

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

CONTENTS

	Page
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows.....	5
Notes to Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
AbilityFirst

We have audited the accompanying statement of financial position of AbilityFirst as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of AbilityFirst. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2010 financial statements of AbilityFirst. In our report on the financial statements of AbilityFirst dated November 4, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AbilityFirst as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 on our consideration of AbilityFirst's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Green Hasson & Janks LLP

October 26, 2011
Los Angeles, California

ABILITYFIRST

STATEMENT OF FINANCIAL POSITION June 30, 2011 With Summarized Totals at June 30, 2010

ASSETS	2011				2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 783,066	\$ 903,255	\$ 2,992	\$ 1,689,313	\$ 2,798,992
Interest Receivable	212	23,134	-	23,346	62,520
Investments	1,800,000	-	-	1,800,000	1,800,000
Receivables (Net)	1,493,714	5,835	-	1,499,549	1,301,330
Receivables - Bequests/Trusts	126,308	-	-	126,308	295,945
Pledge Receivable (Net)	-	111,769	-	111,769	159,968
Prepaid Expenses	40,451	-	-	40,451	88,478
Due from Sponsored Housing Corp - Current (Net)	48,719	-	-	48,719	31,971
TOTAL CURRENT ASSETS	4,292,470	1,043,993	2,992	5,339,455	6,539,204
OTHER ASSETS:					
Long-Term Investments	11,412,531	22,690,864	1,225,698	35,329,093	29,430,649
Pledge Receivable - Non-Current	-	114,329	-	114,329	260,095
Beneficial Interest in Perpetual Trusts	-	-	4,246,558	4,246,558	3,884,587
Beneficial Interest in Charitable Remainder Trusts	-	2,340,665	-	2,340,665	2,165,611
Security and Insurance Deposits	92,716	-	-	92,716	79,656
Due from Sponsored Housing Corp - Non-Current (Net)	79,856	-	-	79,856	101,795
Property and Equipment (Net)	11,279,780	-	-	11,279,780	11,469,881
TOTAL OTHER ASSETS	22,864,883	25,145,858	5,472,256	53,482,997	47,392,274
TOTAL ASSETS	\$ 27,157,353	\$ 26,189,851	\$ 5,475,248	\$ 58,822,452	\$ 53,931,478
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts Payable	\$ 419,029	\$ -	\$ -	\$ 419,029	\$ 391,700
Accrued Expenses	1,067,091	-	-	1,067,091	1,308,811
TOTAL LIABILITIES	1,486,120	-	-	1,486,120	1,700,511
Net Assets	25,671,233	26,189,851	5,475,248	57,336,332	52,230,967
TOTAL LIABILITIES AND NET ASSETS	\$ 27,157,353	\$ 26,189,851	\$ 5,475,248	\$ 58,822,452	\$ 53,931,478

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

With Summarized Totals for the Year Ended June 30, 2010

	2011				2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING SUPPORT:					
Legacies and Bequests	\$ 1,602,105	\$ 34,401	\$ -	\$ 1,636,506	\$ 1,548,138
Direct Support	628,413	132,583	6,613	767,609	820,352
Other Contributions	67,265	-	-	67,265	47,501
United Way	110,572	-	-	110,572	109,775
Special Events (Net of Expenses of \$122,753)	478,575	51,258	-	529,833	379,830
Change in Value - Beneficial Interest in Perpetual Trusts	-	-	361,971	361,971	232,975
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	175,054	-	175,054	223,557
TOTAL OPERATING SUPPORT	2,886,930	393,296	368,584	3,648,810	3,362,128
PROGRAM SERVICE REVENUE:					
Government	6,776,070	-	-	6,776,070	6,946,360
Non-Government	1,527,220	-	-	1,527,220	1,557,663
TOTAL PROGRAM SERVICE REVENUE	8,303,290	-	-	8,303,290	8,504,023
FACILITY REVENUE	379,375	-	-	379,375	329,807
TOTAL OPERATING REVENUE AND SUPPORT	11,569,595	393,296	368,584	12,331,475	12,195,958
OPERATING EXPENSES:					
Program Services	11,168,476	-	-	11,168,476	10,903,105
Support Services:					
Management and General	1,428,237	-	-	1,428,237	1,597,900
Fundraising	1,034,108	-	-	1,034,108	921,991
TOTAL OPERATING EXPENSES	13,630,821	-	-	13,630,821	13,422,996
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME (LOSS)	(2,061,226)	393,296	368,584	(1,299,346)	(1,227,038)
Investment Income (Net)	2,390,693	4,011,549	-	6,402,242	3,984,763
Gain on Sale of Property and Equipment	2,469	-	-	2,469	62
Net Assets Released from Capital Restrictions	437,583	(437,583)	-	-	-
Net Assets Released from Purpose Restrictions	1,351,918	(1,351,918)	-	-	-
CHANGE IN NET ASSETS	2,121,437	2,615,344	368,584	5,105,365	2,757,787
Net Assets - Beginning of Year	23,549,796	23,574,507	5,106,664	52,230,967	49,473,180
NET ASSETS - END OF YEAR	\$ 25,671,233	\$ 26,189,851	\$ 5,475,248	\$ 57,336,332	\$ 52,230,967

