

# **ABILITYFIRST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

**ABILITYFIRST**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
AbilityFirst

### **Report on the Financial Statements**

We have audited the accompanying financial statements of AbilityFirst, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year 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.

### **Auditor's 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. 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 auditor's 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 AbilityFirst as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited AbilityFirst's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

May 29, 2019  
Los Angeles, California

# ABILITYFIRST

## STATEMENT OF FINANCIAL POSITION December 31, 2018 With Summarized Totals at December 31, 2017

ASSETS	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 796,384	\$ -	\$ 796,384	\$ 609,311
Investments	2,430,000	-	2,430,000	1,965,000
Receivables (Net)	1,273,097	-	1,273,097	1,285,762
Receivables - Bequests/Trusts	321,071	-	321,071	311,988
Pledges Receivable (Net)	148,092	-	148,092	233,127
Prepaid Expenses	83,589	-	83,589	52,566
<b>TOTAL CURRENT ASSETS</b>	5,052,233	-	5,052,233	4,457,754
<b>OTHER ASSETS:</b>				
Long-Term Investments	33,375,508	13,920,266	47,295,774	53,270,902
Beneficial Interest in Perpetual Trusts	-	4,070,529	4,070,529	4,345,640
Beneficial Interest in Charitable Remainder Trusts	-	876,317	876,317	848,062
Security and Insurance Deposits	53,486	-	53,486	53,486
Due from Sponsored Housing Corp - Non-Current (Net)	28,932	-	28,932	83,294
Property and Equipment (Net)	12,827,951	-	12,827,951	13,068,147
<b>TOTAL OTHER ASSETS</b>	46,285,877	18,867,112	65,152,989	71,669,531
<b>TOTAL ASSETS</b>	\$ 51,338,110	\$ 18,867,112	\$ 70,205,222	\$ 76,127,285
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts Payable	\$ 569,118	\$ -	\$ 569,118	\$ 562,606
Accrued Expenses	823,633	-	823,633	771,330
Current Obligations Under Capital Leases	33,347	-	33,347	59,274
Deferred Revenue	84,352	-	84,352	94,324
<b>TOTAL CURRENT LIABILITIES</b>	1,510,450	-	1,510,450	1,487,534
<b>OTHER LIABILITIES:</b>				
Obligations Under Capital Leases	-	-	-	32,392
<b>TOTAL LIABILITIES</b>	1,510,450	-	1,510,450	1,519,926
<b>NET ASSETS:</b>				
Without Donor Restrictions	49,827,660	-	49,827,660	54,175,739
With Donor Restrictions	-	18,867,112	18,867,112	20,431,620
<b>TOTAL NET ASSETS</b>	49,827,660	18,867,112	68,694,772	74,607,359
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 51,338,110	\$ 18,867,112	\$ 70,205,222	\$ 76,127,285

