

LINCOLN CHILD CENTER

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

JUNE 30, 2015 and 2014

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lincoln Child Center

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln Child Center (a nonprofit organization), which comprise the Statement of Financial Positions as of June 30, 2015 and 2014, 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 positions of Lincoln Child Center as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Lincoln Child Center as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Statement of Expenditures of County of Alameda 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 25, 2016 on our consideration of Lincoln Child Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Child Center internal control over financial reporting and compliance.

Harrington Group

San Francisco, California

January 25, 2016

LINCOLN CHILD CENTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash	\$ 781,144	\$ 245,414
Accounts receivable, net of allowance of \$41,064 and \$41,064	2,394,877	2,606,130
Pledges receivable (Note 3)	112,590	52,240
Prepaid expenses	278,646	174,328
Total current assets	3,567,257	3,078,112
Non-current assets		
Investments (Note 4)	9,441,995	9,693,095
Property and equipment (Note 5)	2,705,936	2,887,493
Receivable from split-interest agreement (Note 6)	1,517,092	1,458,712
Note receivable (Note 7)	2,800,000	2,800,000
Total non-current assets	16,465,023	16,839,300
Total assets	\$ 20,032,280	\$ 19,917,412
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 206,215	\$ 643,258
Accrued liabilities (Note 8)	1,834,222	1,691,461
Line of credit (Note 9)	350,000	250,000
Current portion of notes payable (Note 10)	5,344	13,106
Total current liabilities	2,395,781	2,597,825
Non-current liabilities		
Non-current portion of notes payable (Note 10)	7,929	13,299
Contingency liability (Note 7)	2,800,000	2,800,000
Total non-current liabilities	2,807,929	2,813,299
Total liabilities	5,203,710	5,411,124
Net assets		
Unrestricted	9,032,523	8,820,322
Unrestricted - Board designated (Note 2)	59,625	59,625
Total unrestricted net assets	9,092,148	8,879,947
Temporarily restricted (Note 12)	2,925,487	2,815,406
Permanently restricted (Note 13)	2,810,935	2,810,935
Total net assets	14,828,570	14,506,288
Total liabilities and net assets	\$ 20,032,280	\$ 19,917,412

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

LINCOLN CHILD CENTER

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2015 and 2014

	Year ended June 30, 2015				Year ended June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support								
Program revenues (Note 14)	\$ 17,686,550	\$ -	\$ -	\$ 17,686,550	\$ 15,812,643	\$ -	\$ -	\$ 15,812,643
Cost settlement adjustments	902,455			902,455	23,555			23,555
Contributions	296,348	453,150		749,498	173,495	665,840		839,335
Interest and dividends	202,708			202,708	210,623			210,623
Special events	154,921			154,921	62,488			62,488
In-kind contributions (Note 2)	122,133			122,133	254,786			254,786
Other revenue	1,112			1,112	35,702			35,702
Net assets released from purpose restrictions	422,373	(422,373)		-	348,179	(348,179)		-
Total revenue and support	<u>19,788,600</u>	<u>30,777</u>	<u>-</u>	<u>19,819,377</u>	<u>16,921,471</u>	<u>317,661</u>	<u>-</u>	<u>17,239,132</u>
Expenses								
Program services	15,988,940			15,988,940	14,286,566			14,286,566
Support services	3,451,728			3,451,728	3,281,735			3,281,735
Total expenses	<u>19,440,668</u>	<u>-</u>	<u>-</u>	<u>19,440,668</u>	<u>17,568,301</u>	<u>-</u>	<u>-</u>	<u>17,568,301</u>
Change in net assets before other	347,932	30,777	-	378,709	(646,830)	317,661	-	(329,169)
Other								
Net gain on investments	87,359	20,924		108,283	382,393	567,921		950,314
Change in value of split-interest agreement		58,380		58,380		292,572		292,572
Legal fees (Note 17)	(223,090)			(223,090)	(582,871)			(582,871)
Change in net assets	212,201	110,081	-	322,282	(847,308)	1,178,154	-	330,846
Net assets, beginning of year	<u>8,879,947</u>	<u>2,815,406</u>	<u>2,810,935</u>	<u>14,506,288</u>	<u>9,727,255</u>	<u>1,637,252</u>	<u>2,810,935</u>	<u>14,175,442</u>
Net assets, end of year	<u>\$ 9,092,148</u>	<u>\$ 2,925,487</u>	<u>\$ 2,810,935</u>	<u>\$ 14,828,570</u>	<u>\$ 8,879,947</u>	<u>\$ 2,815,406</u>	<u>\$ 2,810,935</u>	<u>\$ 14,506,288</u>