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011

With Summarized Totals for the Year Ended June 30, 2010

	Program Services	Support Services		Total 2011	Total 2010
		Management and General	Fundraising		
Salaries	\$ 6,142,584	\$ 770,413	\$ 487,321	\$ 7,400,318	\$ 7,287,850
Employee Benefits	1,121,186	101,445	68,424	1,291,055	1,185,343
Payroll Taxes	453,918	51,558	35,184	540,660	529,654
TOTAL PERSONNEL COSTS	7,717,688	923,416	590,929	9,232,033	9,002,847
Building Occupancy					
Including Insurance	1,198,342	121,647	85,548	1,405,537	1,411,316
Depreciation	539,415	87,934	12,226	639,575	655,818
Supplies	404,060	76,727	16,101	496,888	458,564
Other Expenses	258,786	31,779	100,858	391,423	395,408
Local Transportation	269,459	11,615	15,727	296,801	281,229
Other Personnel Costs	238,738	31,196	18,121	288,055	231,582
Professional Fees	89,445	100,180	72,402	262,027	436,152
Telephone	115,768	10,273	7,895	133,936	106,237
Equipment Lease and Maintenance	105,251	8,044	10,775	124,070	142,308
Data Processing Expense	84,336	10,263	17,657	112,256	66,261
Postage, Printing and Publication	29,966	3,107	75,435	108,508	102,241
Rent Subsidy	94,792	-	-	94,792	100,578
Conference, Convention, Meetings and Travel	22,430	12,056	10,434	44,920	32,455
TOTAL 2011 FUNCTIONAL EXPENSES	\$ 11,168,476	\$ 1,428,237	\$ 1,034,108	\$ 13,630,821	
TOTAL 2010 FUNCTIONAL EXPENSES	\$ 10,903,105	\$ 1,597,900	\$ 921,991		\$ 13,422,996

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

With Summarized Totals for the Year Ended June 30, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 5,105,365	\$ 2,757,787
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	639,575	655,818
Provision for Bad Debts	152,890	63,499
Realized and Unrealized Gain on Investments	(5,191,516)	(3,001,358)
Gain on Sale of Property and Equipment	(2,469)	(62)
Forgiveness of Debt	(238,000)	(9,250)
Change in Value of Beneficial Interest in Perpetual Trusts	(361,971)	(232,975)
Change in Value of Beneficial Interest in Charitable Remainder Trusts	(175,054)	(223,557)
Contributions Restricted for Long-Term Purposes	(6,613)	(4,478)
Contributions Restricted for Investment in Property and Equipment	(98,000)	(413,699)
(Increase) Decrease in:		
Interest Receivable	39,174	(20,952)
Receivables (Net)	(220,676)	(117,671)
Receivables - Bequests/Trusts	169,637	523,302
Pledges Receivable (Net)	180,913	(5,859)
Prepaid Expenses	48,027	37,126
Security and Insurance Deposits	(13,060)	(7,643)
Increase (Decrease) in:		
Accounts Payable	27,329	13,387
Accrued Expenses	(3,720)	149,507
NET CASH PROVIDED BY OPERATING ACTIVITIES	51,831	162,922
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Due from Sponsored Housing Corp.	(112,190)	20,675
Purchase of Investments	(1,664,264)	(1,657,926)
Proceeds from Sale of Investments	957,336	1,700,769
Purchase of Property and Equipment	(449,474)	(588,104)
Proceeds from Sale of Property and Equipment	2,469	-
NET CASH USED IN INVESTING ACTIVITIES	(1,266,123)	(524,586)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections of Contributions Restricted for Long-Term Purposes	6,613	4,478
Proceeds from Contributions Restricted for Investment in Property and Equipment	98,000	413,699
NET CASH PROVIDED BY FINANCING ACTIVITIES	104,613	418,177
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,109,679)	56,513
Cash and Cash Equivalents - Beginning of Year	2,798,992	2,742,479
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,689,313	\$ 2,798,992