The Accompanying Notes are an Integral Part of These Financial Statements

# ABILITYFIRST

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

With Summarized Totals for the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<b>OPERATING SUPPORT:</b>				
Direct Support	\$ 1,250,625	\$ 94,652	\$ 1,345,277	\$ 13,215,212
Special Events (Net of Direct Donor Benefit Expenses of \$205,745)	1,078,951	-	1,078,951	990,309
Legacies and Bequests	940,573	-	940,573	1,030,801
Other Income	25,149	-	25,149	40,780
Change in Value - Beneficial Interest in Perpetual Trusts	-	(275,111)	(275,111)	341,171
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	28,255	28,255	43,429
<b>TOTAL OPERATING SUPPORT</b>	<b>3,295,298</b>	<b>(152,204)</b>	<b>3,143,094</b>	<b>15,661,702</b>
<b>PROGRAM SERVICE REVENUE:</b>				
Government	8,047,769	-	8,047,769	7,127,369
Non-Government	2,197,736	-	2,197,736	2,653,270
<b>TOTAL PROGRAM SERVICE REVENUE</b>	<b>10,245,505</b>	<b>-</b>	<b>10,245,505</b>	<b>9,780,639</b>
<b>FACILITY REVENUE</b>	<b>469,432</b>	<b>-</b>	<b>469,432</b>	<b>426,458</b>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<b>14,010,235</b>	<b>(152,204)</b>	<b>13,858,031</b>	<b>25,868,799</b>
<b>OPERATING EXPENSES:</b>				
Program Services	13,241,348	-	13,241,348	12,467,869
Support Services:				
Management and General	2,951,858	-	2,951,858	2,844,628
Fundraising	689,400	-	689,400	666,478
<b>TOTAL OPERATING EXPENSES</b>	<b>16,882,606</b>	<b>-</b>	<b>16,882,606</b>	<b>15,978,975</b>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME</b>	<b>(2,872,371)</b>	<b>(152,204)</b>	<b>(3,024,575)</b>	<b>9,889,824</b>
Investment Return (Net)	(2,012,965)	(859,763)	(2,872,728)	6,457,979
Loss on Sale of Property and Equipment	(15,284)	-	(15,284)	-
Net Assets Released from Donor Restrictions	552,541	(552,541)	-	-
<b>CHANGE IN NET ASSETS</b>	<b>(4,348,079)</b>	<b>(1,564,508)</b>	<b>(5,912,587)</b>	<b>16,347,803</b>
Net Assets - Beginning of Year	54,175,739	20,431,620	74,607,359	58,259,556
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 49,827,660</b>	<b>\$ 18,867,112</b>	<b>\$ 68,694,772</b>	<b>\$ 74,607,359</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**ABILITYFIRST**

STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2018  
With Summarized Totals for the Year Ended December 31, 2017

	2018							2017 Total
	Program Services				Support Services			
	Community Centers	Community Programs	Camp Paivika	Total Program Services	Management and General	Fundraising	Total	
Salaries	\$ 4,086,503	\$ 3,255,841	\$ 615,124	\$ 7,957,468	\$ 1,690,873	\$ 523,235	\$ 10,171,576	\$ 9,232,007
Employee Benefits	545,081	565,138	83,082	1,193,301	142,798	43,483	1,379,582	1,479,208
Payroll Taxes	301,480	238,105	40,215	579,800	110,903	37,701	728,404	670,324
<b>TOTAL PERSONNEL COSTS</b>	<b>4,933,064</b>	<b>4,059,084</b>	<b>738,421</b>	<b>9,730,569</b>	<b>1,944,574</b>	<b>604,419</b>	<b>12,279,562</b>	<b>11,381,539</b>
Building Occupancy, including								
Insurance	962,926	94,888	279,436	1,337,250	253,137	788	1,591,175	1,621,184
Depreciation	418,135	12,008	193,367	623,510	134,383	-	757,893	755,480
Supplies	271,179	34,881	174,102	480,162	23,850	1,427	505,439	476,638
Other Expenses	125,862	11,289	54,733	191,884	182,575	25,626	400,085	289,034
Local Transportation	199,244	107,980	30,769	337,993	50,446	3,914	392,353	369,719
Professional Fees	18,885	2,419	3,759	25,063	158,797	7,186	191,046	185,735
Other Personnel Costs	74,859	39,342	15,995	130,196	49,480	7,686	187,362	288,452
Telephone	86,614	35,182	8,832	130,628	44,433	1,540	176,601	152,329
Equipment Lease and Maintenance	98,146	8,367	36,293	142,806	26,077	-	168,883	171,859
Data Processing Expense	13,397	8,014	629	22,040	58,620	15,117	95,777	85,755
Rent Subsidy	71,868	-	-	71,868	-	-	71,868	116,013
Postage, Printing and Publication	4,330	1,101	954	6,385	15,391	15,037	36,813	52,259
Conference, Convention, Meetings and Travel	5,095	5,737	162	10,994	10,095	6,660	27,749	32,979
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 7,283,604</b>	<b>\$ 4,420,292</b>	<b>\$ 1,537,452</b>	<b>\$ 13,241,348</b>	<b>\$ 2,951,858</b>	<b>\$ 689,400</b>	<b>\$ 16,882,606</b>	<b>\$ 15,978,975</b>
			78%		17%	5%	100%	

