

ABILITYFIRST

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

CONTENTS

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

INDEPENDENT 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 June 30, 2015, 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 June 30, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

May 10, 2016
Los Angeles, California

ABILITYFIRST

STATEMENT OF FINANCIAL POSITION

June 30, 2015

With Summarized Totals at June 30, 2014

ASSETS	2015				2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 336,799	\$ -	\$ -	\$ 336,799	\$ 536,090
Investments	1,916,000	-	-	1,916,000	1,800,000
Receivables (Net)	927,779	-	-	927,779	944,592
Receivables - Bequests/Trusts	826,143	-	-	826,143	764,499
Pledges Receivable (Net)	106,300	-	-	106,300	2,000
Prepaid Expenses	220,204	-	-	220,204	93,697
Due from Sponsored Housing Corp - Current	430	-	-	430	40,430
TOTAL CURRENT ASSETS	4,333,655	-	-	4,333,655	4,181,308
OTHER ASSETS:					
Long-Term Investments	32,486,644	902,824	1,228,740	34,618,208	36,576,721
Beneficial Interest in Perpetual Trusts	-	-	4,051,438	4,051,438	4,206,037
Beneficial Interest in Charitable Remainder Trusts	-	829,168	-	829,168	1,120,645
Security and Insurance Deposits	53,173	-	-	53,173	54,557
Due from Sponsored Housing Corp - Non-Current	49,577	-	-	49,577	40,000
Property and Equipment (Net)	15,114,858	-	-	15,114,858	14,866,515
TOTAL OTHER ASSETS	47,704,252	1,731,992	5,280,178	54,716,422	56,864,475
TOTAL ASSETS	\$ 52,037,907	\$ 1,731,992	\$ 5,280,178	\$ 59,050,077	\$ 61,045,783
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts Payable	\$ 491,456	\$ -	\$ -	\$ 491,456	\$ 843,420
Accrued Expenses	1,134,789	3,744	-	1,138,533	1,099,999
Current Obligations Under Capital Leases	62,008	-	-	62,008	20,245
TOTAL CURRENT LIABILITIES	1,688,253	3,744	-	1,691,997	1,963,664
OTHER LIABILITIES:					
Obligations Under Capital Leases	184,673	-	-	184,673	54,277
TOTAL LIABILITIES	1,872,926	3,744	-	1,876,670	2,017,941
NET ASSETS:					
Unrestricted - Undesignated	34,620,291	-	-	34,620,291	35,514,659
Unrestricted - Board Designated	15,544,690	-	-	15,544,690	15,544,690
TOTAL UNRESTRICTED NET ASSETS	50,164,981	-	-	50,164,981	51,059,349
Temporarily Restricted	-	1,728,248	-	1,728,248	2,533,716
Permanently Restricted	-	-	5,280,178	5,280,178	5,434,777
TOTAL NET ASSETS	50,164,981	1,728,248	5,280,178	57,173,407	59,027,842
TOTAL LIABILITIES AND NET ASSETS	\$ 52,037,907	\$ 1,731,992	\$ 5,280,178	\$ 59,050,077	\$ 61,045,783

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF ACTIVITIES
 Year Ended June 30, 2015
 With Summarized Totals for the Year Ended June 30, 2014

