



LINCOLN

**FINANCIAL STATEMENTS
and
SUPPLEMENTAL SCHEDULE**

JUNE 30, 2018 and 2017

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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, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln as of June 30, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2019, on our consideration of Lincoln's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lincoln's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln's internal control over financial reporting and compliance.

Harrington Group

Oakland, California

January 9, 2019

LINCOLN

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 51,297	\$ 132,783
Accounts receivable, net of allowance of \$162,113	2,939,663	3,458,954
Pledges receivable (Note 3)	35,000	46,757
Prepaid expenses	194,260	156,471
TOTAL CURRENT ASSETS	3,220,220	3,794,965
NON-CURRENT ASSETS		
Intangible asset (Note 4)	261,863	294,583
Investments (Note 5)	10,185,125	10,102,345
Property and equipment (Note 7)	1,751,082	2,029,781
Receivable from split-interest agreement (Note 8)	1,341,642	1,205,511
TOTAL NON-CURRENT ASSETS	13,539,712	13,632,220
TOTAL ASSETS	\$ 16,759,932	\$ 17,427,185
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 193,914	\$ 199,591
Accrued liabilities (Note 9)	1,569,509	1,508,242
Line of credit (Note 10)	-	630,000
TOTAL CURRENT LIABILITIES	1,763,423	2,337,833
TOTAL LIABILITIES	1,763,423	2,337,833
NET ASSETS		
Unrestricted	9,285,477	9,961,167
Temporarily restricted (Note 12)	2,900,097	2,317,250
Permanently restricted (Note 13)	2,810,935	2,810,935
TOTAL NET ASSETS	14,996,509	15,089,352
TOTAL LIABILITIES AND NET ASSETS	\$ 16,759,932	\$ 17,427,185

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

LINCOLN

STATEMENTS OF ACTIVITIES For the years ended June 30, 2018 and 2017

	Year ended June 30, 2018				Year ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Program revenues (Note 14)	\$ 19,878,822	\$ -	\$ -	\$ 19,878,822	\$ 19,191,288	\$ -	\$ -	\$ 19,191,288
Contributions	394,762	1,201,729		1,596,491	265,705	448,500		714,205
Special events	201,866			201,866	205,413			205,413
Interest and dividends	156,502	36,152		192,654	256,030			256,030
Other revenue	10,929			10,929	1,031			1,031
In-kind contributions (Note 2)	10,150			10,150	49,488			49,488
Cost settlement adjustments				-	52,827			52,827
Net assets released from restrictions (Note 12)	977,230	(977,230)		-	910,144	(910,144)		-
TOTAL REVENUE AND SUPPORT	21,630,261	260,651	-	21,890,912	20,931,926	(461,644)	-	20,470,282
EXPENSES								
Program services	19,111,884			19,111,884	18,069,601			18,069,601
Support services	3,463,690			3,463,690	3,983,435			3,983,435
TOTAL EXPENSES	22,575,574	-	-	22,575,574	22,053,036	-	-	22,053,036
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(945,313)	260,651	-	(684,662)	(1,121,110)	(461,644)	-	(1,582,754)
OTHER CHANGES								
Net gain on investments	269,623	186,065		455,688	565,855	203,385		769,240
Change in value of split-interest agreement		136,131		136,131		144,713		144,713
CHANGE IN NET ASSETS	(675,690)	582,847	-	(92,843)	(555,255)	(113,546)	-	(668,801)
NET ASSETS, BEGINNING OF YEAR	9,961,167	2,317,250	2,810,935	15,089,352	10,516,422	2,430,796	2,810,935	15,758,153
NET ASSETS, END OF YEAR	\$ 9,285,477	\$ 2,900,097	\$ 2,810,935	\$ 14,996,509	\$ 9,961,167	\$ 2,317,250	\$ 2,810,935	\$ 15,089,352

