

LINCOLN

**FINANCIAL STATEMENTS
and
SUPPLEMENTAL SCHEDULE**

JUNE 30, 2017 and 2016

CONTENTS

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-19
Supplemental Schedule:	
Statement of Expenditures of County of Alameda Grants	20-21



Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lincoln

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Statement of Expenditures of County of Alameda Grants, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Lincoln's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of Lincoln's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lincoln's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln's internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
December 11, 2017

LINCOLN

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 132,783	\$ 158,570
Accounts receivable, net of allowance of \$46,900	3,458,954	2,744,668
Pledges receivable (Note 3)	46,757	54,523
Prepaid expenses	156,471	195,575
TOTAL CURRENT ASSETS	3,794,965	3,153,336
NON-CURRENT ASSETS		
Intangible asset (Note 4)	294,583	325,104
Investments (Note 5)	10,102,345	11,418,727
Property and equipment (Note 7)	2,029,781	2,388,100
Receivable from split-interest agreement (Note 8)	1,205,511	1,487,640
TOTAL NON-CURRENT ASSETS	13,632,220	15,619,571
TOTAL ASSETS	\$ 17,427,185	\$ 18,772,907
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 199,591	\$ 362,388
Accrued liabilities (Note 9)	1,508,242	1,552,366
Line of credit (Note 10)	630,000	1,100,000
TOTAL CURRENT LIABILITIES	2,337,833	3,014,754
TOTAL LIABILITIES	2,337,833	3,014,754
NET ASSETS		
Unrestricted	9,961,167	10,516,422
Temporarily restricted (Note 12)	2,317,250	2,430,796
Permanently restricted (Note 13)	2,810,935	2,810,935
TOTAL NET ASSETS	15,089,352	15,758,153
TOTAL LIABILITIES AND NET ASSETS	\$ 17,427,185	\$ 18,772,907

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

LINCOLN

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2017 and 2016

	Year ended June 30, 2017				Year ended June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Program revenues (Note 14)	\$ 18,742,788	\$ 448,500	\$ -	\$ 19,191,288	\$ 17,765,157	\$ -	\$ -	\$ 17,765,157
Contributions	714,205			714,205	488,749	91,647		580,396
Special events	205,413			205,413	151,162			151,162
Interest and dividends	256,030			256,030	259,361			259,361
Cost settlement adjustments	52,827			52,827	148,915			148,915
In-kind contributions (Note 2)	49,488			49,488	21,502			21,502
Other revenue	1,031			1,031	21,084			21,084
Net assets released from purpose restrictions	910,144	(910,144)		-	435,338	(435,338)		-
TOTAL REVENUE AND SUPPORT	20,931,926	(461,644)	-	20,470,282	19,291,268	(343,691)	-	18,947,577
EXPENSES								
Program services	18,069,601			18,069,601	16,534,621			16,534,621
Support services	3,983,435			3,983,435	3,512,224			3,512,224
TOTAL EXPENSES	22,053,036	-	-	22,053,036	20,046,845	-	-	20,046,845
CHANGE IN NET ASSETS BEFORE OTHER	(1,121,110)	(461,644)	-	(1,582,754)	(755,577)	(343,691)	-	(1,099,268)
OTHER								
Net gain (loss) on investments	565,855	203,385		769,240	(486,460)	(50,664)		(537,124)
Change in value of split-interest agreement		144,713		144,713		(100,336)		(100,336)
Gain on sale of property				-	2,800,000			2,800,000
Legal fees				-	(133,689)			(133,689)
CHANGE IN NET ASSETS	(555,255)	(113,546)	-	(668,801)	1,424,274	(494,691)	-	929,583
NET ASSETS, BEGINNING OF YEAR	10,516,422	2,430,796	2,810,935	15,758,153	9,092,148	2,925,487	2,810,935	14,828,570
NET ASSETS, END OF YEAR	\$ 9,961,167	\$ 2,317,250	\$ 2,810,935	\$ 15,089,352	\$ 10,516,422	\$ 2,430,796	\$ 2,810,935	\$ 15,758,153

