



Certified Public Accountants, LLP

LINCOLN

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

JUNE 30, 2016 and 2015

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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 Statements of Financial Position as of June 30, 2016 and 2015, 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 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, 2016 and 2015, 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 Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Lincoln as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Statement of Expenditures of County of Alameda Grants is also presented for additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 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 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 internal control over financial reporting and compliance.

Harrington Group

San Francisco, California

January 17, 2017

LINCOLN

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	\$ 158,570	\$ 781,144
Accounts receivable, net of allowance of \$41,064	2,744,668	2,394,877
Pledges receivable (Note 3)	54,523	112,590
Prepaid expenses	195,575	142,526
TOTAL CURRENT ASSETS	3,153,336	3,431,137
NON-CURRENT ASSETS		
Intangible asset (Note 4)	325,104	136,120
Investments (Note 5)	11,418,727	9,441,995
Property and equipment (Note 7)	2,388,100	2,705,936
Receivable from split-interest agreement (Note 8)	1,487,640	1,517,092
Note receivable (Note 9)	-	2,800,000
TOTAL NON-CURRENT ASSETS	15,619,571	16,601,143
TOTAL ASSETS	\$ 18,772,907	\$ 20,032,280
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 362,388	\$ 206,215
Accrued liabilities (Note 10)	1,552,366	1,834,222
Line of credit (Note 11)	1,100,000	350,000
Current portion of notes payable (Note 12)	-	5,344
TOTAL CURRENT LIABILITIES	3,014,754	2,395,781
NON-CURRENT LIABILITIES		
Non-current portion of notes payable (Note 12)	-	7,929
Contingency liability (Note 9)	-	2,800,000
TOTAL NON-CURRENT LIABILITIES	-	2,807,929
TOTAL LIABILITIES	3,014,754	5,203,710
NET ASSETS		
Unrestricted	10,516,422	9,032,523
Unrestricted - Board designated (Note 2)	-	59,625
Total unrestricted net assets	10,516,422	9,092,148
Temporarily restricted (Note 14)	2,430,796	2,925,487
Permanently restricted (Note 15)	2,810,935	2,810,935
TOTAL NET ASSETS	15,758,153	14,828,570
TOTAL LIABILITIES AND NET ASSETS	\$ 18,772,907	\$ 20,032,280

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

LINCOLN

STATEMENTS OF ACTIVITIES For the years ended June 30, 2016 and 2015

	Year ended June 30, 2016				Year ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Program revenues (Note 16)	\$ 17,765,157	\$ -	\$ -	\$ 17,765,157	\$ 17,686,550	\$ -	\$ -	\$ 17,686,550
Contributions	488,749	91,647		580,396	296,348	453,150		749,498
Interest and dividends	259,361			259,361	202,708			202,708
Special events	151,162			151,162	154,921			154,921
Cost settlement adjustments	148,915			148,915	902,455			902,455
In-kind contributions (Note 2)	21,502			21,502	122,133			122,133
Other revenue	21,084			21,084	1,112			1,112
Net assets released from purpose restrictions	435,338	(435,338)		-	422,373	(422,373)		-
TOTAL REVENUE AND SUPPORT	19,291,268	(343,691)	-	18,947,577	19,788,600	30,777	-	19,819,377
EXPENSES								
Program services	16,534,621			16,534,621	15,988,940			15,988,940
Support services	3,512,224			3,512,224	3,451,728			3,451,728
TOTAL EXPENSES	20,046,845	-	-	20,046,845	19,440,668	-	-	19,440,668
CHANGE IN NET ASSETS BEFORE OTHER	(755,577)	(343,691)	-	(1,099,268)	347,932	30,777	-	378,709
OTHER								
Gain on sale of property (Note 9)	2,800,000			2,800,000				-
Change in value of split-interest agreement		(100,336)		(100,336)		58,380		58,380
Legal fees (Note 18)	(133,689)			(133,689)	(223,090)			(223,090)
Net (loss) gain on investments	(486,460)	(50,664)		(537,124)	87,359	20,924		108,283
CHANGE IN NET ASSETS	1,424,274	(494,691)	-	929,583	212,201	110,081	-	322,282
NET ASSETS, BEGINNING OF YEAR	9,092,148	2,925,487	2,810,935	14,828,570	8,879,947	2,815,406	2,810,935	14,506,288
NET ASSETS, END 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