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - NATURE OF ORGANIZATION

AbilityFirst provides programs and services to help children and adults with physical and developmental disabilities realize their full potential.

AbilityFirst envisions a society that values each individual and provides the opportunity for all people to lead full and productive lives. Since 1926 and for over 80 years, AbilityFirst has been looking beyond disabilities, focusing on capabilities, and expanding possibilities.

To achieve its vision, AbilityFirst has 24 locations throughout Southern California offering a broad range of programs and services to help children and adults with physical and developmental disabilities realize their full potential throughout their lives, including employment, accessible housing, camping, and recreational and socialization programs.

Most AbilityFirst program participants qualify for funding through the state-supported Regional Centers. However, government support provides only 50 cents of every dollar needed to deliver high quality programs and services. AbilityFirst relies on the generous support of hundreds of donors who share its vision and make it possible for AbilityFirst to continue helping thousands of people reach their potential.

AbilityFirst operates with an executive team working with two boards of directors that are composed of individuals who volunteer their time and talents to advancing its mission. The Governing Board sets policy and the overall strategic direction for the organization. The Housing Board of Directors monitors the financial performance of AbilityFirst's HUD (Housing and Urban Development) sponsored housing properties and assures compliance with HUD rules and regulations.

In 2007 the Governing Board voted to support a \$5 million capital campaign for the new Joan and Harry A. Mier Center. 100% of the AbilityFirst Board has made a financial commitment to this campaign whose theme is *Building Independence – Celebrating Community*.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The financial statements of AbilityFirst have been prepared utilizing the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of AbilityFirst are maintained in accordance with the principles of net assets 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:

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** AbilityFirst reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 purpose or capital restrictions. Donor restricted contributions whose restrictions have been met in the same reporting period are reported as unrestricted support in the statement of activities. AbilityFirst has \$26,189,851 of temporarily restricted net assets at June 30, 2011.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit AbilityFirst to expend all of the income (or other economic benefits) derived from the donated assets. AbilityFirst has \$5,475,248 of permanently restricted net assets at June 30, 2011.

(c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash equivalents approximates its fair value at June 30, 2011.

AbilityFirst maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits.

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair market values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) RECEIVABLES

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated fair value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2011, AbilityFirst evaluated the collectibility of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$60,000.

(f) LEGACIES AND BEQUESTS

AbilityFirst has been named beneficiary in a number of bequests. Certain of these gifts have not been recorded in the accompanying financial statements because the donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable. AbilityFirst will record and report all gifts when declared valid and the amount is determinable.

(g) PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues when the pledge is received. AbilityFirst reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Pledges receivable with donor-imposed restrictions that are met in the same year as received are reported as an increase in unrestricted net assets.

(h) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Donors have established and funded trusts, which are administered by organizations other than AbilityFirst. Under the terms of the trust, AbilityFirst has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. AbilityFirst does not control the assets held by an outside trust. Annual distributions from the trusts are reported as investment income. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as a change in value of beneficial interest in perpetual trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

AbilityFirst has been designated as the beneficiary of assets held in charitable remainder trusts administered by other trustees. AbilityFirst recognizes temporarily restricted contribution revenue and a receivable which represents the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the lifetime beneficiaries are recognized in the statement of activities as a change in value of beneficial interest in charitable remainder trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

(j) 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 provided over the estimated useful lives of the related assets on a straight-line basis as follows:

Buildings	40 Years
Leasehold Improvements	10 Years
Furniture and Equipment	10 Years
Transportation Equipment	6 Years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$3,000 and the useful life is greater than one year.

