Harrington Group
Certified Public Accountants, LLP

LINCOLN CHILD CENTER

FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES, and ADDITIONAL INFORMATION

JUNE 30, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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.

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 Program Expenses and Statement of Expenditures of County of Alameda County Grants are also presented for additional analysis and are 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 February 18, 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
February 18, 2014

LINCOLN CHILD CENTER

STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 5,226,288	$ 2,287,408
Short-term investments (Note 3)	4,334,813	2,274,526
Accounts receivable, net of allowance of $31,341 and $31,342 respectively	2,094,207	2,000,055
Pledges receivable (Note 5)	19,098	57,734
Prepaid expenses	179,657	214,884
Total current assets	11,854,063	6,834,607
Non-current assets		
Property and equipment (Note 6)	484,194	4,277,238
Receivable from split-interest agreement (Note 7)	807,224	706,809
Note receivable (Note 8)	2,800,000	-
Long-term investments (Note 3)	2,810,935	2,810,935
Total non-current assets	6,902,353	7,794,982
Total assets	$ 18,756,416	$ 14,629,589
Liabilities and net assets		
Current liabilities		
Accounts payable	$ 708,633	$ 552,337
Accrued liabilities (Note 9)	1,033,292	714,859
Line of credit (Note 10)	-	-
Current portion of notes payable (Note 11)	12,302	138,030
Total current liabilities	1,754,227	1,405,226
Non-current liabilities		
Non-current portion of notes payable (Note 11)	26,747	2,091,514
Conditional asset retirement obligation (Note 12)	-	124,254
Contingency liability (Note 8)	2,800,000	-
Total non-current liabilities	2,826,747	2,215,768
Total liabilities	4,580,974	3,620,994
Net assets		
Unrestricted	9,614,156	6,514,057
Unrestricted - Board designated (Note 2)	709,625	709,625
Total unrestricted net assets	10,323,781	7,223,682
Temporarily restricted (Note 14)	1,040,726	973,978
Permanently restricted (Note 15)	2,810,935	2,810,935
Total net assets	14,175,442	11,008,595
Total liabilities and net assets	$ 18,756,416	$ 14,629,589

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

LINCOLN CHILD CENTER

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2013 and 2012

	Year ended June 30, 2013				Year ended June 30, 2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support								
Program revenues (Note 16)	$ 12,606,886	$ -	$ -	**$ 12,606,886**	$ 11,668,949	$ -	$ -	$ 11,668,949
Interest and dividends	352,156			**352,156**	140,686			140,686
Contributions	140,621	134,750		**275,371**	176,008	296,133		472,141
Cost settlement adjustments	240,967			**240,967**	120,590			120,590
Net (loss) gain on investments	218,567			**218,567**	(57,300)			(57,300)
Change in value of split-interest agreement		100,415		**100,415**		77,700		77,700
Other revenue	7,100			**7,100**	13,737			13,737
Net assets released from program restrictions	168,417	(168,417)		**-**	280,463	(280,463)		-
Total revenue and support	13,734,714	66,748	-	**13,801,462**	12,343,133	93,370	-	12,436,503
Expenses								
Program services	11,113,748			**11,113,748**	10,118,571			10,118,571
Support services	2,678,391			**2,678,391**	2,560,472			2,560,472
Total expenses	13,792,139	-	-	**13,792,139**	12,679,043	-	-	12,679,043
Change in net assets before net gain on disposal of property and equipment	(57,425)	66,748	-	**9,323**	(335,910)	93,370	-	(242,540)
Net gain on disposal of property and equipment	3,157,524			**3,157,524**				-
Change in net assets	3,100,099	66,748	-	**3,166,847**	(335,910)	93,370	-	(242,540)
Net assets, beginning of year	7,223,682	973,978	2,810,935	**11,008,595**	7,559,592	880,608	2,810,935	11,251,135
Net assets, end of year	$ 10,323,781	$ 1,040,726	$ 2,810,935	**$ 14,175,442**	$ 7,223,682	$ 973,978	$ 2,810,935	$ 11,008,595

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

LINCOLN CHILD CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2013 and 2012