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

LINCOLN CHILD CENTER

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2015 and 2014

	Year ended June 30, 2015					Year ended June 30, 2014				
	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	\$ 10,228,174	\$ 1,346,292	\$ 267,609	\$ 1,613,901	\$ 11,842,075	\$ 8,522,877	\$ 1,286,580	\$ 234,763	\$ 1,521,343	\$ 10,044,220
Payroll taxes and benefits	2,649,466	360,006	51,099	411,105	3,060,571	2,156,011	398,125	50,816	448,941	2,604,952
Total personnel costs	12,877,640	1,706,298	318,708	2,025,006	14,902,646	10,678,888	1,684,705	285,579	1,970,284	12,649,172
Occupancy	741,868	206,603	37,118	243,721	985,589	907,111	56,986	33,947	90,933	998,044
Professional fees	518,188	170,124	114,571	284,695	802,883	859,724	376,570	149,163	525,733	1,385,457
Office expenses	400,340	201,909	81,152	283,061	683,401	374,668	162,650	50,214	212,864	587,532
Client-related expenses	679,322	5,731		5,731	685,053	670,265	1,751		1,751	672,016
Depreciation	267,698	106,621	12,577	119,198	386,896	152,185	15,886	8,757	24,643	176,828
Training and recruiting	206,143	84,784	5,090	89,874	296,017	316,067	84,784	5,090	89,874	405,941
Transportation	143,813	36,288	1,699	37,987	181,800	155,881	21,281	5,090	26,371	182,252
Insurance and taxes	149,748	26,469	4,094	30,563	180,311	159,427	13,052	3,188	16,240	175,667
Special events	-		142,428	142,428	142,428	-		26,954	26,954	26,954
In-kind expenses	-	122,133		122,133	122,133	-	254,786		254,786	254,786
Other	4,180	52,921	14,410	67,331	71,511	12,350	39,227	2,075	41,302	53,652
Total functional expenses	\$ 15,988,940	\$ 2,719,881	\$ 731,847	\$ 3,451,728	\$ 19,440,668	\$ 14,286,566	\$ 2,711,678	\$ 570,057	\$ 3,281,735	\$ 17,568,301

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

LINCOLN CHILD CENTER

STATEMENTS OF CASH FLOWS For the years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 322,282	\$ 330,846
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	386,896	176,828
Net (gain) on investments	(108,283)	(950,314)
Change in value of split-interest agreement	(58,380)	(292,572)
Split-interest agreement	-	(358,916)
Change in allowance for uncollectible accounts	-	9,723
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	211,253	(521,646)
(Increase) in pledges receivable	(60,350)	(33,142)
(Increase) decrease in prepaid expenses	(104,318)	5,329
(Decrease) in accounts payable	(437,043)	(65,375)
Increase in accrued liabilities	142,761	658,169
	294,818	(1,041,070)
Cash flows from investing activities:		
Purchase of investments	(1,417,538)	(2,866,851)
Purchase of property and equipment	(205,339)	(2,580,127)
Proceeds from sales of investments	1,776,921	4,039,111
	154,044	(1,407,867)
Cash flows from financing activities:		
Payments on line of credit	(4,580,000)	(3,150,000)
Proceeds from borrowings on line of credit	4,680,000	3,400,000
Principal payments on notes payable	(13,132)	(12,644)
	86,868	237,356
Net increase (decrease) in cash and cash equivalents	535,730	(2,211,581)
Cash and cash equivalents, beginning of year	245,414	2,456,995
Cash and cash equivalents, end of year	\$ 781,144	\$ 245,414
Supplemental disclosure:		
Operating activities reflect interest paid of:	\$ 34,216	\$ 17,209

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

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization

Lincoln Child Center (“Lincoln”) is a not-for-profit agency founded in 1883 as 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.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Accounting

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

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

Unrestricted Board Designated. These are comprised of resources that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net assets accounting, these funds are included in unrestricted net assets at June 30, 2015 and 2014.

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 at the end of the year June 30, 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.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2015 and 2014, 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 88% and 86% of revenue and support generated by Lincoln for the years ended June 30, 2015 and 2014 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:

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

Property and Equipment

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

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. The fair value of donated materials and services has been measured on a non-recurring basis using quoted prices of similar assets in inactive markets (Level 2 inputs). For the year ended June 30, 2015, Lincoln received in-kind contributions of \$122,133.