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

LINCOLN

STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2016 and 2015

	Year ended June 30, 2016					Year ended June 30, 2015				
	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	\$ 10,809,606	\$ 1,277,170	\$ 353,814	\$ 1,630,984	\$ 12,440,590	\$ 10,372,998	\$ 1,346,292	\$ 267,609	\$ 1,613,901	\$ 11,986,899
Payroll taxes and benefits	2,664,835	314,794	72,799	387,593	3,052,428	2,504,642	360,006	51,099	411,105	2,915,747
Total personnel costs	13,474,441	1,591,964	426,613	2,018,577	15,493,018	12,877,640	1,706,298	318,708	2,025,006	14,902,646
Professional fees	583,445	442,117	76,595	518,712	1,102,157	518,188	170,124	114,571	284,695	802,883
Occupancy	727,700	130,879	40,727	171,606	899,306	741,868	206,603	37,118	243,721	985,589
Office expenses	416,384	204,860	69,761	274,621	691,005	400,340	201,909	81,152	283,061	683,401
Client-related expenses	634,700	4,703	32,696	37,399	672,099	679,322	5,731		5,731	685,053
Depreciation	282,355	121,957	11,086	133,043	415,398	267,698	106,621	12,577	119,198	386,896
Training and recruiting	188,515	64,388	3,482	67,870	256,385	206,143	84,784	5,090	89,874	296,017
Insurance and taxes	97,774	78,003	3,576	81,579	179,353	149,748	26,469	4,094	30,563	180,311
Transportation	128,210	27,115	2,567	29,682	157,892	143,813	36,288	1,699	37,987	181,800
Special events	-		103,000	103,000	103,000	-		142,428	142,428	142,428
Other	1,097	49,998	4,635	54,633	55,730	4,180	52,921	14,410	67,331	71,511
In-kind expenses	-		21,502	21,502	21,502	-	122,133		122,133	122,133
TOTAL FUNCTIONAL EXPENSES	\$ 16,534,621	\$ 2,715,984	\$ 796,240	\$ 3,512,224	\$ 20,046,845	\$ 15,988,940	\$ 2,719,881	\$ 731,847	\$ 3,451,728	\$ 19,440,668

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

LINCOLN

STATEMENTS OF CASH FLOWS For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 929,583	\$ 322,282
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	415,398	386,896
Net loss (gain) on investments	537,124	(108,283)
Change in value of split-interest agreement	29,452	(58,380)
(Increase) decrease in operating assets:		
Accounts receivable	(349,791)	211,253
Pledges receivable	58,067	(60,350)
Prepaid expenses	(53,049)	31,802
Intangible asset	(188,984)	(136,120)
Increase (decrease) in operating liabilities:		
Accounts payable	156,173	(437,043)
Accrued liabilities	(281,856)	142,761
	1,252,117	294,818
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,031,806)	(1,417,538)
Purchase of property and equipment	(97,562)	(205,339)
Proceeds from sales of investments	1,517,950	1,776,921
	(2,611,418)	154,044
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	(4,260,000)	(4,580,000)
Proceeds from borrowings on line of credit	5,010,000	4,680,000
Principal payments on notes payable	(13,273)	(13,132)
	736,727	86,868
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(622,574)	535,730
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	781,144	245,414
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 158,570	\$ 781,144
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid of:	\$ 37,934	\$ 34,216

The accompanying notes are an integral part of these 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. Ninety percent of families served have income levels at or below the poverty level; 42% are African American, 27% are Hispanic/Latino, 13% are Caucasian, 3% are Asian/Pacific Islander, 1% are Native American, 6% 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.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Accounting

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

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

Unrestricted Board Designated. These are comprised of resources that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net assets accounting, these funds are included in unrestricted net assets at June 30, 2016 and 2015.

