

# **ABILITYFIRST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

**ABILITYFIRST**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2019**

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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, 2019, 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, 2019, 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.

### **Emphasis of Matter**

As discussed in Note 15 to the financial statements, the recent COVID-19 pandemic in the United States and world-wide has resulted in reduced economic activity and market declines. As the extent and duration of the future impact to AbilityFirst are uncertain, no adjustments were necessary to the financial statements, and our opinion is not modified with respect to this matter.

To the Board of Directors  
AbilityFirst

**Report on Summarized Comparative Information**

We have previously audited AbilityFirst's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

October 13, 2020  
Los Angeles, California

# ABILITYFIRST

## STATEMENT OF FINANCIAL POSITION December 31, 2019 With Summarized Totals at December 31, 2018

<b>ASSETS</b>	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 1,645,422	\$ 1,087,984	\$ 2,733,406	\$ 796,384
Investments	2,685,000	-	2,685,000	2,430,000
Receivables (Net)	1,423,599	-	1,423,599	1,273,097
Receivables - Bequests/Trusts	23,300	-	23,300	321,071
Pledges Receivable (Net)	123,474	170,791	294,265	148,092
Prepaid Expenses	71,418	-	71,418	83,589
<b>TOTAL CURRENT ASSETS</b>	5,972,213	1,258,775	7,230,988	5,052,233
<b>OTHER ASSETS:</b>				
Long-Term Investments	38,397,997	15,844,189	54,242,186	47,295,774
Pledges Receivable - Non-Current	-	403,050	403,050	-
Due from Sponsored Housing Corp - Non-Current (Net)	21,012	-	21,012	28,932
Security and Insurance Deposits	53,486	-	53,486	53,486
Beneficial Interest in Charitable Remainder Trusts	-	1,410,137	1,410,137	876,317
Beneficial Interest in Perpetual Trusts	-	4,329,761	4,329,761	4,070,529
Property and Equipment (Net)	12,555,069	-	12,555,069	12,827,951
<b>TOTAL OTHER ASSETS</b>	51,027,564	21,987,137	73,014,701	65,152,989
<b>TOTAL ASSETS</b>	\$ 56,999,777	\$ 23,245,912	\$ 80,245,689	\$ 70,205,222
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 567,326	\$ -	\$ 567,326	\$ 569,118
Accrued Expenses	865,366	-	865,366	823,633
Current Obligations Under Capital Leases	-	-	-	33,347
Deferred Revenue	-	-	-	84,352
<b>TOTAL LIABILITIES</b>	1,432,692	-	1,432,692	1,510,450
<b>NET ASSETS:</b>				
Without Donor Restrictions	55,567,085	-	55,567,085	49,827,660
With Donor Restrictions	-	23,245,912	23,245,912	18,867,112
<b>TOTAL NET ASSETS</b>	55,567,085	23,245,912	78,812,997	68,694,772
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 56,999,777	\$ 23,245,912	\$ 80,245,689	\$ 70,205,222