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

LINCOLN

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2017 and 2016

	Year ended June 30, 2017					Year ended June 30, 2016				
	Total Program Services	Support Services		Total Support Services	Total Expenses	Total Program Services	Support Services		Total Support Services	Total Expenses
		Management and General	Fundraising				Management and General	Fundraising		
Salaries	\$ 12,152,655	\$ 1,325,979	\$ 427,185	\$ 1,753,164	\$ 13,905,819	\$ 10,809,606	\$ 1,277,170	\$ 353,814	\$ 1,630,984	\$ 12,440,590
Payroll taxes and benefits	3,006,926	332,114	70,327	402,441	3,409,367	2,664,835	314,794	72,799	387,593	3,052,428
Total personnel costs	15,159,581	1,658,093	497,512	2,155,605	17,315,186	13,474,441	1,591,964	426,613	2,018,577	15,493,018
Professional fees	427,309	650,877	36,194	687,071	1,114,380	583,445	442,117	76,595	518,712	1,102,157
Occupancy	715,165	131,343	24,391	155,734	870,899	727,700	130,879	40,727	171,606	899,306
Office expenses	441,185	229,810	108,326	338,136	779,321	416,384	204,860	69,761	274,621	691,005
Client-related expenses	623,039	8,884	10,305	19,189	642,228	634,700	4,703	32,696	37,399	672,099
Depreciation and amortization	286,000	155,482	10,828	166,310	452,310	282,355	121,957	11,086	133,043	415,398
Training and recruiting	217,838	57,918	7,288	65,206	283,044	188,515	64,388	3,482	67,870	256,385
Insurance and taxes	21,576	146,334	1,537	147,871	169,447	97,774	78,003	3,576	81,579	179,353
Transportation	128,420	26,225	4,987	31,212	159,632	128,210	27,115	2,567	29,682	157,892
Special events			125,791	125,791	125,791	-		103,000	103,000	103,000
Other		75,851		75,851	75,851	1,097	49,998	4,635	54,633	55,730
In-kind expenses	49,488			-	49,488	-		21,502	21,502	21,502
Bad debts		15,459		15,459	15,459	-			-	-
TOTAL FUNCTIONAL EXPENSES	\$ 18,069,601	\$ 3,156,276	\$ 827,159	\$ 3,983,435	\$ 22,053,036	\$ 16,534,621	\$ 2,715,984	\$ 796,240	\$ 3,512,224	\$ 20,046,845

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

LINCOLN

STATEMENTS OF CASH FLOWS For the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (668,801)	\$ 929,583
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	452,310	415,398
Net (gain) loss on investments	(769,240)	537,124
Reinvested interest and dividends	(256,030)	(259,361)
Change in value of split-interest agreement	282,129	29,452
(Increase) decrease in operating assets:		
Accounts receivable	(714,286)	(349,791)
Pledges receivable	7,766	58,067
Prepaid expenses	39,104	(53,049)
Intangible asset	(2,091)	(188,984)
Increase (decrease) in operating liabilities:		
Accounts payable	(162,797)	156,173
Accrued liabilities	(44,124)	(281,856)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(1,836,060)	992,756
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,174,908)	(3,772,445)
Purchase of property and equipment	(61,379)	(97,562)
Proceeds from sales of investments	6,516,560	1,517,950
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,280,273	(2,352,057)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	(5,050,000)	(4,260,000)
Proceeds from borrowings on line of credit	4,580,000	5,010,000
Principal payments on notes payable	-	(13,273)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(470,000)	736,727
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,787)	(622,574)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	158,570	781,144
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 132,783	\$ 158,570
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid of:	\$ 60,231	\$ 37,934

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

LINCOLN

NOTES TO FINANCIAL STATEMENTS

1. Organization

Lincoln is a not-for-profit agency founded in 1883 as the first racially integrated orphanage in Northern California. Since its founding, Lincoln has impacted the lives of children and families through evolving programs. Today, Lincoln provides preventative, individualized, and comprehensive support services with a focus on three core areas that disrupt cycles of poverty and trauma:

- Education – Addressing obstacles that impact academic attendance and achievement;
- Family – Strengthening stability and creating permanency; and
- Well-Being – Improving resiliency and wellness.