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

LINCOLN

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2018 and 2017

	Year ended June 30, 2018					Year ended June 30, 2017				
	Total Program Services	Support Services		Total Support Services	Total Expenses	Total Program Services	Support Services		Total Support Services	Total Expenses
		Management and General	Fundraising				Management and General	Fundraising		
Salaries	\$ 12,363,500	\$ 1,396,519	\$ 360,043	\$ 1,756,562	\$ 14,120,062	\$ 12,152,655	\$ 1,325,979	\$ 427,185	\$ 1,753,164	\$ 13,905,819
Payroll taxes and benefits	3,292,892	259,210	64,828	324,038	3,616,930	3,006,926	332,114	70,327	402,441	3,409,367
Total personnel costs	15,656,392	1,655,729	424,871	2,080,600	17,736,992	15,159,581	1,658,093	497,512	2,155,605	17,315,186
Professional fees	824,724	428,825	80,068	508,893	1,333,617	427,309	650,877	36,194	687,071	1,114,380
Occupancy	782,682	80,000	22,299	102,299	884,981	715,165	131,343	24,391	155,734	870,899
Client-related expenses	685,781	507	11,996	12,503	698,284	623,039	8,884	10,305	19,189	642,228
Office expenses	415,087	194,270	55,166	249,436	664,523	441,185	229,810	108,326	338,136	779,321
Depreciation and amortization	326,398	96,439	11,283	107,722	434,120	286,000	155,482	10,828	166,310	452,310
Training and recruiting	141,449	55,531	5,650	61,181	202,630	217,838	57,918	7,288	65,206	283,044
Insurance and taxes	141,936	18,383	3,693	22,076	164,012	21,576	146,334	1,537	147,871	169,447
Transportation	126,885	30,631	1,392	32,023	158,908	128,420	26,225	4,987	31,212	159,632
Bad debts		127,964		127,964	127,964	-	15,459		15,459	15,459
Special events			107,496	107,496	107,496	-		125,791	125,791	125,791
Other	400	46,972	4,525	51,497	51,897	-	75,851		75,851	75,851
In-kind expenses	10,150			-	10,150	49,488			-	49,488
TOTAL FUNCTIONAL EXPENSES	\$ 19,111,884	\$ 2,735,251	\$ 728,439	\$ 3,463,690	\$ 22,575,574	\$ 18,069,601	\$ 3,156,276	\$ 827,159	\$ 3,983,435	\$ 22,053,036

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

LINCOLN

STATEMENTS OF CASH FLOWS For the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (92,843)	\$ (668,801)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	434,120	452,310
Net (gain) on investments	(455,688)	(769,240)
Reinvested interest and dividends	(192,654)	(256,030)
Change in value of split-interest agreement	(136,131)	282,129
Change in allowance for doubtful account	115,213	5,836
(Increase) decrease in operating assets:		
Accounts receivable	404,078	(720,122)
Pledges receivable	11,757	7,766
Prepaid expenses	(37,789)	39,104
Intangible asset	-	(2,091)
Increase (decrease) in operating liabilities:		
Accounts payable	(5,677)	(162,797)
Accrued liabilities	61,267	(44,124)
	105,653	(1,836,060)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(406,010)	(4,174,908)
Purchase of property and equipment	(122,701)	(61,379)
Proceeds from sales of investments	971,572	6,516,560
	442,861	2,280,273
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	(8,506,000)	(5,050,000)
Proceeds from borrowings on line of credit	7,876,000	4,580,000
	(630,000)	(470,000)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(81,486)	(25,787)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	132,783	158,570
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 51,297	\$ 132,783
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid of:	\$ 39,449	\$ 60,231

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 educational engagement, attendance and achievement;
- Family – Strengthening stability and creating permanency; and
- Well-Being – Improving youth outlook and future readiness.

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

Lincoln provides a unique array of comprehensive programs and services for some of the Bay Area's most vulnerable populations. 90% of families served have income levels at or below the poverty level; 39% are African American, 31% are Hispanic/Latino, 9% are Caucasian, 7% are Asian/Pacific Islander, 1% are Native American, 1% are Multi- or Bi-racial, 1% are Middle Eastern/North African, and 11% are other or no indication.

Lincoln provides children with supports and services as young as possible and makes 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, two annual major fundraising events, 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.

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 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, 2018 and 2017, Lincoln had \$2,810,935 in permanently restricted net assets.

Accounts Receivable

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

Investments

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

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, 2018 and 2017, 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 90% of revenue and support generated by Lincoln for the years ended June 30, 2018 and 2017 respectively were related to government contracts.