The Accompanying Notes are an Integral Part of These Financial Statements

# ABILITYFIRST

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

With Summarized Totals for the Year Ended December 31, 2018

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>OPERATING SUPPORT:</b>				
Direct Support	\$ 1,764,411	\$ 1,158,885	\$ 2,923,296	\$ 1,316,533
Special Events (Net of Direct Donor Benefit Expenses of \$67,035)	49,624	-	49,624	1,078,951
Legacies and Bequests	733,417	-	733,417	77,924
Other Income	16,763	-	16,763	25,149
In-kind Revenues	264,572	-	264,572	28,744
Net Assets Released from Donor Restrictions	571,199	(571,199)	-	-
<b>TOTAL OPERATING SUPPORT</b>	<b>3,399,986</b>	<b>587,686</b>	<b>3,987,672</b>	<b>2,527,301</b>
<b>PROGRAM SERVICE REVENUE:</b>				
Government	9,076,089	-	9,076,089	8,047,769
Non-Government	1,748,829	-	1,748,829	2,197,736
<b>TOTAL PROGRAM SERVICE REVENUE</b>	<b>10,824,918</b>	<b>-</b>	<b>10,824,918</b>	<b>10,245,505</b>
<b>FACILITY REVENUE</b>	<b>441,087</b>	<b>-</b>	<b>441,087</b>	<b>469,432</b>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<b>14,665,991</b>	<b>587,686</b>	<b>15,253,677</b>	<b>13,242,238</b>
<b>OPERATING EXPENSES:</b>				
Program Services	13,603,842	-	13,603,842	13,241,348
Support Services:				
Management and General	2,887,878	-	2,887,878	2,951,858
Fundraising	894,641	-	894,641	689,400
<b>TOTAL OPERATING EXPENSES</b>	<b>17,386,361</b>	<b>-</b>	<b>17,386,361</b>	<b>16,882,606</b>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME</b>	<b>(2,720,370)</b>	<b>587,686</b>	<b>(2,132,684)</b>	<b>(3,640,368)</b>
Investment Return (Net)	7,576,380	2,998,062	10,574,442	(3,029,793)
Distributions from Perpetual Trusts	921,500	-	921,500	1,019,714
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	533,820	533,820	28,255
Change in Value - Beneficial Interest in Perpetual Trusts	-	259,232	259,232	(275,111)
Loss on Sale of Property and Equipment	(38,085)	-	(38,085)	(15,284)
<b>CHANGE IN NET ASSETS</b>	<b>5,739,425</b>	<b>4,378,800</b>	<b>10,118,225</b>	<b>(5,912,587)</b>
Net Assets - Beginning of Year	49,827,660	18,867,112	68,694,772	74,607,359
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 55,567,085</b>	<b>\$ 23,245,912</b>	<b>\$ 78,812,997</b>	<b>\$ 68,694,772</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**ABILITYFIRST**

STATEMENT OF FUNCTIONAL EXPENSES  
 Year Ended December 31, 2019  
 With Summarized Totals for the Year Ended December 31, 2018

	2019							2018 Total
	Program Services				Support Services			
	Community Centers	Community Programs	Camp Paivika	Total Program Services	Management and General	Fundraising	Total	
Salaries	\$3,994,656	\$3,804,271	\$601,322	\$ 8,400,249	\$ 1,672,971	\$ 480,212	\$ 10,553,432	\$ 10,171,576
Employee Benefits	385,946	560,514	67,521	1,013,981	233,106	11,267	1,258,354	1,379,582
Payroll Taxes	296,356	277,211	40,946	614,513	107,858	34,802	757,173	728,404
<b>TOTAL PERSONNEL COSTS</b>	<b>4,676,958</b>	<b>4,641,996</b>	<b>709,789</b>	<b>10,028,743</b>	<b>2,013,935</b>	<b>526,281</b>	<b>12,568,959</b>	<b>12,279,562</b>
Building Occupancy, including								
Insurance	878,257	240,842	288,813	1,407,912	198,537	2,194	1,608,643	1,591,175
Depreciation	401,332	28,441	209,119	638,892	73,596	-	712,488	757,893
Other Expenses	77,644	9,909	55,502	143,055	104,321	256,843	504,219	400,085
Supplies	264,640	28,768	174,707	468,115	20,718	3,124	491,957	505,439
Local Transportation	198,315	130,240	44,982	373,537	58,555	4,042	436,134	392,353
Professional Fees	22,673	1,321	3,005	26,999	242,440	41,390	310,829	191,046
Telephone	85,830	46,036	9,246	141,112	42,543	2,462	186,117	176,601
Other Personnel Costs	63,368	34,836	18,011	116,215	54,088	4,571	174,874	187,362
Equipment Lease and Maintenance	79,695	21,753	48,777	150,225	13,170	-	163,395	168,883
Data Processing Expense	7,264	5,081	232	12,577	39,382	21,349	73,308	95,777
Rent Subsidy	72,972	-	-	72,972	-	-	72,972	71,868
Postage, Printing and Publication	3,149	1,268	4,208	8,625	17,727	22,677	49,029	36,813
Conference, Convention, Meetings and Travel	4,299	9,274	1,290	14,863	8,866	9,708	33,437	27,749
<b>TOTAL FUNCTIONAL EXPENSES - 2019</b>	<b>\$ 6,836,396</b>	<b>\$ 5,199,765</b>	<b>\$ 1,567,681</b>	<b>\$ 13,603,842</b>	<b>\$ 2,887,878</b>	<b>\$ 894,641</b>	<b>\$ 17,386,361</b>	
				78%	17%	5%	100%	
<b>TOTAL FUNCTIONAL EXPENSES - 2018</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>
				78%	18%	4%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