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

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Lincoln and the fiscally sponsored projects to expend all of the income (or other economic benefits) derived from the donated assets. As of June 30, 2016 and 2015, 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 losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments.

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, 2016 and 2015, 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 85% and 88% of revenue and support generated by Lincoln for the years ended June 30, 2016 and 2015 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 financial statement elements are described in the notes below that relate to each element.

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, 2016 and 2015, Lincoln received in-kind contributions of \$21,502 and \$122,133, 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.

2. Summary of Significant Accounting Policies, continued

Reclassification

Certain amounts from the June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation.

Subsequent Events

Management has evaluated subsequent events through January 17, 2017, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appears 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, 2016 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2016. Total amount of pledges receivable is \$54,523 as of June 30, 2016 and are expected to be collected within one year. There were pledges receivables of \$112,590 at June 30, 2015.

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. The fair value of the Intangibles Asset at June 30, 2016 and 2015 was \$325,104 and \$136,120, respectively.

LINCOLN

NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Equities	\$ 5,291,920	\$4,356,601
Fixed income	2,371,180	1,988,652
Exchange traded funds	1,783,047	1,620,473
Money markets	1,547,082	1,318,569
Mutual Funds	<u>425,498</u>	<u>127,700</u>
	<u>\$11,418,727</u>	<u>\$9,411,995</u>

Investment income on the Statement of Activities for the years ended June 30, 2016 and 2015 is shown net of management fees of \$62,927 and \$71,910, respectively.

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, 2016 on a recurring basis:

June 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</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	2,545			2,545
Total exchange traded funds	<u>1,783,047</u>	<u>-</u>	<u>-</u>	<u>1,783,047</u>
Mutual funds				
Foreign large cap	425,498			425,498
Total mutual funds	<u>425,498</u>	<u>-</u>	<u>-</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>
<u>June 30, 2015</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities				
Technology	\$1,008,339	\$-	\$-	\$ 1,008,339
Healthcare	736,486			736,486
Services	694,554			694,554
Financial	583,038			583,038
Basic materials	566,350			566,350
Consumer goods	430,996			430,996
Industrial goods	336,838			336,838
Total equities	<u>4,356,601</u>	<u>-</u>	<u>-</u>	<u>4,356,601</u>
Fixed income				
Corporate bonds		865,055		865,055
Government securities	600,966			600,966
Agency securities		501,210		501,210
Mortgage pools		21,421		21,421
Total fixed income	<u>600,966</u>	<u>1,387,686</u>	<u>-</u>	<u>1,988,652</u>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds				
Foreign large cap	543,033			543,033
Bonds	512,157			512,157
Diversified emerging markets	182,938			182,938
Real estate	108,301			108,301
Miscellaneous	83,583			83,583
Foreign real estate	70,116			70,116
Financial	66,662			66,662
Energy	26,928			26,928
Large cap	<u>26,755</u>			<u>26,755</u>
Total exchange traded funds	<u>1,620,473</u>	-	-	<u>1,620,473</u>
Mutual funds				
Foreign large cap	<u>127,700</u>			<u>127,700</u>
Total mutual funds	<u>127,700</u>	-	-	<u>127,700</u>
Money market funds	<u>1,318,569</u>	-	-	<u>1,318,569</u>
Total investments	<u>8,024,309</u>	<u>1,387,686</u>	-	<u>9,411,995</u>
Split-interest agreement	-	<u>1,517,092</u>	-	<u>1,517,092</u>
Fair value at June 30, 2015	<u>\$8,024,309</u>	<u>\$2,904,778</u>	<u>\$ -</u>	<u>\$10,110,723</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).