Every day, Lincoln provides real solutions to the unique issues children, youth and families face in communities throughout our region. Lincoln goes where children and youth are, helping them to develop skills to stay at home and in school. Teams of skilled and diverse staff work together with youth and families to utilize their strengths to build a plan for success. With this critical support, children, youth, and families thrive and build bold futures. Only Lincoln has the culturally relevant, adaptive approach that meets the needs of children and families.

Lincoln provides a unique array of comprehensive programs and services for some of the Bay Area's most vulnerable populations. 90% of families served have income levels at or below the poverty level; 37% are African American, 35% are Hispanic/Latino, 12% are Caucasian, 7% are Asian/Pacific Islander, 0% are Native American, 1% are Multi- or Bi-racial, and 8% are Other or no indication.

Lincoln provides children with support and services as young as possible and make a continuum of programs available during their school years and through graduation from high school. Lincoln further ensures children's success by providing services to strengthen and engage their family and community. This is how *Lincoln disrupts the cycle of poverty and trauma, empowering children and families to build strong futures*. Lincoln's unique multi-generational model sets a new standard of support that changes lives.

Fundraising strategies include an annual campaign, one annual major fundraising event, direct mail appeals, and the ongoing submission of grant proposals to foundations, corporations, and government sources. Annual income comes from these sources as well as program fees, investment spending, and earned interest.

LINCOLN

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.

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. As of June 30, 2017 and 2016, Lincoln had \$2,810,935 in permanently restricted net assets.

Accounts Receivable

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

Investments

Lincoln values its investment at fair value. Unrealized and realized gain or loss (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments.

LINCOLN

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Short-term highly liquid money market deposits which are not used for operations are treated as investments.

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, 2017 and 2016, 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 the allocation of such investments.

Approximately 90% and 84% of revenue and support generated by Lincoln for the years ended June 30, 2017 and 2016 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 these financial statement elements are described in the notes below that relate to each element.

continued

LINCOLN

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 years ended June 30, 2017 and 2016, Lincoln received in-kind contributions of \$49,488 and \$21,502, respectively.

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through December 11, 2017, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. 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, 2017 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2017. Total amount of pledges receivable is \$46,757 as of June 30, 2017 and are expected to be collected within one year. There were pledges receivables of \$54,523 at June 30, 2016.

4. Intangible Asset

Lincoln started its rebranding in 2015 from its former name, "Lincoln Child Center" to eliminate the misconception associated with the "Child Center" connotation, whereby the public often perceived that Lincoln provided child care services (i.e. day care center).

Lincoln have determined that the rebranding costs incurred would result in future economic benefits such as securing new contracts for the provision of services to all age groups other than just children, which would include teens, youths, adults and seniors. As such, Lincoln has recorded these costs as an intangible asset and will be amortized once all rebranding work has been wholly completed. Lincoln has started amortizing this intangible asset in 2017 over a period of 10 years. The fair value of the Intangibles Asset at June 30, 2017 and 2016 was \$294,583 and \$325,104, respectively.

5. Investments

Investments at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Equities	\$ 4,410,657	\$ 5,291,920
Fixed income	2,916,227	2,371,180
Exchange traded funds	1,603,375	1,783,047
Money markets	691,622	1,547,082
Mutual Funds	480,464	425,498
	<u>\$10,102,345</u>	<u>\$11,418,727</u>

Investment income on the Statement of Activities for the years ended June 30, 2017 and 2016 is shown net of management fees of \$67,033 and \$62,927, respectively.