**ABILITYFIRST**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2019

With Summarized Totals for the Year Ended December 31, 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 10,118,225	\$ (5,912,587)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	712,488	757,893
Provision for Bad Debts	33,755	105,782
Realized and Unrealized (Gain) Loss on Investments	(9,106,448)	4,398,905
Loss on Sale of Property and Equipment	38,085	15,284
Change in Value of Beneficial Interest in Charitable Remainder Trusts	(533,820)	(28,255)
Change in Value of Beneficial Interest in Perpetual Trusts	(259,232)	275,111
(Increase) Decrease in:		
Receivables (Net)	(184,257)	(26,867)
Receivables - Bequests/Trusts	297,771	(9,083)
Pledges Receivable	(549,223)	85,035
Prepaid Expenses	12,171	(31,023)
Increase (Decrease) in:		
Accounts Payable	(1,792)	6,512
Accrued Expenses	41,733	52,303
Deferred Revenue	(84,352)	(9,972)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>535,104</b>	<b>(320,962)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Due from Sponsored Housing	7,920	(11,888)
Purchase of Investments	(2,106,600)	(95,912)
Proceeds from Sale of Investments	5,479,628	2,576,246
Interest and Dividends Reinvested	(1,467,992)	(1,369,111)
Purchase of Property and Equipment	(523,193)	(538,216)
Proceeds from Sale of Property and Equipment	45,502	5,235
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,435,265</b>	<b>566,354</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Payments on Obligations Under Capital Leases	(33,347)	(58,319)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,937,022</b>	<b>187,073</b>
Cash and Cash Equivalents - Beginning of Year	796,384	609,311
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 2,733,406</b>	<b>\$ 796,384</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest Paid	\$ 5,704	\$ 9,251

The Accompanying Notes are an Integral Part of These Financial Statements



# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2019

### 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-imposed restrictions.
- **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.

#### (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, 2019.

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

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2019

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

#### (d) INVESTMENTS

Investments in marketable securities with readily determinable fair market values and all investments in debt securities are reported at fair value. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses represent the difference between the cost and fair value of investments held at the end of the fiscal year. Interest and dividend income is recorded when earned on an accrual basis. Gains or losses (including investments bought, sold, and held during the year), and interest and dividend income are reflected 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, 2019 AbilityFirst evaluated the collectability of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$119,427.

#### (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, 2019

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

**(g) CONTRIBUTIONS AND PLEDGES RECEIVABLE**

Contributions, including endowment gifts and pledges, as well as unconditional promises to give, are recognized as revenue in the period promised. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not included as revenue until such time as the conditions on which they depend have been substantially met. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at an appropriate market interest rate at the time of the contribution. At December 31, 2019, management evaluated the collectability of contributions and pledges receivable and no allowance for uncollectible pledges receivable was considered necessary.

**(h) 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.

**(i) 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 under non-operating income on the statement of activities. 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.

**(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, 2019

### 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, 2019.

**(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.

In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic No. 740, *Uncertainty in Income Taxes*, AbilityFirst recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended December 31, 2019, AbilityFirst performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

**(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, 2019

### 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, 2018, from which the summarized information was derived.

#### (r) RECLASSIFICATIONS

For comparability, certain December 31, 2018 amounts have been reclassified, where appropriate, to confirm to the financial statement presentation used at December 31, 2019.

#### (s) NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, FASB issued Accounting Standards Update (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. AbilityFirst implemented this ASU during the year ended December 31, 2019. There was no significant impact on AbilityFirst's financial statements as a result of the implementation of this ASU.

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, 2020.

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 provide additional information about the amounts recorded in the financial statements. For AbilityFirst, the ASU will be effective for the year ending December 31, 2022.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2019

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

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

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is intended to improve transparency in the reporting of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. For AbilityFirst, the ASU will be effective for the year ending December 31, 2022.