	Year ended June 30, 2013					Year ended June 30, 2012				
		Support Services					Support Services			
	Total Program Services	**Management and General**	**Fundraising**	**Total Support Services**	**Total Expenses**	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Salaries	$ 6,591,071	$ 1,072,671	$ 309,977	$ 1,382,648	**$ 7,973,719**	$ 5,878,646	$ 1,030,379	$ 218,801	$ 1,249,180	$ 7,127,826
Payroll taxes and benefits	1,704,484	238,115	49,952	288,067	**1,992,551**	1,650,517	260,706	56,965	317,671	1,968,188
Total personnel costs	8,295,555	1,310,786	359,929	1,670,715	**9,966,270**	7,529,163	1,291,085	275,766	1,566,851	9,096,014
Professional fees	769,232	283,071	36,207	319,278	**1,088,510**	643,352	135,443	45,436	180,879	824,231
Occupancy	664,804	221,642	16,602	238,244	**903,048**	618,400	279,473	10,340	289,813	908,213
Client-related expenses	600,562	1,266	-	1,266	**601,828**	621,479	2,109	0	2,109	623,588
Office expenses	332,747	161,570	46,711	208,281	**541,028**	227,842	140,256	40,803	181,059	408,901
Depreciation	116,750	100,900	3,733	104,633	**221,383**	142,656	158,413	3,624	162,037	304,693
Training and recruiting	132,235	40,385	9,992	50,377	**182,612**	85,130	29,708	4,843	34,551	119,681
Insurance and taxes	142,122	18,936	4,861	23,797	**165,919**	150,045	27,224	4,465	31,689	181,734
Transportation	59,016	20,987	8,143	29,130	**88,146**	100,480	36,306	2,104	38,410	138,890
Other	725	18,929	2,165	21,094	**21,819**	24	54,632	5,829	60,461	60,485
Special events			11,576	11,576	**11,576**			12,613	12,613	12,613
Total functional expenses	**$ 11,113,748**	**$ 2,178,472**	**$ 499,919**	**$ 2,678,391**	**$ 13,792,139**	$ 10,118,571	$ 2,154,649	$ 405,823	$ 2,560,472	$ 12,679,043

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

LINCOLN CHILD CENTER

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 3,166,847	$ (242,540)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	221,383	304,693
Net (gain) on sale of property	(3,157,524)	-
Net loss (gain) on investments	(218,567)	57,300
Change in value of split-interest agreement	(100,415)	(77,700)
Change in value of conditional asset retirement obligation	(124,254)	4,779
Contingency liability	2,800,000	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(94,152)	261,289
Decrease in pledges receivable	38,636	(57,734)
(Increase) in note receivable	(2,800,000)	-
Decrease (increase) in prepaid expenses	35,227	(10,648)
Increase in accounts payable	156,296	9,354
Increase (decrease) in accrued liabilities	318,433	(15,872)
Net cash provided (used) by operating activities	241,910	232,921
Cash flows from investing activities:		
Decrease in restricted cash and investments	-	248,023
Purchase of investments	(2,454,140)	(1,048,708)
Proceeds from sales of properties	7,500,000	-
Proceeds from sales of investments	612,420	1,369,611
Purchase of property and equipment	(770,815)	(125,829)
Net cash provided by investing activities	4,887,465	443,097
Cash flows from financing activities:		
Net (payments) borrowings on line of credit	-	(650,000)
Proceeds from borrowings on notes payable	26,109	2,323,167
Principal payments on notes payable	(2,216,604)	(2,073,623)
Net cash (used) by financing activities	(2,190,495)	(400,456)
Net increase in cash and cash equivalents	2,938,880	275,562
Cash and cash equivalents, beginning of year	2,287,408	2,011,846
Cash and cash equivalents, end of year	$ 5,226,288	$ 2,287,408
Supplemental disclosure:		
Operating activities reflect interest paid of:	$ 74,885	$ 117,204

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

1. Organization

Lincoln Child Center ("Lincoln") is a not-for-profit agency founded by The Oakland Volunteers in 1883 as a foundling home for orphans and children whose parents were unable to care for them. In the 1950s Lincoln broadened its scope to include the treatment and education of abused and neglected children. Lincoln is dedicated to preparing emotionally troubled children to lead productive and fulfilling lives in the community by providing them and their families with therapy and education in a healing environment. Lincoln has been caring for and nurturing displaced children through school and community-based programs.