	2015				2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING SUPPORT:					
Legacies and Bequests	\$ 1,290,210	\$ 2,882	\$ -	\$ 1,293,092	\$ 1,693,202
Direct Support	735,374	373,415	-	1,108,789	1,079,600
Other Income	112,365	-	-	112,365	22,627
United Way	10,857	-	-	10,857	25,521
Special Events (Net of Expenses of \$169,210)	770,861	86,512	-	857,373	749,165
Change in Value - Beneficial Interest in Perpetual Trusts	-	-	(154,599)	(154,599)	277,750
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	(45,363)	-	(45,363)	90,162
TOTAL OPERATING SUPPORT	2,919,667	417,446	(154,599)	3,182,514	3,938,027
PROGRAM SERVICE REVENUE:					
Government	6,754,244	-	-	6,754,244	6,267,615
Non-Government	2,748,038	-	-	2,748,038	2,438,481
TOTAL PROGRAM SERVICE REVENUE	9,502,282	-	-	9,502,282	8,706,096
FACILITY REVENUE	361,846	-	-	361,846	328,484
TOTAL OPERATING REVENUE AND SUPPORT	12,783,795	417,446	(154,599)	13,046,642	12,972,607
OPERATING EXPENSES:					
Program Services	13,288,482	-	-	13,288,482	12,331,968
Support Services:					
Management and General	2,195,797	-	-	2,195,797	2,164,476
Fundraising	679,081	-	-	679,081	815,510
TOTAL OPERATING EXPENSES	16,163,360	-	-	16,163,360	15,311,954
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME	(3,379,565)	417,446	(154,599)	(3,116,718)	(2,339,347)
Investment Income (Net)	1,141,849	56,309	-	1,198,158	4,464,994
Gain (Loss) on Sale of Property and Equipment	64,125	-	-	64,125	(287,128)
Net Assets Released from Capital Restrictions	727,188	(727,188)	-	-	-
Net Assets Released from Program Restrictions	305,921	(305,921)	-	-	-
Perpetual Trusts Liquidated and Released from Restrictions	246,114	(246,114)	-	-	-
CHANGE IN NET ASSETS	(894,368)	(805,468)	(154,599)	(1,854,435)	1,838,519
Net Assets - Beginning of Year (Note 13)	51,059,349	2,533,716	5,434,777	59,027,842	57,189,323
NET ASSETS - END OF YEAR	\$ 50,164,981	\$ 1,728,248	\$ 5,280,178	\$ 57,173,407	\$ 59,027,842

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015					2014 Total
	Program Services	Support Services			Total	
		Management and General	Fundraising			
Salaries	\$ 7,549,974	\$ 818,084	\$ 491,721	\$ 8,859,779	\$ 8,167,685	
Employee Benefits	1,449,432	112,077	55,684	1,617,193	1,467,186	
Payroll Taxes	553,411	53,895	34,346	641,652	593,894	
TOTAL PERSONNEL COSTS	9,552,817	984,056	581,751	11,118,624	10,228,765	
Building Occupancy including						
Insurance	1,288,465	265,451	103	1,554,019	1,476,735	
Other Expenses	277,488	90,490	19,661	387,639	808,198	
Depreciation	627,358	92,735	-	720,093	639,472	
Supplies	431,264	21,607	2,967	455,838	521,377	
Local Transportation	327,967	41,892	4,537	374,396	352,800	
Other Personnel Costs	81,675	322,467	5,106	409,248	273,827	
Professional Fees	233,645	283,218	33,780	550,643	368,889	
Telephone	165,522	25,429	1,954	192,905	167,381	
Equipment Lease and Maintenance	139,233	26,328	-	165,561	149,463	
Data Processing Expense	32,237	15,180	6,263	53,680	131,694	
Rent Subsidy	80,075	-	-	80,075	78,089	
Postage, Printing and Publication	22,584	16,335	18,694	57,613	71,195	
Conference, Convention, Meetings and Travel	28,152	10,609	4,265	43,026	44,069	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 13,288,482	\$ 2,195,797	\$ 679,081	\$ 16,163,360		
TOTAL 2014 FUNCTIONAL EXPENSES	\$ 12,331,968	\$ 2,164,476	\$ 815,510		\$ 15,311,954	