The Accompanying Notes are an Integral Part of These Financial Statements

**ABILITYFIRST**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2018

With Summarized Totals for the Year Ended December 31, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (5,912,587)	\$ 16,347,803
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	757,893	755,480
Provision for Bad Debts	105,782	(6,672)
Direct Support Restricted for Purchase of Capital Assets	(25,000)	-
Direct Support Restricted for Investment in Perpetuity	-	(12,000,000)
Realized and Unrealized Loss (Gain) on Investments	4,398,905	(5,166,413)
Loss on Sale of Property and Equipment	15,284	-
Change in Value of Beneficial Interest in Perpetual Trusts	275,111	(341,171)
Change in Value of Beneficial Interest in Charitable Remainder Trusts	(28,255)	(43,429)
(Increase) Decrease in:		
Receivables (Net)	(26,867)	(232,481)
Receivables - Bequests/Trusts	(9,083)	(287,566)
Pledges Receivable	35,035	(104,242)
Prepaid Expenses	(31,023)	(7,704)
Security and Insurance Deposits	-	(313)
Increase (Decrease) in:		
Accounts Payable	6,512	59,257
Accrued Expenses	52,303	110,359
Deferred Revenue	(9,972)	30,435
	<u>(395,962)</u>	<u>(886,657)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Due from Sponsored Housing	(11,888)	16,208
Purchase of Investments	(95,912)	(12,000,000)
Proceeds from Sale of Investments	2,576,246	2,286,704
Interest and Dividends Reinvested	(1,369,111)	(1,163,606)
Purchase of Property and Equipment	(538,216)	(426,566)
Proceeds from Sale of Property and Equipment	5,235	-
	<u>566,354</u>	<u>(11,287,260)</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Direct Support Restricted for Purchase of Capital Assets	75,000	100,000
Direct Support Restricted for Investment in Perpetuity	-	12,000,000
Payments on Obligations Under Capital Leases	(58,319)	(62,006)
	<u>16,681</u>	<u>12,037,994</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	187,073	(135,923)
Cash and Cash Equivalents - Beginning of Year	609,311	745,234
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 796,384</u>	<u>\$ 609,311</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest Paid	\$ 9,251	\$ 10,496

The Accompanying Notes are an Integral Part of These Financial Statements

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 1 - NATURE OF ORGANIZATION

AbilityFirst, established in 1926 as the Crippled Children's Society of Southern California, provides programs to help people with disabilities achieve their full potential throughout their lives. AbilityFirst's person-centered programs empower individuals with autism spectrum disorders, cerebral palsy, Down syndrome, and other intellectual/developmental disabilities to discover what is important to them in their lives, and to develop the skills that are important for them to achieve their goals. AbilityFirst's current programs serve more than 2,000 individuals annually, and include after school enrichment, life skills development and community integration opportunities, job training and employment, camping, academic support for community college students, warm water aquatics, social and recreational activities, and two group homes.

AbilityFirst leadership consists of an all-volunteer Board of Directors, which sets policy and overall strategic direction, and an executive staff team that implements policy and oversees programs and administrative activities. The Housing Governance Board monitors the financial performance of AbilityFirst's HUD (Housing and Urban Development) sponsored housing properties and assures compliance with HUD rules and regulations.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

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

#### (b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor restrictions (See Note 10).
- **Net Assets With Donor Restrictions.** Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions (See Note 11).



# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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 December 31, 2018.

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 net assets without donor restrictions unless their use is 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.

#### (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 collectability 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. At December 31, 2018 AbilityFirst evaluated the collectability of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$150,700.