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>
June 30, 2016				
In-kind contributions	<u>\$ -</u>	<u>\$21,502</u>	<u>\$ -</u>	<u>\$21,502</u>
June 30, 2015				
In-kind contributions	\$ -	\$122,133	\$ -	\$122,133
Pledged contributions – new			<u>140,814</u>	<u>140,814</u>
	<u>\$ -</u>	<u>\$122,133</u>	<u>\$140,814</u>	<u>\$262,947</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).

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

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

7. Property and Equipment

Property and equipment at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 3,004,976	\$2,916,524
Furniture and equipment	388,932	355,077
Automobiles	49,276	52,376
Software	72,347	65,147
Work in progress	<u>-</u>	<u>31,946</u>
	3,515,531	3,421,070
Less: accumulated depreciation	<u>(1,127,431)</u>	<u>(715,134)</u>
	<u>\$ 2,388,100</u>	<u>\$2,705,936</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 were \$415,397 and \$386,896 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, 2016 and 2015, based on Internal Revenue Service guidelines as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>Significant Other Observable Assets (Level 2)</u>	<u>Fair Value</u>	<u>Significant Other Observable Assets (Level 2)</u>
A charitable remainder trust naming Lincoln as a beneficiary with a 22.22% interest. Lincoln does not have possession of the assets or control of the trust administration.	\$1,143,453	\$1,143,453	\$1,161,135	\$1,161,135
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>344,187</u>	<u>344,187</u>	<u>355,957</u>	<u>355,957</u>
	<u>\$1,487,640</u>	<u>\$1,487,640</u>	<u>\$1,517,092</u>	<u>\$1,517,092</u>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

9. Note Receivable and Contingency Liability

Note receivable of \$2,800,000 at June 30, 2015 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 noted receivable, a contingency liability of \$2,800,000 has been provided for by Lincoln at June 30, 2015.

During the year ended June 30, 2016, the litigation pursued by the property's neighbors against the entity that acquired Lincoln's properties was settled, resulting in the payment of the note receivable of \$2,800,000, additionally the contingency liability in the amount of \$2,800,000 has been recognized as gain on sale of property for the year ended June 30, 2016.

10. Accrued Liabilities

Accrued liabilities at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Accrued vacation	\$ 673,445	\$ 649,628
Accrued payroll, taxes, and benefits	249,084	603,261
Deferred rent credits	456,207	479,213
Other accrued liabilities	162,609	88,811
Accrued unemployment liability	<u>11,021</u>	<u>13,309</u>
	<u>\$1,552,366</u>	<u>\$1,834,222</u>

Lincoln has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2016 and 2015, of \$11,021 and \$13,309, respectively, represents estimated future claims arising from payroll paid to date. Unemployment expense for the years ended June 30, 2016 and 2015 were \$72,471 and \$73,783, respectively.

11. 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 2017. Interest rates at June 30, 2016 and 2015 were 4.50% and 4.25% with maturity dates of March 10, 2017 and August 9, 2015, respectively. Outstanding balances on the line of credit at June 30, 2016 and 2015 were \$1,100,000 and \$350,000 respectively.

LINCOLN

NOTES TO FINANCIAL STATEMENTS

12. Note Payable

Note payable at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Note payable to Honda Financial Services unsecured, monthly payments of \$679, including interest at 3.45%, due June 16, 2015, Note payable to Dublin Chevrolet secured by vehicle, monthly payments of \$480, including interest at 3.9%, due November 22, 2017.	\$ -	\$13,273
Less: current portion	<u> </u>	<u>(5,344)</u>
	<u>\$ -</u>	<u>\$ 7,929</u>

13. 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>	
2017	\$ 504,025
2018	478,389
2019	449,880
2020	459,109
2021	414,200
Thereafter	<u>1,173,105</u>
	<u>\$3,478,708</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2016 and 2015 were \$427,955 and \$462,789, 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