Fair Value Measurements

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

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

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

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

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

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, 2018 and 2017, Lincoln received in-kind contributions of \$10,150 and \$49,488, 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**Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Lincoln's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through January 9, 2019, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2018 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2018. Total amount of pledges receivable is \$35,000 as of June 30, 2018 and are expected to be collected within one year. There were pledges receivables of \$46,757 at June 30, 2017.

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 has determined that the rebranding costs incurred would result in future economic benefits such as securing new contracts for the provision of services to all age groups other than just children, which would include teens, youths, adults and seniors. As such, Lincoln has recorded these costs as an intangible asset and will be amortized once all rebranding work has been wholly completed. Lincoln started amortizing this intangible asset in 2017 over a period of 10 years. The fair value of the Intangible Asset at June 30, 2018 and 2017 was \$261,863 and \$294,583, respectively.

LINCOLN

NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Equities	\$ 4,717,022	\$ 4,410,657
Fixed income	2,482,068	2,916,227
Exchange traded funds	1,291,035	1,603,375
Money markets	911,144	691,622
Mutual funds	<u>783,856</u>	<u>480,464</u>
	<u>\$10,185,125</u>	<u>\$10,102,345</u>

Investment income on the Statement of Activities for the years ended June 30, 2018 and 2017 is shown net of management fees of \$65,451 and \$67,033, 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, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2018</u>				
Equities				
Technology	\$1,122,583	\$ -	\$ -	\$ 1,122,583
Financial services	840,659			840,659
Consumer goods	809,548			809,548
Healthcare	728,701			728,701
Energy	615,393			615,393
Industrial goods	484,876			484,876
Utilities	<u>115,262</u>			<u>115,262</u>
Total equities	<u>4,717,022</u>	<u>-</u>	<u>-</u>	<u>4,717,022</u>
Fixed income				
Corporate bonds		1,080,546		1,080,546
Government securities		615,725		615,725
Municipal bonds		524,418		524,418
Agency securities		253,129		253,129
Mortgage pools		<u>8,250</u>		<u>8,250</u>
Total fixed income	<u>-</u>	<u>2,482,068</u>	<u>-</u>	<u>2,482,068</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 blend	439,942			439,942
Healthcare	319,310			319,310
Financial services	149,938			149,938
Technology	122,100			122,100
Real estate	118,105			118,105
Regional miscellaneous	80,946			80,946
Corporate bonds		53,504		53,504
Diversified emerging markets	5,064			5,064
Energy	2,126			2,126
Total exchange traded funds	<u>1,237,531</u>	<u>53,504</u>	<u>-</u>	<u>1,291,035</u>
Mutual funds				
Foreign large cap	<u>783,856</u>			<u>783,856</u>
Money market funds	<u>911,144</u>	<u>-</u>	<u>-</u>	<u>911,144</u>
Total investments	<u>7,649,553</u>	<u>2,535,572</u>	<u>-</u>	<u>10,185,125</u>
Split-interest agreement	<u>-</u>	<u>1,341,642</u>	<u>-</u>	<u>1,341,642</u>
Fair value at June 30, 2018	<u>\$7,649,553</u>	<u>\$3,877,214</u>	<u>\$-</u>	<u>\$11,526,767</u>
<u>June 30, 2017</u>				
Equities				
Technology	\$1,024,651	\$-	\$-	\$ 1,024,651
Healthcare	688,768			688,768
Services	621,231			621,231
Financial	539,815			539,815
Basic materials	502,508			502,508
Consumer goods	424,431			424,431
Industrial goods	402,545			402,545
Utilities	206,708			206,708
Total equities	<u>4,410,657</u>	<u>-</u>	<u>-</u>	<u>4,410,657</u>
Fixed income				
Corporate bonds		1,257,613		1,257,613
Municipal bonds		674,781		674,781
Government securities		633,526		633,526
Agency securities		338,671		338,671
Mortgage pools		11,636		11,636
Total fixed income	<u>-</u>	<u>2,916,227</u>	<u>-</u>	<u>2,916,227</u>