(k) LONG-LIVED ASSETS

AbilityFirst reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flow is less than the carrying amount of the assets, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended June 30, 2011.

(l) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time to AbilityFirst. The services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) INCOME TAXES

AbilityFirst is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding California provisions.

(n) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing AbilityFirst's programs and other activities 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. AbilityFirst uses proportional salary dollars to allocate indirect costs.

(o) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with AbilityFirst's financial statements for the year ended June 30, 2010 from which the summarized information was derived.

(q) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 26, 2011, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 3 - INVESTMENTS

Investments are summarized as follows at June 30, 2011:

Government and Corporate Bonds	\$ 16,206,024
Equities and Mutual Funds	10,144,518
International Securities	8,576,875
Real Estate Securities	<u>2,201,676</u>
TOTAL INVESTMENTS	<u>37,129,093</u>
Less: Current Portion	<u>(1,800,000)</u>
LONG-TERM INVESTMENTS	<u>\$ 35,329,093</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 911,837	\$ 452,947	\$ 1,364,784
Net Realized and Unrealized			
Gain on Investments	1,533,814	3,657,702	5,191,516
Management Fees	(54,958)	(99,100)	(154,058)
INVESTMENT INCOME (NET)	<u>\$ 2,390,693</u>	<u>\$ 4,011,549</u>	<u>\$ 6,402,242</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

AbilityFirst has implemented the accounting standard that defines fair value for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

The following table presents information about AbilityFirst's assets that are measured at fair value on a recurring basis at June 30, 2011 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2011	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government and Corporate Bonds	\$ 16,206,024	\$ 14,068,216	\$ 2,137,808	\$ -
Equities and Mutual Funds	10,144,518	8,916,678	1,227,840	-
International Securities	8,576,875	8,576,875	-	-
Real Estate Securities	2,201,676	2,201,676	-	-
TOTAL INVESTMENTS	37,129,093	33,763,445	3,365,648	-
Beneficial Interest in:				
Perpetual Trusts	4,246,558	-	-	4,246,558
Charitable Remainder Trusts	2,340,665	-	-	2,340,665
TOTAL	\$ 43,716,316	\$ 33,763,445	\$ 3,365,648	\$ 6,587,223

The fair values of beneficial interests within Level 3 inputs were determined as described in Notes 2(h) and 2(i).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Permanently Restricted	Total
Beginning Balance	\$ 2,165,611	\$ 3,884,587	\$ 6,050,198
Change in Value of Beneficial Interest - Net Unrealized Losses	175,054	361,971	537,025
ENDING BALANCE	\$ 2,340,665	\$ 4,246,558	\$ 6,587,223

AbilityFirst uses net asset value (NAV) per share, or its equivalent, to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

AbilityFirst has adopted the amended guidance in ASC 820, *Fair Value Measurements and Disclosures*, in its June 30, 2011 financial statements. The new guidance affects how the organization measures the fair value of investments in certain entities that do not have a quoted market price but calculate net asset value (NAV) per share or its equivalent. As a practical expedient, the amendments permit AbilityFirst to measure the fair value of an investment in an investee within the scope of the amendments based on the investee's NAV per share or its equivalent. Adoption did not have a material impact on the fair value determination of applicable investments. Additional disclosures for the applicable investments are as follows:

Government and Corporate Bonds

Investments include government bonds, corporate bonds, and government and non-government backed securities. A majority of these holdings are held in institutional share class mutual funds. The fair values of the individual securities are based on the prices listed in the stock exchanges and broker-dealer markets. The fair value of the actively traded fixed income mutual fund portfolio is based on the ticker prices of the underlying bonds listed on the global exchanges whereas the fair values of the investment funds are valued based on the NAV per share and the net asset value of the AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2011.

Equities and Mutual Funds

Investments in equities and equity mutual funds include actively traded U.S. common stocks and investment funds that hold long/short positions in equity securities that are within and outside of the S & P 500 Index. In addition to common stocks, these funds are able to invest in futures and forward contracts to gain exposure to equity and commodity market. The fair value of the actively traded portfolio is based on the ticker prices of the underlying stocks and derivative contracts listed on the stock exchange whereas the fair values of the investment funds are valued based on the NAV per share and the net asset value of the AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2011.