#### (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.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(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 net assets without donor restrictions. Pledges receivable at December 31, 2018 are due within one year.

#### **(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 or contribution 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.

#### **(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 contribution revenue with donor restrictions 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.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(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 such impairment losses have been recognized during the year then ended December 31, 2018.

#### **(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, are 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.

#### **(m) DEFERRED REVENUE**

Program service revenue received in advance is deferred and recognized as income in the period in which the related event is held or service is performed.

#### **(n) INCOME TAXES**

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

#### **(o) 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.

#### **(p) 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.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information. 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 the financial statements of AbilityFirst for the year ended December 31, 2017, from which the summarized information was derived.

#### (r) RECLASSIFICATION

For comparability, certain December 31, 2017 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2018.

#### (s) NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. AbilityFirst implemented the ASU during the year ended December 31, 2018. There was no impact to the beginning net assets at January 1, 2018 or change in net assets for the year ended December 31, 2018 as a result of this adoption.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on scope exceptions and various other narrow aspects, as identified and addressed in such updates. For AbilityFirst, the ASU and subsequent amendments will be effective for the year ending December 31, 2019.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For AbilityFirst, the ASU will be effective for the year ending December 31, 2020.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For AbilityFirst, the ASU will be effective for the year ending December 31, 2019.

#### (t) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 29, 2019, 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 December 31, 2018:

U.S. Equity Mutual Funds	\$ 17,499,340
International Equity Mutual Funds	11,345,049
U.S. Fixed Income Mutual Funds	13,659,698
International Fixed Income Mutual Funds	2,163,222
Real Estate Mutual Funds	5,058,465
	<hr/>
<b>TOTAL INVESTMENTS</b>	49,725,774
Less: Current Portion	(2,430,000)
	<hr/>
<b>LONG-TERM INVESTMENTS</b>	<u>\$ 47,295,774</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 December 31, 2018

### 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 December 31, 2018 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Total at December 31, 2018	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Equity Mutual Funds	\$ 17,499,340	\$ 17,499,340	\$ -	\$ -
International Equity Mutual Funds	11,345,049	11,345,049	-	-
U.S. Fixed Income Mutual Funds	13,659,698	13,659,698	-	-
International Fixed Income Mutual Funds	2,163,222	2,163,222	-	-
Real Estate Mutual Funds	5,058,465	5,058,465	-	-
<b>TOTAL INVESTMENTS</b>	49,725,774	49,725,774	-	-
Beneficial Interest in:				
Perpetual Trusts	4,070,529	-	-	4,070,529
Charitable Remainder Trusts	876,317	-	-	876,317
<b>TOTAL</b>	\$ 54,672,620	\$ 49,725,774	\$ -	\$ 4,946,846

The fair values of investments within Level 1 were obtained based on quoted market prices at the closing of the last business day of the fiscal year. AbilityFirst invests in the following investments within Level 1:

#### **U.S. Equity Mutual Funds**

Investments in equity mutual funds include actively traded U.S. 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 markets. 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 AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2018.

#### **International Equity Mutual Funds**

Investments in international equity mutual funds 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 were no unfunded commitments at December 31, 2018.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

#### **U.S. Fixed Income Mutual Funds**

Investments in U.S. fixed income mutual funds include actively traded investment funds that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. 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 AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2018.

#### **International Fixed Income Mutual Funds**

Investments in international fixed income mutual funds include actively traded investment funds that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. 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 AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2018.

#### **Real Estate Mutual Funds**

Investments in real estate mutual funds are invested in real estate investment trust (REIT) 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 were no unfunded commitments at December 31, 2018.