LINCOLN

NOTES TO FINANCIAL STATEMENTS

14. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Florence French Trust/Darrow & Helen Chase Trust	\$1,487,640	\$1,517,092
Endowment fund	735,139	1,021,833
Philip Harley Memorial Fund	98,862	98,862
Other funds - various programs	70,846	78,918
Champlin House - residential program	38,309	48,309
Freedom School	<u>-</u>	<u>160,473</u>
	<u>\$2,430,796</u>	<u>\$2,925,487</u>

For the years ended June 30, 2016 and 2015, net assets released from restrictions were \$435,338 and \$422,373, which consist of \$435,338 released for purpose restrictions in 2016, while \$422,373 was released from purpose restrictions in 2015.

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 wherefrom may be expended for unrestricted purposes. At June 30, 2016 and 2015, permanently restricted net assets were \$2,810,935.

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

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

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

LINCOLN

NOTES TO FINANCIAL STATEMENTS

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, 2016:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Donor restricted endowment	<u>\$735,139</u>	<u>\$2,810,935</u>	<u>\$3,546,074</u>

Changes in endowment net assets for the years ended:

June 30, 2016

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
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>

June 30, 2015

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, beginning of year	\$1,027,339	\$2,810,935	\$3,838,274
Investment return:			
Net appreciation (realized and unrealized)	134,059		134,059
Investment income expended	<u>(139,565)</u>		<u>(139,565)</u>
Endowment net assets, end of year	<u>\$1,021,833</u>	<u>\$2,810,935</u>	<u>\$3,832,768</u>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

15. Permanently Restricted Net Assets and Endowment Funds, continued

Endowment net assets at June 30, 2016 and 2015 consist of the following investment portfolios held with Charles Schwab:

	<u>2016</u>	<u>2015</u>
2 nd Century Fund	\$2,177,449	\$2,380,700
Edoff Fund	1,290,906	1,375,170
Siegmund Fund	<u>77,719</u>	<u>76,898</u>
	<u>\$3,546,074</u>	<u>\$3,832,768</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.

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, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Community-based services	\$15,846,797	\$15,602,369
Other programs	1,918,360	1,833,876
Day treatment	-	174,537
Non-public school	<u>-</u>	<u>75,768</u>
	<u>\$17,765,157</u>	<u>\$17,686,550</u>

17. 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, 2016 and 2015 were \$478,524 and \$452,735, respectively.

18. Related Party Transaction

One of the Partners of a law firm that was engaged by Lincoln is a member of the Board of Directors. The engagement of that law firm to represent Lincoln in litigation surrounding its property that was sold in 2013 and the neighbors of the said property was done at "arm's length transaction", whereby the respective board member was not involved in the selection of the law firm to represent Lincoln, nor did the board member influence the outcome of the selection process. Total amount paid to the firm for the years ended June 30, 2016 and 2015 was \$133,689 and \$223,090, respectively.

SUPPLEMENTAL SCHEDULES

LINCOLN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA No.</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Federal Program Expenditure</u>
Federal Awards					
U.S. Department of Health and Human Services ("DHHS"):					
Pass-through, County of Contra Costa:					
Medical Assistance Program (a)	24-925-26	93.778	07/01/15 - 06/30/16	\$ 6,513,799	\$ 3,030,052
Pass-through, Chabot-Las Positas Community College District:					
Foster Care - Title IV-E, Contract Education and Training		93.658	07/01/15 - 06/30/16	500,000	500,000
Pass-through, County of Alameda Social Services Agency:					
Foster Care - Title IV-E, Kinship Support Services Program	900117-10428	93.658	07/01/15 - 06/30/16	<u>650,000</u>	<u>227,500</u>
Total DHHS				<u>7,663,799</u>	<u>3,757,552</u>
Total Federal Awards				<u>\$ 7,663,799</u>	<u>\$ 3,757,552</u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

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

See independent auditors' report.