International Securities

Investments in international securities include international stock funds listed on the U.S. Stock Exchanges and investment funds that invest in non-U.S. issuers and securities whose principal markets are outside of the U.S. The fair values of these securities are based on the ticker price listed on the global stock exchanges and the NAV per share provided by the fund managers. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2011.

Real Estate Securities

Investments in real estate securities are invested in real estate investment trust (REITS) funds that provide long-term returns. The fair values of these securities are based on the ticker price listed on the global stock exchanges and the NAV per share provided by the fund managers. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2011.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2011 are expected to be collected as follows:

Less than One Year	\$	111,769
One to Five Years		<u>114,329</u>
<i>PLEDGES RECEIVABLE</i>	\$	<u>226,098</u>

NOTE 6 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

AbilityFirst is the beneficiary of the following trusts whose assets are not in its possession. AbilityFirst has legally enforceable rights or claims to such assets, including annual income as follows:

	<u>Carrying Value</u>
50% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$78,380	\$ 1,360,716
20% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$32,793	1,245,638
33.33% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$47,064	477,807
50% Interest in Perpetual Trust; No income was received during the Year Ended June 30, 2011	433,857
5% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$3,154	290,877
16.67% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$921,285. A portion of the assets in this trust are oil and gas royalties, the carrying value of which is not determinable and, therefore, has not been recorded. The annual income received fluctuates based upon changing market prices for oil and gas.	208,239
50% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$6,000	147,748
5% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2011 was \$3,633	<u>81,676</u>
<i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i>	\$ <u>4,246,558</u>

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 7 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

AbilityFirst is the beneficiary of several charitable remainder trusts administered by other trustees. Assets held in charitable remainder trusts totaled \$2,340,665 at June 30, 2011, representing the portion of the net present value of the charitable remainder trusts for which AbilityFirst is the designated beneficiary.

NOTE 8 - DUE FROM SPONSORED HOUSING CORPORATIONS

AbilityFirst currently sponsors ten independent apartment complexes and two group homes. AbilityFirst makes non-interest bearing advances to each sponsored housing corporation during the development phase to partially finance the construction of the facilities. At June 30, 2011, an amount totaling \$128,575 was due from such sponsored housing corporations. Management has discounted a portion of the receivables over 30 years using the 30 year Treasury note as the discount rate as they do not anticipate sufficient surplus cash flows from the project during the sponsorship phase and a portion of the receivables is unlikely to be collected until the property comes under AbilityFirst's ownership. However, it is possible that these amounts will be collected earlier if the projects generate sufficient surplus cash flows to allow for payment.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2011:

Land	\$ 1,277,963
Buildings and Leasehold Improvements	16,172,037
Furniture and Equipment	1,178,935
Transportation Equipment	1,292,040
Construction in Progress	<u>438,472</u>
TOTAL	20,359,447
Less: Accumulated Depreciation	<u>(9,079,667)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 11,279,780</u>

Depreciation expense for the year ended June 30, 2011 was \$639,575.

Construction in progress consists of building, equipment, and improvements in the process of completion.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

AbilityFirst leases real property under non-cancelable operating leases that expire through February 2015.

The following is a schedule of future minimum lease payments on non-cancelable operating leases:

Years Ending June 30	
2012	\$ 329,433
2013	156,827
2014	163,247
2015	<u>97,412</u>
TOTAL	\$ <u>746,919</u>

Rent expense for the year ended June 30, 2011 totaled \$338,146.

(b) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, AbilityFirst becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against AbilityFirst which, from time to time, may have an impact on changes in net assets. AbilityFirst does not believe that these proceedings, individually or in the aggregate, would have a material effect on the accompanying financial statements.