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (1,856,435)	\$ 1,838,519
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	720,093	639,472
Provision for Bad Debts	103,730	525,420
Realized and Unrealized Gain on Investments	(124,455)	(3,432,114)
(Gain) Loss on Sale of Property and Equipment	(64,125)	287,128
Change in Value of Beneficial Interest in Perpetual Trusts	154,599	(277,750)
Change in Value of Beneficial Interest in Charitable Remainder Trusts	45,363	(90,162)
Contributions Restricted for Investment in Property and Equipment	(250,000)	(445,000)
(Increase) Decrease in:		
Interest Receivable	-	83,234
Receivables	(1,481)	191,103
Receivables - Bequests/Trusts	(61,644)	(157,581)
Pledges Receivable	(104,300)	518,217
Beneficial Interest in Charitable Remainder Trusts	246,114	-
Beneficial Interest in Perpetual Trust	-	383,823
Prepaid Expenses	(126,507)	2,638
Security and Insurance Deposits	1,384	-
Increase (Decrease) in:		
Accounts Payable	(351,964)	337,375
Accrued Expenses	38,534	119,505
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,631,094)	523,827
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in Due from Sponsored Housing Corp.	(55,013)	(170,726)
Purchase of Investments	(318,472)	(39,235,030)
Proceeds from Sale of Investments	3,194,427	42,756,984
Interest and Dividends Reinvested	(908,987)	(868,239)
Purchase of Property and Equipment	(747,699)	(4,575,404)
Proceeds from Sale of Property and Equipment	64,125	175
Payments on Obligations Under Capital Leases	(48,579)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,179,802	(2,092,240)
CASH FLOWS FROM FINANCING ACTIVITY:		
Proceeds from Contributions Restricted for Investment in Property and Equipment	250,000	445,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(201,292)	(1,123,413)
Cash and Cash Equivalents - Beginning of Year	536,090	1,659,503
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 334,798	\$ 536,090
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Equipment Acquired Under Capital Lease Agreements	\$ 220,737	\$ -

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - NATURE OF ORGANIZATION

AbilityFirst, established in 1926 as the Crippled Children's Society of Southern California, has the mission to provide programs and services to help children and adults with physical and developmental disabilities realize their full potential throughout their lives. AbilityFirst's vision is of a society that values each individual and provides the opportunity for all people to live full and productive lives: looking beyond disabilities, focusing on capabilities, expanding possibilities. Annually, more than 1,800 children, youth and adults benefit from services that include after school and full-day children's programs, adult day programs, job training, employment, camping and affordable accessible housing. AbilityFirst programs serve people with disabilities, including autism, cerebral palsy, Down syndrome and developmental delay, as well as a range of physical disabilities. Nearly 35% of the children in AbilityFirst programs have a diagnosis of autism or autism spectrum disorder.

AbilityFirst operates with an executive team working with two boards of directors that are composed of individuals who volunteer their time and talents to advancing its mission. The AbilityFirst Board sets policy and the overall strategic direction for the organization. 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 utilizing the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of AbilityFirst are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Unrestricted - Board Designated.** As of June 30, 2015, the Board of Directors has restricted \$15,544,690 of unrestricted net assets for future cash flow and capital expenditure requirements.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Temporarily Restricted.** AbilityFirst reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or capital restrictions. Donor restricted contributions whose restrictions have been met in the same reporting period are reported as unrestricted support in the statement of activities. AbilityFirst has \$1,728,248 of temporarily restricted net assets at June 30, 2015.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit AbilityFirst to expend all of the income (or other economic benefits) derived from the donated assets. AbilityFirst has \$5,280,178 of permanently restricted net assets at June 30, 2015.

(c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash equivalents approximates its fair value at June 30, 2015.

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

(d) INVESTMENTS

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

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) RECEIVABLES

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated fair value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the 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. As of June 30, 2015, AbilityFirst evaluated the collectability of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$89,000.

(f) LEGACIES AND BEQUESTS

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

(g) PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues when the pledge is received. AbilityFirst reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Pledges receivable with donor-imposed restrictions that are met in the same year as received are reported as an increase in unrestricted net assets. Pledges receivable at June 30, 2015 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.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

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

(j) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis as follows:

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

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

(k) LONG-LIVED ASSETS

AbilityFirst reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flow is less than the carrying amount of the assets, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No such impairment losses have been recognized during the year ended June 30, 2015.

(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) INCOME TAXES

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing AbilityFirst's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. AbilityFirst uses proportional salary dollars to allocate indirect costs.

(o) USE OF ESTIMATES

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

(p) COMPARATIVE TOTALS

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with AbilityFirst's financial statements for the year ended June 30, 2014 from which the summarized information was derived.

