

ABILITYFIRST

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

Board of Directors
AbilityFirst

We have audited the accompanying statement of financial position of AbilityFirst as of June 30, 2009, 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 2008 financial statements of AbilityFirst. In our report on the consolidated financial statements of AbilityFirst and Affiliates dated October 23, 2008 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, 2009, 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 29, 2009, 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 29, 2009
Los Angeles, California

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ABILITYFIRST

STATEMENT OF FINANCIAL POSITION

June 30, 2009

With Summarized Totals at June 30, 2008

ASSETS	2009				2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 442,374	\$ 2,287,556	\$ 12,549	\$ 2,742,479	\$ 4,470,700
Interest Receivable	10,073	31,495	-	41,568	62,058
Investments	1,800,000	-	-	1,800,000	1,458,000
Receivables (Net)	1,172,843	51,487	-	1,224,330	1,243,644
Receivables - Bequests/Trusts	819,247	-	-	819,247	1,046,405
Pledge Receivable (Net)	-	437,032	-	437,032	425,538
Prepaid Expenses	125,604	-	-	125,604	87,192
Due from Sponsored Housing Corp - Current (Net)	28,988	-	-	28,988	44,242
TOTAL CURRENT ASSETS	4,399,129	2,807,570	12,549	7,219,248	8,837,779
OTHER ASSETS:					
Long-Term Investments	9,392,952	15,874,132	1,205,050	26,472,134	32,595,333
Beneficial Interest in Perpetual Trusts	-	-	3,651,612	3,651,612	4,426,359
Beneficial Interest in Charitable Remainder Trusts	-	1,942,054	-	1,942,054	2,385,011
Security and Insurance Deposits	72,013	-	-	72,013	62,701
Due from Sponsored Housing Corp - Non-Current (Net)	125,453	-	-	125,453	426,961
Property and Equipment (Net)	11,537,533	-	-	11,537,533	11,707,928
TOTAL OTHER ASSETS	21,127,951	17,816,186	4,856,662	43,800,799	51,604,293
TOTAL ASSETS	\$ 25,527,080	\$ 20,623,756	\$ 4,869,211	\$ 51,020,047	\$ 60,442,072
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts Payable	\$ 378,313	\$ -	\$ -	\$ 378,313	\$ 389,874
Accrued Expenses	1,165,282	-	-	1,165,282	1,159,764
TOTAL CURRENT LIABILITIES	1,543,595	-	-	1,543,595	1,549,638
OTHER LIABILITIES:					
Note Payable	3,272	-	-	3,272	12,522
TOTAL LIABILITIES	1,546,867	-	-	1,546,867	1,562,160
Net Assets	23,980,213	20,623,756	4,869,211	49,473,180	58,879,912
TOTAL LIABILITIES AND NET ASSETS	\$ 25,527,080	\$ 20,623,756	\$ 4,869,211	\$ 51,020,047	\$ 60,442,072

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

With Summarized Totals for the Year Ended June 30, 2008

	2009			Total	2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING SUPPORT:					
Legacies and Bequests	\$ 1,258,398	\$ 7,055	\$ -	\$ 1,265,453	\$ 1,941,490
Direct Support	511,370	1,007,196	-	1,518,566	1,480,520
Other Contributions	71,794	-	-	71,794	104,874
United Way	125,344	-	-	125,344	158,243
Special Events (Net of Expenses of \$137,889)	311,009	48,976	-	359,985	550,471
Change in Value - Beneficial Interest in Perpetual Trusts	-	-	(774,747)	(774,747)	(270,859)
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	(442,957)	-	(442,957)	(172,585)
TOTAL OPERATING SUPPORT	2,277,915	620,270	(774,747)	2,123,438	3,792,154
PROGRAM SERVICE REVENUE:					
Government	7,337,497	-	-	7,337,497	6,440,083
Non-Government	1,149,202	-	-	1,149,202	889,367
TOTAL PROGRAM SERVICE REVENUE	8,486,699	-	-	8,486,699	7,329,450
FACILITY REVENUE	287,405	-	-	287,405	350,288
TOTAL OPERATING REVENUE AND SUPPORT	11,052,019	620,270	(774,747)	10,897,542	11,471,892
OPERATING EXPENSES:					
Program Services	11,235,693	-	-	11,235,693	10,060,891
Support Services:					
Management and General	1,754,845	-	-	1,754,845	1,930,784
Fundraising	1,060,318	-	-	1,060,318	927,230
TOTAL OPERATING EXPENSES	14,050,856	-	-	14,050,856	12,918,905
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME (LOSS)	(2,998,837)	620,270	(774,747)	(3,153,314)	(1,447,013)
Investment Loss (Net)	(1,873,651)	(4,546,472)	-	(6,420,123)	(1,717,252)
Gain on Sale of Property and Equipment	166,705	-	-	166,705	500
Net Assets Released from Capital Restrictions	46,668	(46,668)	-	-	-
Net Assets Released from Program Restrictions	64,758	(64,758)	-	-	-
CHANGE IN NET ASSETS	(4,594,357)	(4,037,628)	(774,747)	(9,406,732)	(3,163,765)
Net Assets - Beginning of Year	28,574,570	24,661,384	5,643,958	58,879,912	62,043,677
NET ASSETS - END OF YEAR	\$ 23,980,213	\$ 20,623,756	\$ 4,869,211	\$ 49,473,180	\$ 58,879,912