LINCOLN

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2016

	ICESDC- Hoover Elementary / Prescott/Howard and Lafayette (Summer School)		Wraparound Program	Wraparound Program / Probation	School Engagement Program	TBS	Parenting with Love and Limits / ATP	Parenting with Love and Limits / Licensing Fee	Parenting with Love and Limits / Re-Entry	Total
	ICESDC- Fremont HS (Mandela Architecture)	RU# 01ML1 / RU# 010C1 / RU#								
	RU# 01KZ1	RU# 010B1	RU# 01FB1	RU# 01FB1	RU# 01FB2	RU# 01FB3	RU# 01FB4		RU# 01FB5	
	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	
Contract number:										
Contract period:										
Total contract amount	\$ 230,464	\$ 239,350	\$ 2,533,740	\$ 815,000	\$ 1,137,308	\$ 1,058,609	\$ 368,932	\$ 126,816	\$ 188,462	\$ 6,698,681
Salaries	\$ 187,449	\$ 216,839	\$ 1,363,851	\$ 460,254	\$ 645,382	\$ 612,218	\$ 156,771	\$ -	\$ 62,440	\$ 3,705,204
Benefits	51,346	59,485	337,974	114,055	156,162	147,125	35,629		11,798	913,574
Total salaries and benefits	238,795	276,324	1,701,825	574,309	801,544	759,343	192,400	-	74,238	4,618,778
Administrative cost	39,311	45,915	356,252	119,664	165,260	141,371	38,986		12,909	919,668
Occupancy	12,716	12,716	76,757	25,903	29,869	36,353	12,583		1,104	208,001
Professional & specialized services	4,696	27,823	10,455	3,529	4,680	4,502	899	126,816	74	183,474
Transportation	793	793	71,468	24,118	34,564	27,051	2,190		343	161,320
Program/service related expenses	3,793	3,793	53,845	18,171	16,208	11,505	6,495		235	114,045
Depreciation	7,619	7,619	34,140	11,521	7,282	9,373	10,492			88,046
Furniture & equipment	5,924	5,924	19,372	6,537	11,374	10,080	7,562		4,215	70,988
Communication	2,277	2,277	28,622	9,659	10,352	9,159	3,987		972	67,305
Insurance, taxes & other fees	2,706	2,706	23,882	8,059	10,572	10,216	937		3,784	62,862
Staff development/trainings	2,773	2,773	11,683	3,943	8,437	6,372	8,619		42	44,642
Staff travel	2,541	2,542	8,736	2,948	10,480	4,058	1,089		2,857	35,251
Debt/capital payments	1,344	1,344	10,901	3,679	5,173	4,346	1,142		1,076	29,005
Office related expenses	930	930	8,727	2,945	3,226	3,591	2,065		2,273	24,687
Organizational dues & fees	267	267	45	15	307	37	2		2,249	3,189
Total expenses	\$ 326,485	\$ 393,746	\$ 2,416,710	\$ 815,000	\$ 1,119,328	\$ 1,037,357	\$ 289,448	\$ 126,816	\$ 106,371	\$ 6,631,261

See independent auditors' report.

LINCOLN

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2016

Helping Open Pathways to Education (HOPE)