#### (t) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2019 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 13, 2020, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as described in Notes 15 and 16.

### NOTE 3 - INVESTMENTS

Investments are summarized as follows at December 31, 2019:

U.S. Equity Mutual Funds	\$ 21,096,630
International Equity Mutual Funds	13,697,544
U.S. Fixed Income Mutual Funds	14,340,692
International Fixed Income Mutual Funds	2,177,505
Real Estate Mutual Funds	5,614,815
<b>TOTAL INVESTMENTS</b>	<b>56,927,186</b>
Less: Current Portion	(2,665,000)
<b>LONG-TERM INVESTMENTS</b>	<b>\$ 54,262,186</b>

### 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, 2019

### 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, 2019 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Total at December 31, 2019	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	\$ 21,096,630	\$ 21,096,630	\$ -	\$ -
International Equity Mutual Funds	13,697,544	13,697,544	-	-
U.S. Fixed Income Mutual Funds	14,340,692	14,340,692	-	-
International Fixed Income Mutual Funds	2,177,505	2,177,505	-	-
Real Estate Mutual Funds	5,614,815	5,614,815	-	-
<b>TOTAL INVESTMENTS</b>	56,927,186	56,927,186	-	-
Beneficial Interest in:				
Charitable Remainder Trusts	1,410,137	-	-	1,410,137
Perpetual Trusts	4,329,761	-	-	4,329,761
<b>TOTAL</b>	\$ 62,667,084	\$ 56,927,186	\$ -	\$ 5,739,898

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, 2019.

#### **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, 2019.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019

### 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, 2019.

#### **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, 2019.

#### **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, 2019.

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, 2019.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Beginning Balance	\$ 876,317	\$ 4,070,529	\$ 4,946,846
Change in Value of Beneficial Interest	533,820	259,232	793,052
<b><i>ENDING BALANCE</i></b>	<b><i>\$ 1,410,137</i></b>	<b><i>\$ 4,329,761</i></b>	<b><i>\$ 5,739,898</i></b>



**ABILITYFIRST**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

**NOTE 5 - PLEDGES RECEIVABLE**

At December 30, 2019, pledges receivable are due to be collected as follows:

Within One Year	\$	294,265
In One to Five Years		403,050
<b>TOTAL</b>	<b>\$</b>	<b>697,315</b>

**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 \$1,410,137 at December 31, 2019, representing the portion of the net present value of the charitable remainder trusts for which AbilityFirst is the designated beneficiary.

**NOTE 7 - 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:

	Carrying Value
20% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2019 were \$54,411	\$ 1,533,247
50% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2019 were \$62,917	1,328,114
50% Interest in Perpetual Trust; No distributions were received the year ended December 31, 2019	501,995
33.33% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2019 were \$15,583	462,671
16.67% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2019 were \$777,524. 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 distributions received fluctuate based upon changing market prices for oil and gas	186,456
50% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2019 were \$7,000	231,925
5% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2019 were \$4,065	85,353
<b>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</b>	<b>\$ 4,329,761</b>

The total income distributed by the perpetual trusts to AbilityFirst during the year ended December 31, 2019 amounted to \$921,500.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2019

### NOTE 8 - 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, 2019, an amount totaling \$21,012 (including one note receivable of \$2,900) was due from such sponsored housing corporations.

At December 31, 2019, AbilityFirst evaluated the collectability of its due from sponsored housing corporation and no allowance was considered necessary.

### NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2019:

Land	\$	1,102,572
Buildings and Leasehold Improvements		18,748,080
Furniture and Equipment		2,849,432
Transportation Equipment		1,334,189
Construction in Progress		<u>382,348</u>
<b>TOTAL</b>		24,416,621
Less: Accumulated Depreciation		<u>(11,861,552)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	\$	<u><u>12,555,069</u></u>

Depreciation expense for the year ended December 31, 2019 was \$712,488.

Construction in progress consists of building, equipment, and improvements in the process of completion. The cost to complete these projects is estimated to be \$5,900,000.

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

#### (a) OPERATING LEASES

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

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

#### Year Ending December 31

2020	\$	221,432
2021		205,515
2022		<u>103,775</u>
<b>TOTAL</b>	\$	<u><u>530,722</u></u>

Rent expense for the year ended December 31, 2019 totaled \$494,571.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS December 31, 2019

### NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

#### (b) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, AbilityFirst may become 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.