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

AbilityFirst recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. The transfers between Level 2 and 3 investments related to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended December 31, 2018.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Beginning Balance	\$ 848,062	\$ 4,345,640	\$ 5,193,702
Change in Value of Beneficial Interest	28,255	(275,111)	(246,856)
<b><i>ENDING BALANCE</i></b>	<b>\$ 876,317</b>	<b>\$ 4,070,529</b>	<b>\$ 4,946,846</b>

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 5 - 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 December 31, 2018 was \$57,500	\$ 1,165,282
20% Interest in Perpetual Trust; Income received during the year ended December 31, 2018 was \$72,989	1,274,288
33.33% Interest in Perpetual Trust; Income received during the year ended December 31, 2018 was \$15,112	393,421
50% Interest in Perpetual Trust; No income was received the year ended December 31, 2018	485,163
16.67% Interest in Perpetual Trust; Income received during the year ended December 31, 2018 was \$862,649. 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	474,638
50% Interest in Perpetual Trust; Income received during the year ended December 31, 2018 was \$7,000	200,389
5% Interest in Perpetual Trust; Income received during the year ended December 31, 2018 was \$4,464	77,348
<b><i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i></b>	<u><u>\$ 4,070,529</u></u>

### NOTE 6 - 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 \$876,317 at December 31, 2018, representing the portion of the net present value of the charitable remainder trusts for which AbilityFirst is the designated beneficiary.

### NOTE 7 - DUE FROM SPONSORED HOUSING CORPORATIONS

AbilityFirst currently sponsors two group homes. AbilityFirst makes non-interest bearing advances to each sponsored housing corporation. At December 31, 2018, a net amount totaling \$43,805 (including one note receivable of \$16,000) 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. At December 31, 2018, AbilityFirst evaluated the collectability of its due from sponsored housing corporation and established an allowance for uncollectible receivables in the amount of \$14,873.



# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2018:

Land	\$ 1,102,570
Buildings and Leasehold Improvements	18,649,234
Furniture and Equipment	2,902,717
Transportation Equipment	1,427,707
Construction in Progress	153,591
<b>TOTAL</b>	<b>24,235,819</b>
Less: Accumulated Depreciation	(11,407,868)
<b>PROPERTY AND EQUIPMENT (NET)</b>	<b>\$ 12,827,951</b>

Depreciation expense for the year ended December 31, 2018 was \$757,893.

Construction in progress consists of building, equipment, and improvements in the process of completion. The cost to complete these projects is estimated to be \$172,000.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

#### (a) OPERATING LEASES

AbilityFirst leases real property under non-cancelable operating leases that expire through February 2022.

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

#### Year Ending December 31

2019	\$ 436,295
2020	221,432
2021	205,515
2022	103,775
<b>TOTAL</b>	<b>\$ 967,017</b>

Rent expense for the year ended December 31, 2018 totaled \$472,082.

#### (b) CAPITAL LEASE OBLIGATIONS

AbilityFirst leases equipment under capital lease agreements, which expire in June 2020. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the related assets.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

#### (b) CAPITAL LEASE OBLIGATIONS (continued)

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at December 31, 2018:

<b>Years Ending December 31</b>	
2019	\$ 43,572
Less: Amount Representing Interest	<u>(10,225)</u>
<b>PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS</b>	33,347
Less: Current Obligations	<u>(33,347)</u>
<b>NON-CURRENT OBLIGATIONS UNDER CAPITAL LEASES</b>	<u><u>\$ -</u></u>

The following is an analysis of equipment under capital leases, which is included in property and equipment at December 31, 2018:

Transportation Equipment	\$ 22,754
Furniture and Equipment	<u>285,836</u>
<b>TOTAL EQUIPMENT HELD UNDER CAPITAL LEASES</b>	308,590
Less: Accumulated Depreciation	<u>(150,098)</u>
<b>NET EQUIPMENT HELD UNDER CAPITAL LEASES</b>	<u><u>\$ 158,492</u></u>

Depreciation expense for equipment held under capital leases totaled \$35,169 for the year ended December 31, 2018.