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.

Community and School-Based Services. Lincoln's Community and School-Based Services include Healing Open Pathways to Education ("HOPE") program, Project Permanence, and Kinship Support Services Program ("KSSP"). The HOPE program is an early intervention program designed to reduce the number of suspensions and incidences of disruptive behavior at schools in Alameda and Contra Costa Counties. Project Permanence provides a family-centered Wraparound Program which is designed to facilitate children moving out of group care into family settings. Project Permanence provides comprehensive, short-term, intensive services designed to connect the family to natural supports within the community. Lincoln's KSSP provides services, including social service information, referral and advocacy, case management, caregiver and teen support groups, children's activities, group and emergency respite, and educational seminars, to relatives who are raising another family member's children when the parents are absent or unable to raise them. Many of these children are living with their relatives as an alternative to foster care.

Integrative Nonpublic School and Mental Health Day Treatment Program. Lincoln's Nonpublic School and Mental Health Day Treatment Program offers a unique program that integrates special education and intensive mental health services for students in grades K-8. Staffed by certified special education teachers, clinicians, and counseling staff, instruction and treatment are provided in small classrooms of 10 to 12 students and a staff to student ratio of 1 to 3. Mental health services include individual, group and family counseling, rehabilitative therapies, crisis intervention and psychiatric treatment including medication evaluations and on-going consultation with on-site psychiatrists.

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:

continued

2. Summary of Significant Accounting Policies, continued

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, 2013 and 2012.

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 temporary 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.

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

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, 2013 and 2012, 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 91% of revenue and support generated by Lincoln for the year ended June 30, 2013 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 asset retirement obligations 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

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).

Some materials received and re-distributed by Lincoln during the year ending June 30, 2013 were not included in the accompanying financial statements because management concluded that the materials did not meet the above criteria.

Conditional Asset Retirement Obligation

In 1986 Lincoln recorded a Conditional Asset Retirement Obligation ("CARO") for the estimated costs associated with asbestos removal for its building located at 4368 Lincoln Ave in Oakland, California. Over the previous years, Lincoln continued to identify and record new conditional asset retirement obligations as they arose, depreciated and continued to accrue the interest on the CARO, and reevaluate the estimates used in the calculations for appropriateness.

Revisions to a previously recorded CARO will result from changes in the assumptions used to estimate the expected cash flows required to settle the CARO, including changes in estimated probabilities, amounts, and timing of the settlement of the CARO, as well as changes in the legal requirements of an obligation. Any changes that result in upward revisions to the expected cash flows shall be treated as a new liability and discounted at the current rate. Any downward revisions to the expected cash flows will result in a reduction of the CARO. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows shall be recognized as an increase or a decrease in (a) the carrying amount of the liability for the CARO and (b) the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

During current year ending June 30, 2013, Lincoln disposed of all its properties on 4368 Lincoln Ave in Oakland, California, and writing off the associated CARO balance of $124,254

continued

2. Summary of Significant Accounting Policies, continued

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.

Reclassification

Certain amounts from the June 30, 2012 financial statements have been reclassified to conform to the June 30, 2013 presentation.

Subsequent Events

Management has evaluated subsequent events through February 18, 2014 the date which the financial statements were available.

continued

3. Investments

Investments at June 30, 2013 and 2012 consist of the following:

	2013	2012
Equities	**$ 4,739,828**	$ 3,776,164
Bonds	**1,475,384**	1,255,529
Mutual funds	**930,536**	53,768
	7,145,748	5,085,461
Less: current portion	**(4,334,813)**	(2,274,526)
Long-term portion	**$ 2,810,935**	$ 2,810,935

Investment income on the Statement of Activities is shown net of management fees of $51,868.