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2009

With Summarized Totals for the Year Ended June 30, 2008

	Program Services	Support Services		Total 2009	Total 2008
		Management and General	Fundraising		
Salaries	\$ 6,472,124	\$ 803,828	\$ 473,514	\$ 7,749,466	\$ 6,866,900
Employee Benefits	1,008,365	95,726	73,249	1,177,340	1,051,242
Payroll Taxes	474,349	49,701	33,468	557,518	499,642
TOTAL PERSONNEL COSTS	7,954,838	949,255	580,231	9,484,324	8,417,784
Building Occupancy including					
Insurance	1,309,217	96,295	90,316	1,495,828	1,301,047
Depreciation	550,890	88,824	17,511	657,225	648,940
Other Expenses	150,948	392,362	82,400	625,710	618,863
Supplies	417,821	64,080	12,496	494,397	515,372
Professional Fees	73,647	94,958	118,746	287,351	360,775
Local Transportation	231,425	13,377	20,238	265,040	270,039
Other Personnel Costs	153,155	12,494	9,650	175,299	201,287
Postage, Printing and Publication	31,708	4,166	90,336	126,210	118,775
Telephone	88,286	10,707	5,952	104,945	101,196
Equipment Lease and Maintenance	85,665	5,891	12,899	104,455	95,103
Data Processing Expense	78,300	9,015	12,676	99,991	147,151
Rent Subsidy	93,928	-	-	93,928	87,963
Conference, Convention, Meetings and Travel	15,865	13,421	6,867	36,153	34,610
TOTAL 2009 FUNCTIONAL EXPENSES	\$ 11,235,693	\$ 1,754,845	\$ 1,060,318	\$ 14,050,856	
TOTAL 2008 FUNCTIONAL EXPENSES	\$ 10,060,891	\$ 1,930,784	\$ 927,230		\$ 12,918,905

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

With Summarized Totals for the Year Ended June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (9,406,732)	\$ (3,163,765)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	657,225	648,940
Donated Stock	-	(65,087)
Provision for Bad Debts	415,220	185,576
Realized and Unrealized Loss on Investments	7,782,095	4,243,359
Gain on Sale of Property and Equipment	(166,705)	(500)
Contributions Restricted for Long-Term Purposes	-	(128,995)
Forgiveness of Debt	(9,250)	(9,252)
Change in Value of Beneficial Interest in Perpetual Trusts	774,747	270,859
Change in Value of Beneficial Interest in Charitable Remainder Trusts	442,957	172,585
Contributions Restricted for Investment in Property and Equipment	(277,117)	(645,935)
(Increase) Decrease in:		
Interest Receivable	20,490	16,267
Receivables (Net)	(154,943)	553,272
Receivables - Bequests/Trusts	227,158	(257,333)
Pledges Receivable (Net)	(39,448)	(425,538)
Prepaid Expenses	(38,412)	(868)
Beneficial Interest in Charitable Remainder Trusts	-	8,619
Security and Insurance Deposits	(9,312)	15,950
Increase (Decrease) in:		
Accounts Payable	(11,561)	157,272
Accrued Expenses	5,518	286,046
	211,930	1,861,472
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (Decrease) in Due from Sponsored Housing Corp.	103,753	(193,975)
Purchase of Investments	(11,398,054)	(7,364,441)
Proceeds from Sale of Investments	9,397,158	6,470,092
Purchase of Property and Equipment	(496,562)	(715,447)
Proceeds from Sale of Property and Equipment	176,437	-
	(2,217,268)	(1,803,771)
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections of Contributions Restricted for Long-Term Purposes	-	128,995
Proceeds from Contributions Restricted for Investment in Property and Equipment	277,117	645,935
	277,117	774,930
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,728,221)	832,631
Cash and Cash Equivalents - Beginning of Year	4,470,700	3,638,069
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,742,479	\$ 4,470,700

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009

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 program 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 \$20,623,756 of temporarily restricted net assets at June 30, 2009.
- **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 \$4,869,211 of permanently restricted net assets at June 30, 2009.