continued

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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	507,912			507,912
Healthcare	297,559			297,559
Technology	266,848			266,848
Financial	246,618			246,618
Real estate	120,686			120,686
Basic materials	106,363			106,363
Large cap	31,113			31,113
Bonds		19,008		19,008
Diversified emerging markets	4,900			4,900
Energy	2,368			2,368
Total exchange traded funds	<u>1,584,367</u>	<u>19,008</u>	<u>-</u>	<u>1,603,375</u>
Mutual funds				
Foreign large cap	<u>480,464</u>			<u>480,464</u>
Money market funds	<u>691,622</u>	<u>-</u>	<u>-</u>	<u>691,622</u>
Total investments	<u>7,167,110</u>	<u>2,935,235</u>	<u>-</u>	<u>10,102,345</u>
Split-interest agreement	<u>-</u>	<u>1,205,511</u>	<u>-</u>	<u>1,205,511</u>
Fair value at June 30, 2017	<u>\$7,167,110</u>	<u>\$4,140,746</u>	<u>\$-</u>	<u>\$11,307,856</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>
<u>June 30, 2018</u>				
In-kind contributions	<u>\$ -</u>	<u>\$10,150</u>	<u>\$ -</u>	<u>\$10,150</u>
<u>June 30, 2017</u>				
In-kind contributions	<u>\$ -</u>	<u>\$49,488</u>	<u>\$ -</u>	<u>\$49,488</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).

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

7. Property and Equipment

Property and equipment at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 3,048,505	\$ 3,006,976
Furniture and equipment	181,488	181,488
Automobiles	87,103	49,276
Software	328,739	279,791
Construction in progress	<u>53,776</u>	<u>59,379</u>
	3,699,611	3,576,910
Less: accumulated depreciation	<u>(1,948,529)</u>	<u>(1,547,129)</u>
	<u>\$ 1,751,082</u>	<u>\$ 2,029,781</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 were \$434,120 and \$452,310 respectively.

8. Split-Interest Agreement

Lincoln holds a remainder interest in an irrevocable split-interest agreement. The fair value for the contribution receivable from a beneficial interest in a charitable remainder trust within the Level 2 inputs is determined by calculating the present value of the future distributions expected to be received, using published life expectancy table and discount rate of 7.75%. These agreements are valued at net present value at June 30, 2018 and 2017, based on Internal Revenue Service guidelines as follows:

	<u>2018</u>		<u>2017</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.	<u>\$1,341,642</u>	<u>\$1,341,642</u>	<u>\$1,205,511</u>	<u>\$1,205,511</u>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

9. Accrued Liabilities

Accrued liabilities at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Accrued vacation	\$ 647,820	\$ 686,767
Accrued payroll, taxes, and benefits	468,361	340,293
Other accrued liabilities	438,826	474,211
Accrued unemployment liability	<u>14,502</u>	<u>6,971</u>
	<u>\$1,569,509</u>	<u>\$1,508,242</u>

Lincoln has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2018 and 2017, of \$14,502 and \$6,971, respectively, represents estimated future claims arising from payroll paid to date. Unemployment expense for the years ended June 30, 2018 and 2017 were \$91,070 and \$49,870, respectively.

10. Line of Credit

Lincoln has a revolving line of credit with Wells Fargo Bank, in the amount of \$1,500,000, at an interest rate equal to the bank's prime rate plus 1.5% due March 2019. Interest rates at June 30, 2018 and 2017 were 4.50% and 4.25% with maturity dates of March 2019 and March, 2018, respectively. There was no outstanding balance on the line of credit at June 30, 2018. At June 30, 2017, the outstanding balance was \$630,000.

11. Commitments and Contingencies

Obligations Under Operating Leases

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

<u>Year ended June 30,</u>	
2019	\$ 652,706
2020	564,549
2021	490,342
2022	398,562
2023	383,262
Thereafter	<u>470,250</u>
	<u>\$2,959,671</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2018 and 2017 were \$572,285 and \$549,500, respectively.

continued

LINCOLN

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, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Florence French Trust/Darrow & Helen Chase Trust	\$1,341,642	\$1,205,511
Endowment Fund	1,012,037	938,523
Other funds - various programs	432,636	47,101
Philip Harley Memorial Fund	95,473	97,806
Voyles Fund	18,309	28,309
	<u>\$2,900,097</u>	<u>\$2,317,250</u>

For the years ended June 30, 2018 and 2017, net assets released for purpose restrictions were \$977,230 and \$910,144, respectively.

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, 2018 and 2017, 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.