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.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Reclassification

Certain amounts from the June 30, 2014 financial statements have been reclassified to conform to the June 30, 2015 presentation.

Subsequent Events

Management has evaluated subsequent events through January 25, 2016 the date which the financial statements were available.

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, 2015 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2015. Total amount of pledges receivable is \$112,590 as of June 30, 2015 and are expected to be collected within one year. There were pledges receivables of \$52,240 at June 30, 2014.

4. Investments

Investments at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Equities	\$4,383,355	\$4,808,466
Fixed income	2,007,414	2,112,015
Other Investments	1,574,955	1,952,965
Money markets	1,348,571	819,649
Mutual Funds	<u>127,700</u>	<u>-</u>
	<u>\$9,441,995</u>	<u>\$9,693,095</u>

Investment income on the Statement of Activities is shown net of management fees of \$71,910.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$2,916,524	\$2,842,771
Furniture and equipment	355,077	560,365
Automobiles	52,376	72,359
Software	65,147	21,145
Work in progress	<u>31,946</u>	<u>-</u>
	3,421,070	3,496,640
Less: accumulated depreciation	<u>(715,134)</u>	<u>(609,147)</u>
	<u>\$2,705,936</u>	<u>\$2,887,493</u>

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 were \$386,896 and \$176,828 respectively.

6. 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, 2015 and 2014, based on Internal Revenue Service guidelines as follows:

	<u>2015</u>		<u>2014</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.	\$1,161,135	\$1,161,135	\$1,099,796	\$1,099,796
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>355,957</u>	<u>355,957</u>	<u>358,916</u>	<u>358,916</u>
Total	<u>\$1,517,092</u>	<u>\$1,517,092</u>	<u>\$1,458,712</u>	<u>\$1,458,712</u>

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

7. 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 note receivable, a contingency liability of \$2,800,000 has been provided for by Lincoln at June 30, 2015. Note receivable and contingency liability balances at June 30, 2014 were \$2,800,000, respectively.

8. Accrued Liabilities

Accrued liabilities at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Accrued vacation	\$ 649,628	\$ 504,803
Accrued payroll, taxes, and benefits	603,261	496,238
Deferred rent credits	479,213	258,263
Other accrued liabilities	88,811	40,794
Accrued unemployment liability	13,309	21,310
Accrued workers compensation	-	216,204
Deferred revenue	-	153,849
	<u>\$1,834,222</u>	<u>\$1,691,461</u>

Lincoln has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2015 and 2014, of \$13,309 and \$21,310, respectively, represents estimated future claims arising from payroll paid to date. Unemployment expense for the years ended June 30, 2015 and 2014 were \$73,783 and \$75,076, respectively.

9. Line of Credit

Lincoln has a revolving line of credit with Wells Fargo Bank, in the amount of \$1,000,000, at an interest rate equal to the bank's prime rate plus 1.5%. Interest rates at June 30, 2015 and 2014 were 4.25% and 5.0%, with maturity dates of August 09, 2016 and August 09, 2015, respectively. Outstanding balances on the line of credit at June 30, 2015 and 2014 were \$350,000 and \$250,000 respectively. During the year ended June 30, 2015, the average borrowing on the line of credit was approximately \$390,000.

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

10. Notes Payable

Notes payable at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</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	\$ 26,405
Less: current portion	<u>(5,344)</u>	<u>(13,106)</u>
	<u>\$ 7,929</u>	<u>\$ 13,299</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2016	\$ 5,344
2017	5,344
2018	<u>2,585</u>
	<u>\$13,273</u>

11. Commitments and Contingencies

Obligations Under Operating Leases

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

<u>Year ended June 30,</u>	
2016	\$ 478,156
2017	504,025
2018	478,389
2019	449,880
2020	459,109
Thereafter	<u>1,650,980</u>
	<u>\$4,020,539</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2015 and 2014 were \$462,789 and \$712,645, respectively.

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

11. Commitments and Contingencies, continued

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.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Florence French Trust/Darrow & Helen Chase Trust	\$1,517,092	\$1,458,712
Endowment fund	1,021,833	1,027,339
Freedom School	160,473	57,500
Philip Harley Memorial Fund	98,862	98,562
Other funds - various programs	78,918	109,631
Champlin House - residential program	48,309	58,306
Kinship program	-	5,356
	<u>\$2,925,487</u>	<u>\$2,815,406</u>

For the years ended June 30, 2015 and 2014, net assets released from restrictions were \$422,373 and \$348,179, which consist of \$422,373 released for purpose restrictions in 2015, while \$348,179 was released from purpose restrictions in 2014.