(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 and cash equivalents approximates its fair value at June 30, 2009.

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, 2009

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 net realizable 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, 2009, AbilityFirst evaluated the collectibility of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$46,000.

(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, 2009

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, as a receivable, 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 asset, 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, 2009.

(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, 2009

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, 2008 from which the summarized information was derived.

(q) RECENT ACCOUNTING PRONOUNCEMENT

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken, or expected to be taken, on a tax return. FIN 48 was initially effective for fiscal years beginning after December 15, 2006. The implementation date for non-public corporations for FIN 48 has been delayed and is now effective for fiscal years beginning after December 15, 2008. AbilityFirst expects to adopt the requirements, if necessary, on July 1, 2009 and has not currently determined the impact of FIN 48 on the accompanying financial statements. However, until FIN 48 is adopted, AbilityFirst will continue to account for uncertain tax positions using the guidance in FASB Statement 5, "Accounting for Contingencies." The cumulative effect, if any, of adopting FIN 48 will be recorded as an adjustment to net assets on July 1, 2009.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2009 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 29, 2009, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

Investments are summarized as follows at June 30, 2009:

Government and Corporate Bonds	\$13,165,047
Equities and Mutual Funds	9,256,349
International Securities	4,910,032
Real Estate Securities	940,706
TOTAL INVESTMENTS	28,272,134
Less: Current Portion	(1,800,000)
LONG-TERM INVESTMENTS	\$26,472,134

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 444,225	\$ 1,058,053	\$ 1,502,278
Net Realized and Unrealized			
Loss on Investments	(2,312,322)	(5,469,773)	(7,782,095)
Management Fees	(5,554)	(134,752)	(140,306)
INVESTMENT LOSS (NET)	\$ (1,873,651)	\$ (4,546,472)	\$ (6,420,123)

NOTE 4 - FAIR VALUE MEASUREMENTS

Effective July 1, 2008, AbilityFirst implemented Statement of Financial Accounting Standards No. 157 (SFAS 157) for those assets (and liabilities) 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. SFAS 157 applies to fair value measurements already required or permitted by existing standards.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). 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 (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about AbilityFirst's assets that are measured at fair value on a recurring basis at June 30, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended June 30, 2009	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	\$13,165,047	\$13,165,047	\$ -	\$ -
Equities and Mutual Funds	9,256,349	9,256,349	-	-
International Securities	4,910,032	4,910,032	-	-
Real Estate Securities	940,706	940,706	-	-
TOTAL INVESTMENTS	28,272,134	28,272,134	-	-
Beneficial Interest in:				
Perpetual Trusts	3,651,612	-	-	3,651,612
Charitable Remainder Trusts	1,942,054	-	-	1,942,054
TOTAL	\$33,865,800	\$28,272,134	\$ -	\$ 5,593,666

The fair values of marketable securities within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

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	\$ 2,385,011	\$ 4,426,359	\$ 6,811,370
Change in Value of Beneficial Interest - Net Unrealized Losses	(442,957)	(774,747)	(1,217,704)
ENDING BALANCE	\$ 1,942,054	\$ 3,651,612	\$ 5,593,666

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2009 are expected to be collected as follows:

Less than One Year	\$ 122,145
One to Five Years	307,387
More than Five Years	<u>7,500</u>
<i>PLEDGES RECEIVABLE</i>	<u>\$ 437,032</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, 2009 was \$94,444	\$ 1,125,157
20% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2009 was \$71,009	1,055,358
33.33% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2009 was \$10,824	430,763
50% Interest in Perpetual Trust; No income was received during the Year Ended June 30, 2009	386,913
5% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2009 was \$11,755	287,758
16.67% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2009 was \$982,010. 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.	179,491
50% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2009 was \$6,000	114,991
5% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2009 was \$2,662	<u>71,181</u>
<i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i>	<u>\$ 3,651,612</u>

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 \$1,942,054 at June 30, 2009, 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 operating 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, 2009, an amount totaling \$154,441 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, 2009:

Land	\$ 1,277,963
Buildings and Leasehold Improvements	15,635,102
Furniture and Equipment	968,588
Transportation Equipment	1,155,584
Construction in Progress	<u>284,569</u>
TOTAL	19,321,806
Less: Accumulated Depreciation	<u>(7,784,273)</u>
NET PROPERTY AND EQUIPMENT	<u><u>\$11,537,533</u></u>

Depreciation expense for the year ended June 30, 2009 was \$657,225.