4. Fair Value Measurements

The table below presents the balances of assets or liabilities measured at fair value at June 30, 2013 and 2012 on a recurring basis:

		2013		
	Level 1	Level 2	Level 3	**Total**
Equities	$4,739,828	$ -	$ -	**$4,739,828**
Bond funds	1,475,384			**1,475,384**
Mutual funds	930,536			**930,536**
Conditional asset retirement obligation			-	**-**
Receivable: split-interest agreement ("SIA")		807,224		**807,224**
Fair value at June 30, 2013	$7,145,748	$807,224	$ -	**$7,952,972**

The following table provides further details of the Level 3 fair value measurements:

Balance, beginning of year	**$ 124,254**
Write-off of CARO	**(124,254)**
Balance, end of year	**$ -**

continued

4. Fair Value Measurements, continued

	2012			
	Level 1	Level 2	Level 3	**Total**
Equities	$3,776,164	$ -	$	**$3,776,164**
Bond funds	1,255,529			**1,255,529**
Mutual funds	53,768			**53,768**
Conditional asset retirement obligation			124,254	**124,254**
Receivable: split-interest agreement ("SIA")		706,809		**706,809**
Fair value at June 30, 2012	$5,085,461	$706,809	$124,254	**$5,916,524**

The following table provides further details of the Level 3 fair value measurements:

Balance, beginning of year	**$119,475**
Annual accretion expense	**4,779**
Balance, end of year	**$124,254**

The fair values of equities, bond funds and mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of the conditional asset retirement obligation has been measured on a recurring basis using estimated settlement costs and cash flows with an inflation rate of 1.05% and a discount rate of 4.38% (Level 3 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).

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	**Total**
Pledged contributions - new	$ -	$ -	$134,750	**$134,750**

	2012			
	Level 1	Level 2	Level 3	**Total**
Pledged contributions - new	$ -	$ -	$63,059	**$63,059**

The fair value of pledged contributions are measured on a non-recurring based on the value provided by the donor at the date of pledge (Level 3 inputs).

continued

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, 2013 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2013. Total amount of pledges receivable is $19,098 as of June 30, 2013 and are expected to be collected within one year. There were pledges receivables of $ 57,734 at June 30, 2012.

6. Property and Equipment

Property and equipment at June 30, 2013 and 2012 consist of the following:

	2013	2012
Land	**$ -**	$ 52,406
Buildings and improvements	**402,388**	7,078,753
Furniture and equipment	**430,970**	334,540
Automobiles	**72,359**	46,250
Software	**10,795**	10,795
	916,512	7,522,744
Less: accumulated depreciation	**(432,318)**	(3,245,506)
	$ 484,194	$ 4,277,238

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 were $221,383 and $304,693, respectively.

7. Split-Interest Agreement

Lincoln holds a remainder interest in an irrevocable split-interest agreement. 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 a 7.75% discount rate. This agreement is valued at net present value at June 30, 2013 and 2012, based on Internal Revenue Service guidelines as follows:

continued

7. Split-Interest Agreement, continued

	2013		2012	
	Fair Value	Significant Other Observable Assets (Level 2)	Fair Value	Significant Other Observable Assets (Level 2)
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.	**$807,224**	**$2,664,836**	$706,809	$2,514,175

8. Note Receivable and Contingency Liability

Note receivable of $2,800,000 at June 30, 2013 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, 2013. There were no note receivable and contingency liability balances at June 30, 2012.

9. Accrued Liabilities

Accrued liabilities at June 30, 2013 and 2012 consist of the following:

	2013	2012
Accrued vacation	**$ 444,064**	$393,533
Accrued payroll	**321,313**	283,612
Other accrued liabilities	**225,191**	9,261
Accrued payroll taxes and benefits	**30,447**	19,930
Accrued unemployment liability	**12,277**	8,523
	$1,033,292	$714,859

Lincoln has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2013 and 2012, of $12,277 and $8,523, respectively, represents estimated future claims arising from payroll paid to date. Unemployment expense for the years ended June 30, 2013 and 2012 were $63,259 and $283,834, 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, 2013 and 2012 were 5.0% and 6.75%, with maturity dates of April 10, 2014 and 2013, respectively. There were no outstanding balances at June 30, 2013 and 2012.