(c) RESERVE FOR UNEMPLOYMENT

AbilityFirst has elected to be self-insured for the purposes of employees' unemployment claims. The reserve for unemployment liability at June 30, 2011 of \$92,392 included in accounts payable, represents estimated future claims arising from current and past employees. Unemployment expense for the year ended June 30, 2011, was \$53,994

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at July 1, 2010	\$ 102,480	\$ -	\$ 102,480
Self-Insurance Expenses Incurred	53,994	-	53,994
Payments Made to Fund Related Liabilities	<u>(64,082)</u>	-	<u>(64,082)</u>
BALANCE AT JUNE 30, 2011	\$ 92,392	\$ -	\$ 92,392

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

(d) CONTINGENT LIABILITY

AbilityFirst is the sponsor of independent apartment complexes that receive rent subsidies from the U.S. Department of Housing and Urban Development (HUD). These apartment complexes were managed by a Management Agent who had advised AbilityFirst that a former resident manager at one of its locations has improperly certified ineligible tenants and received HUD subsidies for those tenants. Mediation resulted in a cash settlement to AbilityFirst of approximately \$200,000. In consideration of the over \$250,000 of legal fees incurred, AbilityFirst has made a formal request that HUD ratify this settlement in satisfaction of the estimated \$238,000 in improper subsidies. Such request was approved by HUD in August 2011. AbilityFirst recognized the contingent liability of \$238,000 as program service revenue in the statement of activities for the year ended June 30, 2011.

NOTE 11 - UNRESTRICTED NET ASSETS

Unrestricted net assets are available for the following purposes as of June 30, 2011:

Investment in Property and Equipment	\$ 11,279,780
General Operations	14,391,453
UNRESTRICTED NET ASSETS	\$ 25,671,233

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2011:

Other Programs	\$ 19,995,501
Purchase of Capital Assets	3,853,685
Charitable Remainder Trusts	2,340,665
TEMPORARILY RESTRICTED NET ASSETS	\$ 26,189,851

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are invested in perpetuity. The principal balance, from which the investment income is expendable only to support the programs specified by the donors are comprised of the following as of June 30, 2011:

Perpetual Trusts	\$ 4,246,558
Other Programs	617,130
Camp Scholarships	584,785
Other Scholarships	26,775
TOTAL PERMANENTLY RESTRICTED NET ASSETS	\$ 5,475,248

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 14 - ENDOWMENTS

AbilityFirst's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to provide a permanent endowment, which is to provide a permanent source of income to AbilityFirst.

AbilityFirst's management understands California State law as (1) requiring the preservation of the fair market value of the original gifts as of the gift date of the donor restricted endowment funds, and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for AbilityFirst's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, annual growth percentage and costs of portfolio management.

In the absence of explicit donor instructions, AbilityFirst's spending policy allows that up to 5% of the endowment base shall be available to support AbilityFirst programs annually. The endowment base is defined as 12-quarter moving average of the market value of the total endowment portfolio.

At times, the fair value of assets associated with these endowment funds may fall below the level that the donor requires AbilityFirst to retain as a fund of perpetual duration. Deficiencies may result from unfavorable market fluctuations. In accordance with generally accepted accounting principles, there were no deficiencies of this nature that are reported in unrestricted net assets at June 30, 2011.

**Endowment Net Asset
Composition by Type of Fund at
June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ 443,391	\$ 1,228,690	\$ 1,672,081

**Changes in Endowment Net
Assets for the Year Ended June
30, 2011**

Endowment Net Assets - Beginning of Year	\$ -	\$ 147,201	\$ 1,214,213	\$ 1,361,414
Contributions	-	-	6,613	6,613
Investment Return:				
Interest and Dividends	-	55,340	-	55,340
Net Realized and Unrealized Gain	-	246,432	7,864	254,296
Less: Investment Fees	-	(5,582)	-	(5,582)
ENDOWMENT NET ASSETS - END OF YEAR	\$ -	\$ 443,391	\$ 1,228,690	\$ 1,672,081

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 15 - EMPLOYEE BENEFIT PROGRAMS

AbilityFirst has a defined contribution retirement plan for all employees who are employed to work 20 or more hours per week. Eligible employees can voluntarily contribute immediately with employer contributions beginning after one year of employment. The calculated contribution is 5% of the employees' gross salaries. Additionally, AbilityFirst will match 100% of the employees' contributions up to 2% of the employees' gross salaries. Employees immediately vest in employer contributions to the defined contribution plan. Employer contributions for the year ended June 30, 2011 were approximately \$322,311.