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

6. 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, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2017</u>				
Equities				
Technology	\$1,024,651	\$ -	\$ -	\$ 1,024,651
Healthcare	688,768			688,768
Services	621,231			621,231
Financial	539,815			539,815
Basic materials	502,508			502,508
Consumer goods	424,431			424,431
Industrial goods	402,545			402,545
Utilities	<u>206,708</u>			<u>206,708</u>
Total equities	<u>4,410,657</u>	<u>-</u>	<u>-</u>	<u>4,410,657</u>
Fixed income				
Corporate bonds		1,257,613		1,257,613
Municipal bonds		674,781		674,781
Government securities	633,526			633,526
Agency securities		338,671		338,671
Mortgage pools		<u>11,636</u>		<u>11,636</u>
Total fixed income	<u>633,526</u>	<u>2,282,701</u>	<u>-</u>	<u>2,916,227</u>
Exchange traded funds				
Foreign large cap	507,912			507,912
Healthcare	297,559			297,559
Technology	266,848			266,848
Financial	246,618			246,618
Real estate	120,686			120,686
Basic materials	106,363			106,363
Large cap	31,113			31,113
Bonds	19,008			19,008
Diversified emerging markets	4,900			4,900
Energy	<u>2,368</u>			<u>2,368</u>
Total exchange traded funds	<u>1,603,375</u>	<u>-</u>	<u>-</u>	<u>1,603,375</u>
Mutual funds				
Foreign large cap	<u>480,464</u>			<u>480,464</u>
Money market funds				
	<u>691,622</u>	<u>-</u>	<u>-</u>	<u>691,622</u>
Total investments	<u>7,819,644</u>	<u>2,282,701</u>	<u>-</u>	<u>10,102,345</u>
Split-interest agreement	<u>-</u>	<u>1,205,511</u>	<u>-</u>	<u>1,205,511</u>
Fair value at June 30, 2017	<u>\$7,819,644</u>	<u>\$3,488,212</u>	<u>\$ -</u>	<u>\$11,307,856</u>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements, continued

June 30, 2016

Equities				
Technology	\$1,522,386	\$ -	\$ -	\$ 1,522,386
Healthcare	1,048,731			1,048,731
Basic materials	694,496			694,496
Services	635,049			635,049
Financial	586,966			586,966
Consumer goods	550,097			550,097
Industrial goods	143,570			143,570
Utilities	<u>110,625</u>			<u>110,625</u>
Total equities	<u>5,291,920</u>	<u>-</u>	<u>-</u>	<u>5,291,920</u>
Fixed income				
Corporate bonds		821,252		821,252
Agency securities		673,330		673,330
Government securities	657,690			657,690
Municipal bonds		203,240		203,240
Mortgage pools		<u>15,668</u>		<u>15,668</u>
Total fixed income	<u>657,690</u>	<u>1,713,490</u>	<u>-</u>	<u>2,371,180</u>
Exchange traded funds				
Bonds	727,153			727,153
Foreign large cap	475,774			475,774
Financial	183,842			183,842
Healthcare	140,972			140,972
Real estate	128,572			128,572
Technology	93,171			93,171
Large cap	26,790			26,790
Diversified emerging markets	4,228			4,228
Energy	<u>2,545</u>			<u>2,545</u>
Total exchange traded funds	<u>1,783,047</u>	<u>-</u>	<u>-</u>	<u>1,783,047</u>
Mutual funds				
Foreign large cap	<u>425,498</u>			<u>425,498</u>
Money market funds				
	<u>1,547,082</u>	<u>-</u>	<u>-</u>	<u>1,547,082</u>
Total investments	<u>9,705,237</u>	<u>1,713,490</u>	<u>-</u>	<u>11,418,727</u>
Split-interest agreement	<u>-</u>	<u>1,487,640</u>	<u>-</u>	<u>1,487,640</u>
Fair value at June 30, 2016	<u>\$9,705,237</u>	<u>\$3,201,130</u>	<u>\$ -</u>	<u>\$12,906,367</u>

The fair value of investment components have been measured on a recurring basis using quoted prices in active markets for identical assets (Level 1 inputs) and quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements, continued

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).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2017</u>				
In-kind contributions	\$ <u> -</u>	\$ <u>49,488</u>	\$ <u> -</u>	\$ <u>49,488</u>
<u>June 30, 2016</u>				
In-kind contributions	\$ <u> -</u>	\$ <u>21,502</u>	\$ <u> -</u>	\$ <u>21,502</u>

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).