11. Notes Payable

Notes payable at June 30, 2013 and 2012 consist of the following:

	2013	2012
Note payable to Wells Fargo Bank, secured by real property, monthly payments of $20,539, including interest at 5.45%, due September 1, 2024.	**$ -**	$2,206,377
Note payable to Honda Financial Services unsecured, monthly payments of $679, including interest at 3.45%, due June 16, 2015.	**15,697**	23,167
Note payable to Dublin Chevrolet secured by vehicle, monthly payments of $480, including interest at 3.9%, due November 22, 2017.	**23,352**	-
	$39,049	$2,229,544
Less: current portion	**(12,302)**	(138,030)
	$ 26,747	$2,091,514

Maturities for notes payable are as follows:

Year ended June 30,	
2014	$12,302
2015	13,143
2016	5,344
2017	5,344
2018	2,916
	$39,049

continued

12. Conditional Asset Retirement Obligation

Lincoln was required to incur costs related to asbestos removal upon sale or demolition of the building located at 4368 Lincoln Ave in Oakland, California. The value of the obligation had been estimated using market rates for removal costs as of 1986, a discount rate of 4.38%, and an inflation rate of 1.05%. After the sale of the Lincoln property during the year, Lincoln wrote-off this provision resulting in no balances remaining at June 30, 2013. These costs were estimated to be $124,254 at June 30, 2012. The estimated costs were recorded as a liability and the related asset classified as buildings and improvements.

13. 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:

Year ended June 30,	
2014	$ 160,751
2015	145,127
2016	402,166
2017	421,365
2018	433,924
Thereafter	2,385,617
	$3,948,950

Rent and equipment lease expenses under operating leases for the years ended June 30, 2013 and 2012 were $333,453 and $337,954, 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.

continued

14. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 consist of the following:

	2013	2012
Florence French Trust	**$ 807,224**	$706,809
Philip Harley Memorial Fund	**98,562**	83,562
Champlin House- residential program	**68,306**	68,306
Pledges – time restriction	**-**	57,734
Other funds- various programs	**61,278**	52,211
Kinship program	**5,356**	5,356
	$1,040,726	$973,978

For the years ended June 30, 2013 and 2012, net assets released from restrictions were $168,417 and $280,463, which consist of $110,683 released for program restrictions and $57,734 for time restrictions in 2013, while $275,138 was released from program restrictions and $5,325 for time restrictions in 2012.

15. 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 therefrom may be expended for unrestricted purposes. At June 30, 2013 and 2012, 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.

continued

15. 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Donor restricted endowment funds	$(59,995)	$ -	$2,810,935	**$2,750,940**

Changes in endowment net assets for the years ended June 30, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, beginning of year	$(59,995)	$ -	$2,810,935	**$2,750,940**
Investment return:				
Net depreciation (realized and unrealized)	173,019	-	-	**173,019**
Endowment net assets, end of year	$113,024	$ -	$2,810,935	**$2,923,959**

continued

15. Permanently Restricted Net Assets and Endowment Funds, continued

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total Endowment Assets**
Endowment net assets, beginning of year	$96,477	$ -	$2,810,935	**$2,907,412**
Investment return:				
Net depreciation (realized and unrealized)	(156,472)			**(156,472)**
Endowment net assets, end of year	$ (59,995)	$ -	$2,810,935	**$2,750,940**

Endowment net assets at June 30, 2013 and 2012 consist of the following investment portfolios held with Charles Schwab:

	2013	2012
2nd Century Fund	**$1,894,517**	$1,765,114
Edoff Fund	**961,944**	932,058
Siegmund Fund	**67,498**	53,768
	$2,923,959	$2,750,940

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.

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

Program service fees from government agencies/contracts and grants for the years ended June 30, 2013 and 2012 consist of the following:

	2013	2012
Community-based services	**$ 8,472,412**	$ 7,388,117
Day treatment	**1,772,666**	1,878,638
Non-public school	**1,398,069**	1,370,730
Other programs	**963,739**	821,473
Residential treatment	**-**	209,991
	$12,606,886	$11,668,949

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. The total cost incurred related to the closing of the program for the year ended June 30, 2013 was $16,716. The related expense was reported as program costs on the Statement of Functional Expenses for the respective year.

continued

17. 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, 2013 and 2012 were $373,018 and $309,790, respectively.