13. Permanently Restricted Net Assets and Endowment Funds, continued

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, 2018:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor restricted endowment	<u>\$1,012,037</u>	<u>\$2,810,935</u>	<u>\$3,822,972</u>

Changes in endowment net assets for the years ended:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
<u>June 30, 2018</u>			
Endowment net assets, beginning of year	\$ 938,523	\$2,810,935	\$3,749,458
Investment return:			
Net appreciation (realized and unrealized)	222,217		222,217
Investment income expended	<u>(148,703)</u>		<u>(148,703)</u>
Endowment net assets, end of year	<u>\$1,012,037</u>	<u>\$2,810,935</u>	<u>\$3,822,972</u>
<u>June 30, 2017</u>			
Endowment net assets, beginning of year	\$ 735,139	\$2,810,935	\$3,546,074
Investment return:			
Net appreciation (realized and unrealized)	350,924		350,924
Investment income expended	<u>(147,540)</u>		<u>(147,540)</u>
Endowment net assets, end of year	<u>\$ 938,523</u>	<u>\$2,810,935</u>	<u>\$3,749,458</u>

continued

LINCOLN

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets and Endowment Funds, continued

Endowment net assets at June 30, 2018 and 2017 consist of the following investment portfolios held with Charles Schwab:

	<u>2018</u>	<u>2017</u>
2 nd Century Fund	\$2,298,395	\$2,279,501
Edoff Fund	1,433,794	1,384,720
Siegmund Fund	<u>90,783</u>	<u>85,237</u>
	<u>\$3,822,972</u>	<u>\$3,749,458</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, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Community-based services	\$18,289,732	\$17,697,809
Other programs	857,416	823,450
Other government grants	<u>731,674</u>	<u>670,029</u>
	<u>\$19,878,822</u>	<u>\$19,191,288</u>

15. Employee Benefit Plan

Lincoln has a defined contribution plan available to substantially all employees. Employer contributions for non-union employees' are based on tenure and range from 5% to 9%. Lincoln makes matching contributions up to a maximum of 5% for union employees. Employer contributions under this plan for the years ended June 30, 2018 and 2017 were \$568,626 and \$492,704, respectively.

SUPPLEMENTAL SCHEDULE

LINCOLN

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2018

Helping Open Pathways to Education (HOPE)

	Bridge Academy (ACOE)	Esperanza/Korematau Discovery Academies	Laurel Elementary	Fruitvale Elementary	New Highland Academy & RISE Community School	Sankofa Elementary	Oakland Technical High School	Grass Valley Elementary	La Escuelita Elementary School/Met West High School	Vincent Academy Charter School	Oakland High School	Skyline High School	Total
	RU#01P91	RU# 01LA1	RU# 01LB1	RU# 01M01	RU# 01NX1	RU# 01FN1	RU# 01LC1	RU# 01QA1	RU# 01N1J1	RU# 01LD1	RU# 01MB1	RU# 01QS1	
Contract number:	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	
Contract period:													
Total contract amount	\$ 421,836	\$ 388,499	\$ 264,600	\$ 253,575	\$ 388,498	\$ 231,525	\$ 204,537	\$ 228,838	\$ 184,538	\$ 392,362	\$ 98,762	\$ 260,793	\$ 3,318,363
Salaries	\$ 122,887	\$ 244,145	\$ 137,870	\$ 116,320	\$ 238,994	\$ 158,232	\$ 161,105	\$ 153,802	\$ 154,659	\$ 180,781	\$ 57,502	\$ 122,228	\$ 1,848,525
Benefits	35,106	69,747	39,386	33,230	68,275	45,203	46,024	43,938	44,183	51,645	16,427	34,918	528,082
Total salaries and benefits	157,993	313,892	177,256	149,550	307,269	203,435	207,129	197,740	198,842	232,426	73,929	157,146	2,376,607
Administrative cost	30,612	60,819	34,345	28,976	59,535	39,417	40,132	38,313	38,526	45,031	14,324	30,448	460,478
Occupancy	6,987	13,877	7,837	6,612	13,585	8,994	9,158	8,743	8,791	10,278	3,270	6,947	105,079
Professional and specialized services	5,753	6,163	3,480	2,936	6,033	3,994	4,067	3,883	3,904	4,562	1,452	3,086	49,313
Transportation	1,376	2,734	1,544	1,303	2,676	1,772	1,804	1,722	1,732	2,023	644	1,369	20,699
Program/service related expenses	2,170	4,311	2,435	2,054	4,221	2,794	2,845	2,716	2,731	3,195	1,015	2,158	32,645
Depreciation	2,361	4,691	2,649	2,235	4,592	3,040	3,095	2,955	2,971	3,474	1,105	2,348	35,516
Communication	833	1,655	934	788	1,620	1,072	1,092	1,042	1,048	1,226	390	828	12,528
Insurance, taxes, and other fees	2,170	4,311	2,434	2,054	4,221	2,794	2,846	2,715	2,730	3,193	1,015	2,158	32,641
Staff development/trainings	598	1,189	671	566	1,164	770	784	749	753	880	280	595	8,999
Staff travel	724	1,438	813	686	1,408	933	950	906	912	1,063	339	721	10,893
Office related expenses	13,866	27,549	15,556	13,126	26,967	17,855	18,179	17,355	17,451	20,400	6,489	13,792	208,585
Total expenses	\$ 225,443	\$ 442,629	\$ 249,954	\$ 210,886	\$ 433,291	\$ 286,870	\$ 292,081	\$ 278,839	\$ 280,391	\$ 327,751	\$ 104,252	\$ 221,596	\$ 3,353,983