7. Property and Equipment

Property and equipment at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ <u>3,006,976</u>	\$ 3,004,976
Furniture and equipment	181,488	181,488
Automobiles	49,276	49,276
Software	279,791	279,791
Construction in progress	<u>59,379</u>	<u> -</u>
	<u>3,576,910</u>	3,515,531
Less: accumulated depreciation	<u>(1,547,129)</u>	<u>(1,127,431)</u>
	<u>\$ 2,029,781</u>	<u>\$ 2,388,100</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 were \$452,310 and \$415,397 respectively.

8. 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, 2017 and 2016, based on Internal Revenue Service guidelines as follows:

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

8. Split-Interest Agreement, continued

	<u>2017</u>		<u>2016</u>	
	Significant Other Observable		Significant Other Observable	
	<u>Fair Value</u>	<u>Assets (Level 2)</u>	<u>Fair Value</u>	<u>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.	\$1,205,511	\$1,205,511	\$1,143,453	\$1,143,453
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>-</u>	<u>-</u>	<u>344,187</u>	<u>344,187</u>
	<u>\$1,205,511</u>	<u>\$1,205,511</u>	<u>\$1,487,640</u>	<u>\$1,487,640</u>

9. Accrued Liabilities

Accrued liabilities at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Accrued vacation	\$ 686,767	\$ 673,445
Accrued payroll, taxes, and benefits	340,293	249,084
Accrued unemployment liability	6,971	11,021
Deferred rent credits	407,486	456,207
Other accrued liabilities	<u>66,725</u>	<u>162,609</u>
	<u>\$1,508,242</u>	<u>\$1,552,366</u>

Lincoln has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2017 and 2016, of \$6,971 and \$11,021, respectively, represents estimated future claims arising from payroll paid to date. Unemployment expense for the years ended June 30, 2017 and 2016 were \$49,870 and \$72,471, respectively.

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

10. Line of Credit

Lincoln has a revolving line of credit with Wells Fargo Bank, in the amount of \$1,500,000, at an interest rate equal to the bank's prime rate plus 1.5% due March 2018. Interest rates at June 30, 2017 and 2016 were 4.50% and 4.25% with maturity dates of September 25, 2018 and March 10, 2017, respectively. Outstanding balances on the line of credit at June 30, 2017 and 2016 were \$630,000 and \$1,100,000 respectively.

11. Commitments and Contingencies

Obligations Under Operating Leases

Lincoln leases various facilities and equipment 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>	
2018	\$ 518,544
2019	479,298
2020	459,109
2021	414,200
2022	346,234
Thereafter	<u>826,870</u>
	<u>\$3,044,255</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2017 and 2016 were \$549,500 and \$427,955, 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.

LINCOLN

NOTES TO FINANCIAL STATEMENTS

12. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Florence French Trust/Darrow & Helen Chase Trust	\$1,205,511	\$1,487,640
Endowment fund	938,523	735,139
Philip Harley Memorial Fund	97,806	98,862
Other funds - various programs	47,101	70,846
Voyles Fund	<u>28,309</u>	<u>38,309</u>
	<u>\$2,317,250</u>	<u>\$2,430,796</u>

For the years ended June 30, 2017 and 2016, net assets released from restrictions were \$910,144 and \$435,338, which consist of \$910,144 released for purpose restrictions in 2017, while \$435,338 was released from purpose restrictions in 2016.

13. 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, 2017 and 2016, 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.

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.

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets and Endowment Funds, continued

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, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor restricted endowment	<u>\$938,523</u>	<u>\$2,810,935</u>	<u>\$3,749,458</u>

Changes in endowment net assets for the years ended:

June 30, 2017

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ 735,139	\$2,810,935	\$3,546,074
Investment return:			
Net appreciation (realized and unrealized)	350,924		350,924
Investment income expended	<u>(147,540)</u>		<u>(147,540)</u>
Endowment net assets, end of year	<u>\$ 938,523</u>	<u>\$2,810,935</u>	<u>\$3,749,458</u>

June 30, 2016

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$1,021,833	\$2,810,935	\$3,832,768
Investment return:			
Net depreciation (realized and unrealized)	(137,938)		(137,938)
Investment income expended	<u>(148,756)</u>		<u>(148,756)</u>
Endowment net assets, end of year	<u>\$ 735,139</u>	<u>\$2,810,935</u>	<u>\$3,546,074</u>

Endowment net assets at June 30, 2017 and 2016 consist of the following investment portfolios held with Charles Schwab:

	<u>2017</u>	<u>2016</u>
2 nd Century Fund	<u>\$2,279,501</u>	\$2,177,449
Edoff Fund	<u>1,384,720</u>	1,290,906
Siegmund Fund	<u>85,237</u>	<u>77,719</u>
	<u>\$3,749,458</u>	<u>\$3,546,074</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.