SUPPLEMENTAL SCHEDULE

LINCOLN CHILD CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

Program Name	Contract Number	Federal CFDA No.	Contract Term	Program Award	Federal Program Expenditure
Federal Awards					
U.S. Department of Health and Human Services ("DHHS"):					
Pass-through, County of Contra Costa:					
Medical Assistance Program **(a)**	24-925-20	93.778	07/01/12 - 06/30/13	$ 2,569,026	$ 1,214,677
Pass-through, County of Alameda					
Foster Care_Title IV-E, Creating Entrepreneurship Opportunities (CEO) for Youth Program	900117-8293	93.658	07/01/12 - 06/30/13	105,000	36,992
Pass-through, Chabot-Las Positas Community College District					
Foster Care_Title IV-E, Contract Education and Training		93.658	07/01/12 - 06/30/13	269,778	220,004
Total DHHS				2,943,804	**1,471,673**
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		10,683
National School Lunch Program	01003-SN-01-NPS	10.555	07/01/12 - 06/30/13		20,764
Total USDA					**31,447**
Total Federal Awards				**$ 2,943,804**	**$ 1,503,120**

(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.

LINCOLN CHILD CENTER

STATEMENT OF PROGRAM EXPENSES

Year ended June 30, 2013
With comparative totals at June 30, 2012

	Community-Based	Day Treatment	Non-Public School	Kinship	Other Contracts	Residential Treatment	**2013**	2012
Salaries	$ 4,383,895	$ 861,326	$ 764,978	$ 195,281	$ 385,591	$ -	**$ 6,591,071**	$ 5,878,646
Payroll taxes and benefits	1,146,576	244,547	172,928	45,114	78,603	16,716	**1,704,484**	1,650,517
Total personnel costs	5,530,471	1,105,873	937,906	240,395	464,194	16,716	**8,295,555**	7,529,163
Professional fees	230,786	360,221	16,108	41,698	120,419		**769,232**	618,400
Occupancy	427,840	48,157	117,997	46,604	24,206		**664,804**	643,352
Client-related expenses	309,433	14,967	215,305	19,582	41,275		**600,562**	621,479
Office expenses	229,592	26,490	41,343	15,847	19,475		**332,747**	227,842
Insurance and taxes	96,275	22,611	12,448	6,192	4,596		**142,122**	150,045
Training and recruiting	77,297	8,520	10,067	6,777	29,574		**132,235**	85,130
Depreciation	53,939	9,856	46,374	154	6,427		**116,750**	142,656
Transportation	32,508	3,024	16,853	3,470	3,161		**59,016**	100,480
Other	725						**725**	24
Total 2013 program expenses	**$ 6,988,866**	**$ 1,599,719**	**$ 1,414,401**	**$ 380,719**	**$ 713,327**	**$ 16,716**	**$ 11,113,748**	$ 10,118,571
Total 2012 program expenses	$ 5,989,918	$ 1,644,046	$ 1,501,079	$ 386,550	$ 443,528	$ 153,450		

See independent auditors' report.

LINCOLN CHILD CENTER

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2013

	Day Treatment/Community Clients		
	Day Treatment	Outpatient	**Total**
Contract number	RU# 01834	RU# 01835	
Contract period:	7/1/12 - 6/30/13	7/1/12 - 6/30/13	
Total contract amount	$ 1,520,000	$ 275,000	**$ 1,795,000**
Salaries	$ 726,914	$ 122,073	**$ 848,987**
Benefits	220,319	37,000	**257,319**
Total salaries and benefits	947,233	159,073	**1,106,306**
Transportation expenses	2,590	435	**3,025**
Staff development	7,297	1,226	**8,523**
Service-related expenses	8,347	1,402	**9,749**
Professional service contracts	308,430	51,795	**360,225**
Organizational dues	3,933	660	**4,593**
Office-related expenses	2,871	483	**3,354**
Occupancy expenses	1,903	320	**2,223**
Maintenance and replacement	27,398	4,601	**31,999**
Insurance	19,365	3,252	**22,617**
Furniture and equipment	18,414	3,093	**21,507**
Depreciation expense	8,440	1,417	**9,857**
Communications	9,008	1,513	**10,521**
Client-property damage	4,469	750	**5,219**
Administrative cost	254,703	42,773	**297,476**
Total expenses	**1,624,401**	**272,793**	**1,897,194**
Amount reimbursed by Alameda County	**1,516,235**	**256,431**	**1,772,666**
Revenue excess/(deficit)	**$ (108,166)**	**$ (16,362)**	**$ (124,528)**

See independent auditors' report.