#### (c) 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.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 10 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are available for the following purposes at December 31, 2018:

Investment in Property and Equipment	\$ 12,827,951
General Operations	36,999,709
	<hr/>
<b>TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>\$ 49,827,660</b>

### NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2018:

Subject to Expenditure for Specified Purpose:	
Purchase of Capital Assets	\$ 215,406
Other Programs	249,703
	<hr/>
<b>TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE</b>	<b>465,109</b>
<b>TOTAL SUBJECT TO THE PASSAGE OF TIME:</b>	
Charitable Remainder Trusts	876,317
Subject to Appropriation or Spending Policy:	
Donor-Restricted Perpetual Endowments:	
Camp Paivika	12,000,000
Other Programs	617,180
Camp Scholarships	584,785
Other Scholarships	26,775
Unspent Endowment Earnings	226,417
	<hr/>
<b>TOTAL SUBJECT TO APPROPRIATION OR SPENDING POLICY</b>	<b>13,455,157</b>
<b>TOTAL NOT SUBJECT TO APPROPRIATION OR SPENDING POLICY:</b>	
Perpetual Trusts	4,070,529
	<hr/>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$ 18,867,112</b>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Satisfaction of Purpose Restrictions	
Purchase of Capital Assets	\$ 33,270
Other Programs	67,046
Appropriation of Endowment Assets	452,225
	<hr/>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b>\$ 552,541</b>

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 12 - ENDOWMENTS

AbilityFirst's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to provide an endowment required to be maintained in perpetuity, 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 endowments required to be maintained in perpetuity, 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-quarters moving average of the market value of the total endowment portfolio.

<b>Endowment Net Asset Composition by Type of Fund at December 31, 2018</b>	<b>With Donor Restrictions</b>
Donor-Restricted	<u>\$ 13,455,157</u>
<b>Changes in Endowment Net Assets for the Year Ended December 31, 2018</b>	
Endowment Net Assets - Beginning of Year	14,767,145
Investment Return (Net)	(859,763)
Appropriations for Expenditures	<u>(452,225)</u>
<b><i>ENDOWMENT NET ASSETS - END OF YEAR</i></b>	<u>\$ 13,455,157</u>

Investment return related to AbilityFirst's donor-restricted endowments is recorded as revenue with donor restrictions unless otherwise directed by the donor's gift instrument.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). AbilityFirst had one underwater endowment fund at December 31, 2018, with an original gift value of \$12,000,000, a current fair value of \$11,503,044, and a deficiency of \$496,956 as of December 31, 2018. This deficiency resulted from unfavorable market fluctuations that occurred during the year ended December 31, 2018.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 13 - EMPLOYEE BENEFIT PLAN

AbilityFirst offers a 403(b) defined contribution retirement plan for employees. The plan was established July 1, 1999 and last restated on January 1, 2017. Eligible employees can voluntarily contribute immediately with employer contributions beginning after one year of service earned upon completing 1,000 hours of service. The plan has certain exclusions that apply to those who are employed to work less than 20 hours per week and non-resident aliens.

Effective January 1, 2017, the defined contribution retirement plan was amended so that all employees hired prior to January 1, 2017 are immediately vested in employer contributions. Participants hired on or after this date vest at a rate of 20% per year with full vesting at five years of service. The employer's annual matching contribution is up to 5% of the employees' gross salaries. The matching contribution totaled \$251,264 during the year ended December 31, 2018.

### NOTE 14 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by AbilityFirst at December 31, 2018 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at December 31, 2018	
Cash and Cash Equivalents	\$ 796,384
Investments	2,430,000
Receivables (Net)	1,273,097
Receivables - Bequests/Trusts	321,071
Pledges Receivable (Net)	<u>148,092</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET</b>	
<b>GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 4,968,644</u></b>

AbilityFirst regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of AbilityFirst's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, AbilityFirst considers pledges with time restrictions that are expected to be collected in the next fiscal year as available for general expenditures.

To help manage unanticipated liquidity needs, AbilityFirst has certain long-term investments that are not subject to donor restrictions that could be made available for current operations, if necessary.