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

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

Program service fees from government agencies/contracts and grants for the years ended June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Community-based services	\$17,697,809	\$15,846,797
Other programs	823,450	1,467,210
Other government grants	<u>670,029</u>	<u>451,150</u>
	<u>\$19,191,288</u>	<u>\$17,765,157</u>

15. Employee Benefit Plan

Lincoln has a defined contribution plan available to substantially all employees. Employer contributions for non-union employees' are based on tenure and range from 5% to 9%. Lincoln makes matching contributions up to a maximum of 5% for union employees. Employer contributions under this plan for the years ended June 30, 2017 and 2016 were \$492,704 and \$478,524, respectively.

SUPPLEMENTAL SCHEDULE

LINCOLN

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2017

	ICESDC- Fremont HS (Mandela Architecture)	ICESDC- Hoover Elementary/ Prescott/Howard and Lafayette (Summer School)	Wraparound Program	Wraparound Program/ Probation	School Engagement Program	TBS	MDFT Program/ Probation Waiver 4 Funding	MDFT Flex Funds and Licensing Fee Title IV E Probation Licensing Fee	Total
	RU# 01KZ1 7/1/16 - 6/30/17	RU# 01ML1 / RU# 010C1 / RU# 010B1 7/1/16 - 6/30/17	RU# 01FB1 7/1/16 - 6/30/17	RU# 01FB1 7/1/16 - 6/30/17	RU# 01FB2 7/1/16 - 6/30/17	RU# 01FB3 7/1/16 - 6/30/17	RU# 01FB6 7/1/16 - 6/30/17	N/A 7/1/16 - 6/30/17	
Contract number:									
Contract period:									
Total contract amount	\$ 241,988	\$ 251,315	\$ 2,660,427	\$ 855,750	\$ 1,194,174	\$ 1,111,540	\$ 666,183	\$ 42,000	\$ 7,023,377
Salaries	\$ 79,067	\$ 211,967	\$ 1,309,071	\$ 453,931	\$ 625,733	\$ 613,738	\$ 296,005	\$ -	\$ 3,589,512
Benefits	18,196	48,781	361,778	125,449	151,983	149,495	59,583		915,265
Total salaries and benefits	97,263	260,748	1,670,849	579,380	777,716	763,233	355,588	-	4,504,777
Administrative cost	32,251	86,463	522,601	181,216	224,442	227,434	108,787		1,383,194
Occupancy	6,773	18,157	70,167	24,331	27,411	35,233	16,174		198,246
Professional and specialized service:	44,404	37,375	2,418	838	8,967	9,198	1,364		104,564
Transportation	588	1,576	63,006	21,848	26,393	22,643	9,470		145,524
Program/service related expenses	2,333	6,253	49,651	17,217	13,607	13,438	3,183	36,622	142,304
Depreciation	3,685	9,879	33,723	11,694	4,725	6,159	17,174		87,039
Furniture and equipment	66	178	3,514	1,219			2,490		7,467
Communication	618	1,657	17,073	5,920	6,265	5,995	3,888		41,416
Insurance, taxes, and other fees	1,337	3,584	21,793	7,557	8,909	9,996	3,653		56,829
Staff development/trainings	690	1,849	4,147	1,438	2,317	1,704	609		12,754
Staff travel	1,687	4,522	1,368	474	2,146	1,682	1,932		13,811
Debt/capital payments									-
Office related expenses	49	134	1,241	432	1,777	592	1,546		5,771
Organizational dues and fees	851	2,282	6,305	2,186	3,410	2,530	26		17,590
Total expenses	\$ 192,595	\$ 434,657	\$ 2,467,856	\$ 855,750	\$ 1,108,085	\$ 1,099,837	\$ 525,884	\$ 36,622	\$ 6,721,286

See independent auditors' report.