LINCOLN CHILD CENTER

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2013

	Opportunity Schools											
	Santa Fe / Fruitvale	**Esperanza**	**Laurel**	**Sankofa**	**New Highland**	**Met West**	**Far West**	**TBS**	**Project Permanence**	**School Engagement Program**	**Total**	**Total Master Contract**
Contract number	RU# 018332/ 018335	RU# 018333	RU# 018334	RU# 01FN1	RU# 018337	RU# 018331	RU# 01HC1	RU# 01FB3	RU 01FB1	RU# 01FB2		MC# 900117
Contract period:	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	7/1/12-6/30/13	
Total contract amount	$ 234,000	$ 410,000	$ 258,824	$ 305,000	$ 239,390	$ 97,000	$ 105,545	$ 708,199	$ 2,308,222	$ 783,150	**$ 5,449,330**	**$ 7,244,330**
Salaries	$ 123,781	$ 267,716	$ 136,854	$ 149,844	$ 110,859	$ 64,816	$ 67,652	$ 440,379	$ 1,180,158	$ 330,902	**$ 2,872,961**	**$ 3,721,948**
Benefits	30,510	65,964	33,599	36,852	27,154	16,106	16,804	110,596	317,777	78,373	**733,735**	**991,054**
Total salaries and benefits	154,291	333,680	170,453	186,696	138,013	80,922	84,456	550,975	1,497,935	409,275	**3,606,696**	**4,713,002**
Transportation expenses	1,456	3,262	2,244	2,150	2,116	146	185	1,615	1,988	1,334	**16,496**	**19,521**
Staff development	1,950	4,366	3,003	2,878	2,833	195	247	5,039	18,769	6,755	**46,035**	**54,558**
Service-related expenses	2,118	4,743	3,263	3,126	3,078	212	269	32,140	175,885	30,116	**254,950**	**264,699**
Professional service contracts	3,336	7,471	5,140	4,923	4,848	334	424	7,180	73,695	34,091	**141,442**	**501,667**
Organizational dues	5	10	7	7	7		1	44	33	6	**120**	**4,713**
Office-related expenses	1,050	2,351	1,617	1,550	1,525	105	133	2,159	8,337	2,542	**21,369**	**24,723**
Occupancy expenses	9,483	21,239	14,611	13,997	13,783	949	1,203	6,617	84,233	27,428	**193,543**	**195,766**
Miscellanous	94	211	145	139	137	9	12				**747**	**32,746**
Maintenance and replacement	6,239	13,973	9,612	9,208	9,068	624	792	12,784	51,006	17,016	**130,322**	**152,939**
Insurance	2,643	5,920	4,072	3,901	3,841	264	335	8,405	27,284	7,634	**64,299**	**85,806**
Furniture and equipment	3,414	7,649	5,262	5,041	4,963	342	433	14,706	29,886	13,369	**85,065**	**94,922**
Depreciation expense	2,559	5,733	3,943	3,777	3,720	256	324	2,398	22,778	7,683	**53,171**	**63,692**
Communications	1,762	3,946	2,714	2,600	2,560	176	224	2,962	18,847	4,548	**40,339**	**45,558**
Client-property damage								776	353		**1,129**	**298,605**
Administrative cost	41,358	90,061	49,196	52,183	41,489	18,278	19,257	131,630	411,463	107,690	**962,605**	**962,605**
Total expenses	231,758	504,615	275,282	292,176	231,981	102,812	108,295	779,430	2,422,492	669,487	**5,618,328**	**7,515,522**
Amount reimbursed by Alameda	231,758	410,000	258,824	292,176	231,981	97,000	105,545	779,430	2,281,800	783,150	**5,471,664**	**7,244,330**
Revenue excess/(deficit)	$ -	$ (94,615)	$ (16,458)	$ -	$ -	$ (5,812)	$ (2,750)	$ -	$ (140,692)	$ 113,663	**$ (146,664)**	**$ (271,192)**

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, 2013, 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 February 18, 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
February 18, 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, 2013. Lincoln's major federal programs for the year ended June 30, 2013 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, 2013.

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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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
February 18, 2014

LINCOLN CHILD CENTER
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

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 deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
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:	
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.