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, 2015 and 2014, 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 CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets and Endowment Funds, continued

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.

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, 2015:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Donor restricted endowment	<u>\$1,021,833</u>	<u>\$2,810,935</u>	<u>\$3,832,768</u>

Changes in endowment net assets for the years ended:

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>-</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 CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets and Endowment Funds, continued

June 30, 2014

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

Endowment net assets at June 30, 2015 and 2014 consist of the following investment portfolios held with Charles Schwab:

	<u>2015</u>	<u>2014</u>
2 nd Century Fund	<u>\$2,380,700</u>	\$2,407,131
Edoff Fund	<u>1,375,170</u>	1,354,495
Siegmund Fund	<u>76,898</u>	<u>76,648</u>
	<u>\$3,832,768</u>	<u>\$3,838,274</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.

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, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Community-based services	<u>\$15,602,369</u>	\$11,409,121
Other programs	<u>1,833,876</u>	1,631,265
Day treatment	<u>174,537</u>	1,639,982
Non-public school	<u>75,768</u>	<u>1,132,275</u>
	<u>\$17,686,550</u>	<u>\$15,812,643</u>

15. Employee Benefit Plan

Lincoln has a defined contribution plan available to substantially all employees. Contributions are based on tenure and range from 2% to 8% for union employees and 4% to 9% for non-union employees. Employer contributions under this plan for the years ended June 30, 2015 and 2014 were \$452,735 and \$387,942, respectively.

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

16. 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, 2015 on a recurring basis:

<u>June 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Corporate bonds	\$ -	\$ 883,816	\$ -	\$ 883,816
Government securities	600,967			600,967
Agency securities		501,210		501,210
Short term bonds		493,396		493,396
Mortgage pools		<u>21,421</u>		<u>21,421</u>
Total fixed income	<u>600,967</u>	<u>1,899,843</u>	<u>-</u>	<u>2,500,810</u>
Equities				
Large growth	1,956,498			1,956,498
Large core	1,313,393			1,313,393
Large value	904,940			904,940
Foreign large blend	378,690			378,690
Diversified emerging markets	182,938			182,938
Mid growth	151,923			151,923
Mid core	84,357			84,357
Global real estate	70,116			70,116
Real estate	67,221			67,221
Large blend	26,755			26,755
Energy limited partnership	3,168			3,168
Other	<u>324,915</u>			<u>324,915</u>
Total equities	<u>5,464,914</u>			<u>5,464,914</u>
Mutual funds – equity funds				
Large growth	<u>127,700</u>			<u>127,700</u>
Total mutual funds	<u>127,700</u>	<u>-</u>	<u>-</u>	<u>127,700</u>
Total investments	<u>6,193,581</u>	<u>1,899,843</u>	<u>-</u>	<u>8,093,424</u>
Split-interest agreement	<u>-</u>	<u>1,517,092</u>	<u>-</u>	<u>1,517,092</u>
Fair value at June 30, 2015	<u>\$6,193,581</u>	<u>\$3,416,935</u>	<u>\$ -</u>	<u>\$9,610,516</u>

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

16. Fair Value Measurements, continued

<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Corporate bonds	\$ -	\$1,220,966	\$ -	\$ 1,220,966
Agency securities		542,489		542,489
Government securities	319,544			319,544
Mortgage pools		<u>29,016</u>		<u>29,016</u>
Total fixed income	<u>319,544</u>	<u>1,792,471</u>	<u>-</u>	<u>2,112,015</u>
Equities				
Large growth	2,182,450			2,182,450
Large core	1,237,050			1,237,050
Large value	1,056,655			1,056,655
Mid growth	200,586			200,586
Other	106,282			106,282
Large blend	<u>25,443</u>			<u>25,443</u>
Total equities	<u>4,808,466</u>	<u>-</u>	<u>-</u>	<u>4,808,466</u>
Other investments				
Other	1,103,493			1,103,493
Short term bonds		538,479		538,479
Emerging markets	141,423			141,423
Global real estate	74,102			74,102
Large core	59,850			59,850
Energy limited partnership	<u>35,618</u>			<u>35,618</u>
Total other investments	<u>1,414,486</u>	<u>538,479</u>	<u>-</u>	<u>1,952,965</u>
Total investments	<u>6,542,496</u>	<u>2,330,950</u>	<u>-</u>	<u>8,873,446</u>
Split-interest agreement	<u>-</u>	<u>1,458,712</u>	<u>-</u>	<u>1,458,712</u>
Fair value at June 30, 2014	<u>\$6,542,496</u>	<u>\$3,789,662</u>	<u>\$ -</u>	<u>\$10,332,158</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).

continued

LINCOLN CHILD CENTER

NOTES TO FINANCIAL STATEMENTS

16. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
In-kind contributions	\$ -	\$122,133	\$ -	\$122,133
Pledged contributions – new			140,814	140,814
Fair value at June 30, 2015	<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).