LINCOLN

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2017
continued

Helping Open Pathways to Education (HOPE)

	Bridge Academy (ACOE)	Esperanza/Korematau Discovery Academies	Laurel Elementary	Fruitvale Elementary	New Highland/Rise RU#	Sankofa Elementary	Oakland Technical HS - Upper Campus & Lower Campuses (Far West)	Grass Valley Elementary	Met West High School/La Escuelita Elem School RU#	Vincent Academy Charter School	Oakland High School	Total	Total Master Contract
Contract number:	RU#01P91	RU# 01LA1	RU# 01LB1	RU# 01M01	018337/01NX1	RU# 01FN1	RU# 01HC1	RU# 01QA1	018331/01NJ1	RU# 01LD1	RU# 01MB1		MC# 900117
Contract period:	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17	7/1/16 - 6/30/17		7/1/16 - 6/30/17
Total contract amount	\$ 257,038	\$ 388,499	\$ 264,600	\$ 253,575	\$ 388,498	\$ 231,525	\$ 154,537	\$ 70,875	\$ 184,538	\$ 392,362	\$ 148,762	\$ 2,734,809	\$ 9,758,186
Salaries	\$ 76,153	\$ 279,024	\$ 174,128	\$ 160,787	\$ 205,552	\$ 137,794	\$ 147,041	\$ 14,635	\$ 121,355	\$ 201,142	\$ 88,859	\$ 1,606,470	\$ 5,195,982
Benefits	18,164	66,551	41,532	38,350	49,027	32,866	35,071	3,491	28,945	47,975	21,194	383,166	1,298,431
Total salaries and benefits	94,317	345,575	215,660	199,137	254,579	170,660	182,112	18,126	150,300	249,117	110,053	1,989,636	6,494,413
Administrative cost	23,699	85,813	54,321	49,684	63,530	41,924	45,756	4,476	37,738	61,630	27,305	495,876	1,879,070
Occupancy	2,277	8,246	5,220	4,774	6,105	4,028	4,397	430	3,626	5,922	2,624	47,649	245,895
Professional and specialized serv	1,761	6,375	4,036	3,691	4,720	3,115	3,399	333	2,804	4,579	2,029	36,842	141,406
Transportation	1,198	4,338	2,746	2,512	3,212	2,119	2,313	226	1,908	3,116	1,380	25,068	170,592
Program/service related expenses	1,069	3,869	2,449	2,240	2,864	1,890	1,759	202	1,701	2,779	1,231	22,053	164,357
Depreciation	1,250	4,528	2,866	2,622	3,352	2,212	2,414	236	1,991	3,252	1,441	26,164	113,203
Furniture and equipment	38	138	87	80	102	67	74	7	61	99	44	797	8,264
Communication	392	1,418	898	821	1,050	693	756	74	624	1,019	451	8,196	49,612
Insurance, taxes, and other fees	890	3,224	2,041	1,867	2,387	1,575	1,719	168	1,418	2,316	1,026	18,631	75,460
Staff development/trainings	295	1,070	677	619	792	523	570	56	470	768	340	6,180	18,934
Staff travel	219	794	502	459	588	388	423	41	349	570	253	4,586	18,397
Debt/capital payments													
Office related expenses	77	276	266	160	204	136	459	15	122	197	89	2,001	7,772
Organizational dues and fees	373	1,349	854	781	999	659	719	70	593	969	429	7,795	25,385
Total expenses	\$ 127,855	\$ 467,013	\$ 292,623	\$ 269,447	\$ 344,484	\$ 229,989	\$ 246,870	\$ 24,460	\$ 203,705	\$ 336,333	\$ 148,695	\$ 2,691,474	\$ 9,412,760
Amount Reimbursed by Alameda County as of 6/30/17													8,481,182
Subsequent Reimbursed by Alameda County after 6/30/17 (Jul - Aug 2017)													789,025
													9,270,207
Amount to be reimbursed													\$ 142,553

See independent auditors' report.