	Met West HS/ La Esquelita Elementary School	Esperanza/ Korematau Discovery Academies	Laurel Elementary	Fruitvale Elementary	New Highland	Sankofa Elementary	Oakland Technical HS - Upper Campus (Far West)	Oakland Technical High - Lower Campus	Vincent Academy Charter School	Oakland High School	Total	Total Master Contract
Contract number:	RU# 018331 / 01NJ1	RU# 01LA1	RU# 01LB1	RU# 018335 / 01M01	RU# 018337	RU# 01FN1	RU# 01HC1	RU# 01LC1	RU# 01LD1	RU# 01MB1		MC# 900117
Contract period:	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16		7/1/15 - 6/30/16
Total contract amount	\$ 175,751	\$ 369,999	\$ 252,000	\$ 241,500	\$ 369,998	\$ 220,500	\$ 5,500	\$ 141,678	\$ 238,678	\$ 141,678	\$ 2,157,282	\$ 8,855,963
Salaries	\$ 84,194	\$ 199,576	\$ 156,333	\$ 124,644	\$ 176,251	\$ 115,311	\$ 2,118	\$ 94,123	\$ 119,353	\$ 79,518	\$ 1,151,421	\$ 4,856,625
Benefits	20,441	48,440	37,943	30,243	42,773	27,986	514	22,842	28,947	19,302	279,431	1,193,005
Total salaries and benefits	104,635	248,016	194,276	154,887	219,024	143,297	2,632	116,965	148,300	98,820	1,430,852	6,049,630
Administrative cost	20,112	53,498	42,540	37,236	49,492	31,072	518	26,246	40,204	20,418	321,336	1,241,004
Occupancy	3,090	8,219	6,536	5,720	7,603	4,774	80	4,032	6,177	3,137	49,368	257,369
Professional & specialized services	2,652	7,053	5,609	4,909	6,525	4,097	68	3,461	5,301	2,692	42,367	225,841
Transportation	285	757	602	527	700	439	7	372	569	289	4,547	165,867
Program/service related expenses	1,088	2,894	2,301	2,014	2,677	1,681	28	1,420	2,175	1,104	17,382	131,427
Depreciation	1,455	3,869	3,077	2,693	3,580	2,247	37	1,898	2,908	1,477	23,241	111,287
Furniture & equipment	1,374	3,655	2,906	2,544	3,381	2,122	36	1,793	2,747	1,395	21,953	92,941
Communication	1,231	3,274	2,604	2,279	3,029	1,902	32	1,606	2,461	1,249	19,667	86,972
Insurance, taxes & other fees	1,146	3,047	2,423	2,121	2,817	1,770	29	1,495	2,289	1,163	18,300	81,162
Staff development/trainings	1,498	3,984	3,168	2,773	3,686	2,314	39	1,954	2,994	1,520	23,930	68,572
Staff travel	1,371	3,646	2,899	2,538	3,373	2,117	35	1,788	2,740	1,392	21,899	57,150
Debt/capital payments	566	1,505	1,197	1,048	1,392	874	15	738	1,131	574	9,040	38,045
Office related expenses	354	942	749	655	871	547	10	461	708	359	5,656	30,343
Organizational dues & fees	2	6	4	4	6	4		2	4	2	34	3,223
Total expenses	\$ 140,859	\$ 344,365	\$ 270,891	\$ 221,948	\$ 308,156	\$ 199,257	\$ 3,566	\$ 164,231	\$ 220,708	\$ 135,591	\$ 2,009,572	\$ 8,640,833
Amount reimbursed by Alameda County as of 6/30/16												8,143,332
Revenue excess/(deficit)												\$ (497,501)

ADDITIONAL INFORMATION

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

To the Board of Directors
Lincoln

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 which comprise the Statement of Financial Positions as of June 30, 2016, 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 January 17, 2017.

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 Lincoln'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 material weaknesses deficiencies or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Harrington Group

San Francisco, California
January 17, 2017

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors
Lincoln

Report on Compliance for Each Major Federal Program

We have audited Lincoln compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lincoln's major federal programs for the year ended June 30, 2016. Lincoln's major federal programs for the year ended June 30, 2016 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln's internal control over compliance.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**
continued

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

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

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

Harrington Group

San Francisco, California
January 17, 2017

LINCOLN
Schedule of Findings and Questioned Costs
For the year ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements:

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

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 Audit Findings of the Uniform Guidance?	No
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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 the Uniform Guidance.

Section IV – Summary Schedule of Prior Year Findings

None.