17. 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 (see Note 7) 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, 2015 and 2014 was \$223,090 and \$582,771, respectively.

18. Subsequent Event

Subsequent to year-end, the litigation pursued by the property’s neighbors against the entity that acquired Lincoln’s properties was dismissed, resulting in the payment of the note receivable of \$2,800,000 (see Note 7), additionally the contingency liability in the amount of \$2,800,000 (see Note 7) will recognized as revenue for the year ended June 30, 2016. The financial statements as of June 30, 2015 do not include any adjustments resulting from this transaction.

SUPPLEMENTAL SCHEDULES

LINCOLN CHILD CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2015

<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	07/01/14 - 06/30/15	\$ 5,810,537	\$ 2,817,477
Pass-through, Chabot-Las Positas Community College District					
Foster Care - Title IV-E, Contract Education and Training		93.658	07/01/14 - 06/30/15	500,000	500,000
Pass-through, County of Alameda Social Services Agency					
Foster Care - Title IV-E, Kinship Support Services Program	900117-8904	93.658	07/01/14 - 06/30/15	650,000	241,215
Pass-through, County of Alameda					
Foster Care - Title IV-E, Creating Entrepreneurship Opportunities (CEO) for Youth Program	900117-10428	93.658	07/01/14 - 06/30/15	<u>105,000</u>	<u>38,966</u>
Total DHHS				<u>7,065,537</u>	<u>3,597,658</u>
Total Federal Awards				<u><u>\$7,065,537</u></u>	<u><u>\$ 3,597,658</u></u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

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

See independent auditors' report.

LINCOLN CHILD CENTER

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2015

	NPS/ICE SDC	ICE-Fremont High School (Mandela Architecture)	ICE-Hoover Elementary (2 Classrooms) / Prescott and Lafayette (Summer School)	Wraparound Program	Wraparound Program / Probation	School Engagement Program	TBS	Total
	RU# 018339	RU# 01KZ1	RU# 01ML1 / RU# 010C1 / RU# 010B1	RU# O1FB1	RU# 01FB1	RU# 018338	RU# 01FB3	
Contract number:	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	
Contract period:								
Total contract amount	\$ 267,655	\$ 438,650	\$ 475,716	\$ 2,488,312	\$ 565,000	\$ 1,137,309	\$ 1,058,609	\$ 6,431,251
Salaries	\$ 180,297	\$ 282,503	\$ 278,481	\$ 1,413,233	\$ 310,431	\$ 559,341	\$ 581,233	\$ 3,605,519
Benefits	18,627	72,663	71,946	349,425	76,755	159,769	157,568	906,753
Total salaries and benefits	198,924	355,166	350,427	1,762,658	387,186	719,110	738,801	4,512,272
Administrative cost	31,775	65,537	63,338	375,789	82,546	138,978	144,913	902,876
Service-related expenses	643	7,732	6,325	151,558	33,291	35,583	36,807	271,939
Occupancy expenses	4,849	5,739	4,695	61,947	13,606	22,037	34,168	147,041
Professional service contracts	26,505	3,848	3,149	47,633	10,463	8,195	8,562	108,355
Depreciation expense	732	5,187	4,244	42,261	9,283	14,653	23,073	99,433
Maintenance and replacement	18,175	3,217	2,632	33,838	7,434	11,845	18,168	95,309
Communications	5,033	3,556	2,909	26,054	5,723	9,015	9,466	61,756
Insurance	1,892	4,472	3,658	23,865	5,242	8,800	9,530	57,459
Furniture and equipment	1,224	4,563	3,734	22,587	4,962	7,139	6,098	50,307
Staff development	55	5,513	4,511	10,500	2,307	4,058	5,377	32,321
Transportation expenses	583	3,025	2,476	4,401	967	5,950	2,199	19,601
Office-related expenses	191	1,575	1,288	9,052	1,988	3,265	5,030	22,389
Organizational dues				8	2	110	39	159
Total expenses	\$ 290,581	\$ 469,130	\$ 453,386	\$ 2,572,151	\$ 565,000	\$ 988,738	\$ 1,042,231	\$ 6,381,217

See independent auditors' report.