### NOTE 11 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are available for the following purposes at December 31, 2019:

Investment in Property and Equipment	\$ 12,555,069
Board Designated for Capital Campaign	800,000
General Operations	<u>42,212,016</u>
<b>TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b><u>\$ 55,567,085</u></b>

### NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2019:

Subject to Expenditure for Specified Purpose:	
Purchase of Capital Assets	\$ 1,097,004
Other Programs	<u>266,791</u>
<b>TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE</b>	<b>1,363,795</b>
<b>TOTAL SUBJECT TO THE PASSAGE OF TIME:</b>	
Charitable Remainder Trusts	1,410,137
Subject to Appropriation or Spending Policy:	
Donor-Restricted Perpetual Endowments:	
Camp Paivika	12,000,000
Other Programs	617,181
Camp Scholarships	584,785
Other Scholarships	26,775
Unspent Endowment Earnings	<u>2,913,478</u>
<b>TOTAL SUBJECT TO APPROPRIATION OR SPENDING POLICY</b>	<b>16,142,219</b>
<b>TOTAL NOT SUBJECT TO APPROPRIATION OR SPENDING POLICY:</b>	
Perpetual Trusts	<u>4,329,761</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 23,245,912</u></b>

**ABILITYFIRST**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

**NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS** (continued)

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, 2019:

Satisfaction of Purpose Restrictions			
Purchase of Capital Assets	\$	205,478	
Other Programs		54,721	
Appropriation of Endowment Assets		<u>311,000</u>	
<b>TOTAL NET ASSETS RELEASED</b>			
<b>FROM DONOR RESTRICTIONS</b>		\$	<u>571,199</u>

**NOTE 13 - 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, 2019</b>			<b>With Donor Restrictions</b>
Donor-Restricted			<u>\$ 16,142,219</u>
 <b>Changes in Endowment Net Assets for the Year Ended December 31, 2019</b>			
Endowment Net Assets -			
Beginning of Year			13,455,157
Investment Return (Net)			2,998,062
Appropriations for Expenditures			<u>(311,000)</u>
<b>ENDOWMENT NET ASSETS - END OF YEAR</b>		\$	<u>16,142,219</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.

# ABILITYFIRST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019

### NOTE 14 - 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 3% of the employees' gross salaries. The matching contribution totaled \$128,643 during the year ended December 31, 2019.

### NOTE 15 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by AbilityFirst at December 31, 2019 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, 2019	
Cash and Cash Equivalents	\$ 1,645,422
Investments	2,685,000
Receivables (Net)	1,423,599
Receivables – Bequests/Trusts	23,300
Pledges Receivable (Net)	<u>123,474</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET</b>	
<b>GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ <u>5,900,795</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.

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.

The recent COVID-19 outbreak in the United States and world-wide has caused business disruption which may negatively impact AbilityFirst's program services delivery and investment portfolio holdings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. It is therefore likely there will be an impact on AbilityFirst's operating activities and results. However, the related financial impact and duration cannot be reasonably estimated at this time.

In May 2020, AbilityFirst received approval from a lending institution for funding of \$1,802,037 under the Paycheck Protection Program (PPP) provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the terms of the PPP, the loan is unsecured, has a 2 year term, accrues interest at 1% per annum, and a portion of the loan may be forgiven if proceeds are used for specific business costs, as outlined in the PPP provisions and Small Business Administration guidance.

# **ABILITYFIRST**

## **NOTES TO FINANCIAL STATEMENTS** **December 31, 2019**

### **NOTE 16 - SUBSEQUENT EVENTS**

In February 2020, the Boards of Directors of AbilityFirst and FVO Solutions, Inc. (FVO), a California nonprofit public benefit corporation providing employment programs for individuals with barriers to employment, independently and unanimously approved a resolution to merge the two agencies. The merger agreement was executed in April 2020 and the formal transfer of assets, liabilities and contracts from FVO to AbilityFirst was finalized in September 2020.

Also in February 2020, AbilityFirst closed escrow on the sale of real property in Los Angeles for \$3,700,000.