,488
Communications	11,232	2,298	2,591	1,560	5,226	18,908	2,409	4,953	49,177
Depreciation expense	3,341	691	813	389	10,966	27,509	3,506	9,307	56,522
Furniture and equipment	11,752	790	2,024	1,773	4,961	17,879	2,279	6,033	47,491
Insurance	13,532	2,661	2,481	2,375	8,930	25,175	3,208	7,826	66,188
Maintenance and replacement	30,337	6,180	6,843	33	20,517	36,935	4,706	13,920	119,471
Occupancy expenses	21,173	4,383	5,191	60	40,559	78,421	9,993	29,574	189,354
Office-related expenses	3,799	738	647	186	2,788	7,346	936	2,442	18,882
Organizational dues	27	5			76	87	11	12	218
Professional service contracts	93,830	163,064	32,445	5,324	3,995	83,603	10,655	41,189	434,105
Service-related expenses	5,348	976	526	1,047	20,961	174,604	22,255	22,247	247,964
Staff development	6,084	1,093	486	5,381	5,996	26,975	3,438	5,157	54,610
Transportation expenses	3,336	658	619	772	2,632	3,041	388	2,664	14,110
Administrative cost	200,055	46,914	52,124	41,893	107,156	352,028	44,862	101,223	946,255
Total expenses	<u>1,359,597</u>	<u>318,831</u>	<u>301,525</u>	<u>248,509</u>	<u>761,977</u>	<u>2,354,072</u>	<u>300,000</u>	<u>723,105</u>	<u>6,367,616</u>
Amount reimbursed by Alameda County	<u>1,120,486</u>	<u>224,880</u>	<u>286,304</u>	<u>292,937</u>	<u>708,199</u>	<u>2,153,950</u>	<u>300,000</u>	<u>714,714</u>	<u>5,801,470</u>
Revenue excess/(deficit)	<u>\$ (239,111)</u>	<u>\$ (93,951)</u>	<u>\$ (15,221)</u>	<u>\$ 44,428</u>	<u>\$ (53,778)</u>	<u>\$ (200,122)</u>	<u>\$ -</u>	<u>\$ (8,391)</u>	<u>\$ (566,146)</u>

See independent auditors' report.

LINCOLN CHILD CENTER

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2014

Helping Open Pathways to Education (HOPE)

	Fruitvale RU# 018335	Esperanza RU# 018333	Laurel RU# 018334	Sankofa RU# 01FN1	New Highland RU# 018337	Met West RU# 018331	Far West RU# 01HC1	Oakland High School RU# 01MB1	Oakland Technical HS RU# 01LC1	Vincent Academy RU# 01LD1	Total	Total Master Contract MC# 900117
Contract number	RU# 018335	RU# 018333	RU# 018334	RU# 01FN1	RU# 018337	RU# 018331	RU# 01HC1	RU# 01MB1	RU# 01LC1	RU# 01LD1	7/1/13 - 6/30/14	7/1/13 - 6/30/14
Contract period:	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14	7/1/13 - 6/30/14
Total contract amount	\$ 234,000	\$ 455,787	\$ 258,824	\$ 305,000	\$ 239,390	\$ 97,000	\$ 105,545	\$ 56,220	\$ 56,220	\$ 22,488	\$ 1,830,474	\$ 8,057,428
Salaries	\$ 112,308	\$ 290,969	\$ 128,495	\$ 139,405	\$ 151,447	\$ 65,765	\$ 60,034	\$ 3,985	\$ 18,121	\$ 60,676	\$ 1,031,205	\$ 4,327,557
Benefits	29,445	76,285	33,689	36,549	39,706	17,242	15,739	1,057	4,787	15,909	270,408	1,094,837
Total salaries and benefits	141,753	367,254	162,184	175,954	191,153	83,007	75,773	5,042	22,908	76,585	1,301,613	5,422,394
Client-property damage											-	2,488
Communications	1,638	4,244	1,874	2,033	2,209	959	876	8	106	886	14,833	64,010
Depreciation expense	3,035	7,863	3,472	3,767	4,093	1,777	1,622	14	196	1,640	27,479	84,001
Furniture and equipment	2,152	5,576	2,463	2,671	2,902	1,260	1,151	10	139	1,163	19,487	66,978
Insurance	2,514	6,512	2,876	3,120	3,390	1,472	1,343	12	162	1,358	22,759	88,947
Maintenance and replacement	4,883	12,653	5,587	6,062	6,585	2,860	2,611	24	315	2,639	44,219	163,690
Occupancy expenses	8,399	21,759	9,609	10,425	11,325	4,918	4,490	41	541	4,538	76,045	265,399
Office-related expenses	913	2,365	1,045	1,133	1,231	535	488	4	59	493	8,266	27,148
Organizational dues	14	37	16	18	19	8	8		1	8	129	347
Professional service contracts	6,639	17,201	7,596	8,242	8,952	3,887	3,549	32	428	3,587	60,113	494,218
Service-related expenses	2,270	5,880	2,596	2,817	3,060	1,329	1,213	11	146	1,226	20,548	268,512
Staff development	1,746	4,525	1,998	2,168	2,355	1,023	933	8	112	944	15,812	70,422
Transportation expenses	2,777	7,193	3,177	3,446	3,744	1,626	1,484	13	179	1,501	25,140	39,250
Administrative cost	33,326	86,341	38,129	41,366	44,939	19,515	17,814	973	4,716	18,006	305,125	1,251,380
Total expenses	212,059	549,403	242,622	263,222	285,957	124,176	113,355	6,192	30,008	114,574	1,941,568	8,309,184
Amount reimbursed by Alameda County	203,293	496,120	233,914	254,269	256,792	102,148	105,545		13,785	56,220	1,722,086	7,523,556
Revenue excess/(deficit)	\$ (8,766)	\$ (53,283)	\$ (8,708)	\$ (8,953)	\$ (29,165)	\$ (22,028)	\$ (7,810)	\$ (6,192)	\$ (16,223)	\$ (58,354)	\$ (219,482)	\$ (785,628)

See independent auditors' report.

ADDITIONAL INFORMATION



Harrington Group

Certified Public Accountants, LLP

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

To the Board of Directors
Lincoln Child Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln Child Center ("Lincoln"), which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln'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 Lincoln's internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. 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 Lincoln's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Lincoln's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
December 9, 2014

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Certified Public Accountants, LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Lincoln Child Center

Report on Compliance for Each Major Federal Program

We have audited Lincoln Child Center ("Lincoln") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lincoln's major federal programs for the year ended June 30, 2014. Lincoln's major federal programs for the year ended June 30, 2014 are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lincoln'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Lincoln 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, 2014.

Report on Internal Control Over Compliance

Management of Lincoln 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 Lincoln's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln's internal control over compliance.

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**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**
continued

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.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
December 9, 2014

LINCOLN CHILD CENTER
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Identification of Major Programs:

U.S. Department of Health and Human Services:	
Foster Care – Title IV-E	93.658
Medical Assistance Program	93.778

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.