See independent auditors' report.

LINCOLN

STATEMENT OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2018
continued

Helping Open Pathways to Education (HOPE)

	Project Perm- Wraparound (Includes Katie A)	School Engagement Program	Fremont High School	Howard/Lafayette/ Prescott RU # 01ML1/010B1/010C 1 (Extended Sch sites)	Therapeutic Behavioral Service (TBS) RU # 01FB3	Multi- Dimensional Family Therapy Program (MDFT) RU # 01FB6	Total	Total Master Contract MC# 900117 7/1/16 - 6/30/17
Contract number:	RU # 01FB1 - Social Services/Probation 7/1/17 - 6/30/18	RU # 01FB2 7/1/17 - 6/30/18	RU # 01KZ1 7/1/17 - 6/30/18	RU # 01FB3 7/1/17 - 6/30/18	RU # 01FB6 7/1/17 - 6/30/18			
Contract period:								
Total contract amount	\$ 3,401,353	\$ 1,194,174	\$ 241,988	\$ 326,555	\$ 1,111,540	\$ 708,183	\$ 6,983,793	\$ 10,302,156
Salaries	\$ 1,700,426	\$ 619,737	\$ 47,532	\$ 221,710	\$ 594,791	\$ 385,864	\$ 3,570,060	\$ 5,418,585
Benefits	485,172	184,801	8,665	48,735	155,931	85,274	968,578	1,496,660
Total salaries and benefits	2,185,598	804,538	56,197	270,445	750,722	471,138	4,538,638	6,915,245
Administrative cost	445,128	155,926	9,268	52,131	152,415	79,984	894,852	1,355,330
Occupancy	150,033	45,240	2,110	11,864	45,628	33,232	288,107	393,186
Professional and specialized services	1,527	12,814	440	39,948	12,784	5,456	72,969	122,282
Transportation		26,107	695	3,906	20,200	14,708	65,616	86,315
Program/service related expenses	178,076	14,153	704	3,966	4,885	25,077	226,861	259,506
Depreciation	58,031	17,029	660	3,715	17,128	13,816	110,379	145,895
Communication	18,565	6,442	264	1,486	5,623	4,516	36,896	49,424
Insurance, taxes, and other fees	34,832	10,962	660	3,709	12,835	5,965	68,963	101,604
Staff development/trainings	12,196	1,134	257	1,447	2,757	1,681	19,472	28,471
Staff travel	10,880	4,140	240	1,352	1,662	4,790	23,064	33,957
Office related expenses	208,775	68,060	5,829	32,782	67,308	38,099	420,853	629,438
Total expenses	\$ 3,303,641	\$ 1,166,545	\$ 77,324	\$ 426,751	\$ 1,093,947	\$ 698,462	\$ 6,766,670	\$ 10,120,653
Amount Reimbursed by Alameda County as of 6/30/18								9,271,262
Subsequent Reimbursement by Alameda County as of 10/04/18								831,378
								10,102,640
Amount to be reimbursed								\$ 18,013

See independent auditors' report.