LINCOLN CHILD CENTER

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2015

Helping Open Pathways to Education (HOPE)

	Met West / La Esquelita Elementary School	Esperanza/Korematau Discovery Academies	Laurel Elementary	Fruitvale Elementary	New Highland	Sankofa	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:	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	7/1/14 - 6/30/15	
Total contract amount	\$ 120,751	\$ 369,998	\$ 252,000	\$ 241,500	\$ 369,998	\$ 262,501	\$ 115,498	\$ 141,680	\$ 141,678	\$ 141,680	\$ 2,157,284	\$ 8,588,535
Salaries	\$ 70,977	\$ 250,376	\$ 137,950	\$ 167,703	\$ 191,279	\$ 140,273	\$ 32,181	\$ 62,167	\$ 100,795	\$ 74,418	\$ 1,228,119	\$ 4,833,638
Benefits	17,202	60,677	33,432	40,643	46,357	33,995	7,799	15,068	24,427	18,035	297,635	1,204,388
Total salaries and benefits	88,179	311,053	171,382	208,346	237,636	174,268	39,980	77,235	125,222	92,453	1,525,754	6,038,026
Administrative cost	17,785	62,738	34,567	42,022	47,930	35,149	8,064	15,578	25,257	18,647	307,737	1,210,613
Service-related expenses	1,901	6,704	3,694	4,490	5,122	3,756	861	1,665	2,699	1,993	32,885	304,824
Occupancy expenses	2,271	8,010	4,414	5,366	6,120	4,488	1,030	1,989	3,225	2,381	39,294	186,335
Professional service contracts	2,980	10,512	5,792	7,041	8,031	5,890	1,351	2,610	4,232	3,125	51,564	159,919
Depreciation expense	1,624	5,731	3,158	3,839	4,379	3,211	737	1,423	2,307	1,704	28,113	127,546
Maintenance and replacement	1,288	4,544	2,503	3,043	3,471	2,546	584	1,128	1,829	1,350	22,286	117,595
Communications	1,120	3,951	2,177	2,646	3,018	2,213	508	981	1,591	1,174	19,379	81,135
Insurance	1,068	3,766	2,075	2,522	2,877	2,110	484	935	1,516	1,120	18,473	75,932
Furniture and equipment	859	3,030	1,670	2,029	2,314	1,697	389	752	1,220	900	14,860	65,167
Staff development	714	2,520	1,388	1,688	1,925	1,412	324	626	1,015	749	12,361	44,682
Transportation expenses	1,102	3,888	2,142	2,604	2,970	2,178	500	966	1,565	1,155	19,070	38,671
Office-related expenses	413	1,455	802	975	1,112	815	187	361	586	433	7,139	29,528
Organizational dues	4	13	7	8	10	7	2	3	5	4	63	222
Total expenses	\$ 121,308	\$ 427,915	\$ 235,771	\$ 286,619	\$ 326,915	\$ 239,740	\$ 55,001	\$ 106,252	\$ 172,269	\$ 127,188	\$ 2,098,978	\$ 8,480,195
Amount reimbursed by Alameda County as of 6/30/15												7,786,045
Revenue excess/(deficit)												\$ (694,150)

See independent auditors' report.

ADDITIONAL INFORMATION



Harrington Group

Certified Public Accountants, LLP

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

To the Board of Directors
Lincoln Child Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln Child Center ("Lincoln"), which comprise the Statement of Financial Positions as of June 30, 2015, 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 25, 2016.

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 25, 2016

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Certified Public Accountants, LLP

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

To the Board of Directors
Lincoln Child Center

Report on Compliance for Each Major Federal Program

We have audited Lincoln Child Center ("Lincoln") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lincoln's major federal programs for the year ended June 30, 2015. Lincoln's major federal programs for the year ended June 30, 2015 are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lincoln's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Lincoln complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

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

Harrington Group

San Francisco, California
January 25, 2016

LINCOLN CHILD CENTER
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Section I – Summary of Auditors’ Results

Financial Statements:

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

Federal Awards:

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

Identification of Major Programs:

U.S. Department of Health and Human Services:	
Medical Assistance Program	93.778

Section II – Financial Statements Findings

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

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Summary Schedule of Prior Year Findings

None.