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 10 - NOTE PAYABLE

Note Payable - Financing Company, Payable in Monthly Installments of \$771, Non-Interest Bearing, Due November 2010	\$ 12,522
Less: Current Portion (included in Accrued Expenses)	<u>(9,250)</u>
LONG-TERM PORTION OF NOTE PAYABLE	<u>\$ 3,272</u>

The above obligation has a use restriction on the property financed that requires the property to be operated by a not-for-profit organization. Satisfying this restriction relieves principal and interest payments for the duration of the loan.

Future maturities of the note payable are as follows:

Years Ending June 30

2011	<u>\$ 3,272</u>
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NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

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

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

Years Ending June 30

2010	\$ 311,373
2011	143,975
2012	150,401
2013	156,821
2014	163,247
Thereafter	<u>97,412</u>
TOTAL	<u>\$ 1,023,229</u>

Rent expense for the year ended June 30, 2009 totaled \$333,590.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

(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, 2009 of \$88,161 included in accounts payable, represents estimated future claims arising from current and past employees. Unemployment expense for the year ended June 30, 2009, was \$74,575.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at July 1, 2008	\$ 65,438	\$ -	\$ 65,438
Self-Insurance Expenses Incurred	74,575	-	74,575
Payments Made to Fund Related Liabilities	(51,852)	-	(51,852)
<i>BALANCE AT JUNE 30, 2009</i>	\$ 88,161	\$ -	\$ 88,161

(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. Although the Management Agent is responsible for the losses arising from these improper billings, AbilityFirst as a sponsor of the project may ultimately be liable if the Management Agent or its insurance company does not repay the subsidy. The amount of the liability has been estimated at \$238,000 for the improper collection of subsidy. AbilityFirst has filed a legal complaint to recoup any losses incurred.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 12 - UNRESTRICTED NET ASSETS

Unrestricted net assets are available for the following purposes as of June 30, 2009:

Investment in Property and Equipment	\$11,537,533
General Operations	9,219,314
Board - Designated	<u>3,223,366</u>
<i>UNRESTRICTED NET ASSETS</i>	<u><u>\$23,980,213</u></u>

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2009:

Other Programs	\$15,678,161
Purchase of Capital Assets	3,003,541
Charitable Remainder Trusts	<u>1,942,054</u>
<i>TEMPORARILY RESTRICTED NET ASSETS</i>	<u><u>\$20,623,756</u></u>

NOTE 14 - 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, 2009:

Perpetual Trusts	\$ 3,651,612
Other Programs	612,652
Camp Scholarships	578,172
Other Scholarships	<u>26,775</u>
<i>TOTAL PERMANENTLY RESTRICTED NET ASSETS</i>	<u><u>\$ 4,869,211</u></u>

NOTE 15 - 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.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 15 - ENDOWMENTS (continued)

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.

AbilityFirst's Board of Directors is in the process of developing a spending policy that will distribute a specific payout rate of the endowment base to support AbilityFirst's programs. The endowment base will be defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of June for the prior three years). The distribution or payout rate will be calculated at a specific fixed percentage of the base. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowment. In addition, this policy will minimize the probability of invading the principal over the long term.

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, deficiencies of this nature that are reported in unrestricted net assets were \$46,817 at June 30, 2009.

Endowment Net Asset

Composition by Type of Fund at June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated	\$ 3,223,366	\$ -	\$ -	\$ 3,223,366
Donor-Restricted	(46,817)	-	1,217,599	1,170,782
TOTAL FUNDS	\$ 3,176,549	\$ -	\$ 1,217,599	\$ 4,394,148

Changes in Endowment Net Assets for the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 4,134,184	\$ 270,681	\$ 1,217,599	\$ 5,622,464
Investment Return:				
Interest and Dividends	150,193	61,052	-	211,245
Net Realized and Unrealized Losses	(1,093,582)	(326,853)	-	(1,420,435)
Less: Investment Fees	(14,246)	(4,880)	-	(19,126)
ENDOWMENT NET ASSETS - END OF YEAR	\$ 3,176,549	\$ -	\$ 1,217,599	\$ 4,394,148

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 16 - 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, 2009 were approximately \$323,000.