(q) RECLASSIFICATIONS

For comparability, the June 30, 2014 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at June 30, 2015.

(r) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 10, 2016, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

Investments are summarized as follows at June 30, 2015:

U.S. Equities and Mutual Funds	\$ 13,021,281
International Securities	7,264,442
Government and Corporate Bonds	6,668,282
Real Estate Securities	3,282,137
U.S. Fixed Income Funds	3,748,134
International Fixed Income Funds	2,549,932
TOTAL INVESTMENTS	36,534,208
Less: Current Portion	<u>(1,916,000)</u>
LONG-TERM INVESTMENTS	<u>\$ 34,618,208</u>

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 3 - INVESTMENTS (continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 1,058,321	\$ 47,468	\$ 1,105,789
Net Realized and Unrealized Gain on Investments	114,037	10,418	124,455
Management Fees	(30,509)	(1,577)	(32,086)
<i>INVESTMENT INCOME (NET)</i>	<i>\$ 1,141,849</i>	<i>\$ 56,309</i>	<i>\$ 1,198,158</i>

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.

The following table presents information about AbilityFirst's assets that are measured at fair value on a recurring basis at June 30, 2015 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2015	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. Equities and Mutual Funds	\$ 13,021,281	\$ 13,021,281	\$ -	\$ -
International Securities	7,264,442	7,264,442	-	-
Government and Corporate Bonds	6,668,282	6,668,282	-	-
Real Estate Securities	3,282,137	3,282,137	-	-
U.S. Fixed Income Funds	3,748,134	3,748,134	-	-
International Fixed Income Funds	2,549,932	2,549,932	-	-
<i>TOTAL INVESTMENTS</i>	<i>36,534,208</i>	<i>36,534,208</i>	<i>-</i>	<i>-</i>
Beneficial Interest in:				
Perpetual Trusts	4,051,438	-	-	4,051,438
Charitable Remainder Trusts	829,168	-	-	829,168
<i>TOTAL</i>	<i>\$ 41,414,814</i>	<i>\$ 36,534,208</i>	<i>\$ -</i>	<i>\$ 4,880,606</i>

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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. Transfers between Level 2 and 3 investments relate 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 June 30, 2015.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts
Beginning Balance	\$ 1,120,645	\$ 4,206,037	\$ 5,326,682
Change in Value of Beneficial Interests	(45,363)	(154,599)	(199,962)
Liquidation of Trust	(246,114)	-	(246,114)
ENDING BALANCE	\$ 829,168	\$ 4,051,438	\$ 4,880,606

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

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

U.S. Equities and Mutual Funds

Investments in equities and equity mutual funds include actively traded U.S. common stocks and investment funds that hold long/short positions in equity securities that are within and outside of the S & P 500 Index. In addition to common stocks, these funds are able to invest in futures and forward contracts to gain exposure to equity and commodity market. The fair value of the actively traded portfolio is based on the ticker prices of the underlying stocks and derivative contracts listed on the stock exchange whereas the fair values of the investment funds are valued based on the NAV per share and the net asset value of AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2015.

International Securities

Investments in international securities include international stock funds listed on the U.S. Stock Exchanges and investment funds that invest in non-U.S. issuers and securities whose principal markets are outside of the U.S. The fair values of these securities are based on the ticker price listed on the global stock exchanges and the NAV per share provided by the fund managers. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2015.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

Government and Corporate Bonds

Investments include government bonds, corporate bonds, and government and non-government backed securities. A majority of these holdings are held in institutional share class mutual funds. The fair values of the individual securities are based on the prices listed in the stock exchanges and broker-dealer markets. The fair value of the actively traded fixed income mutual fund portfolio is based on the ticker prices of the underlying bonds listed on the global exchanges whereas the fair values of the investment funds are valued based on the NAV per share and the net asset value of AbilityFirst's ownership interest. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2015.

Real Estate Securities

Investments in real estate securities 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 was no unfunded commitment at June 30, 2015.

U.S. Fixed Income Funds

Investments in U.S. fixed income 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. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2015.

International Fixed Income Funds

Investments in international fixed income 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. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There was no unfunded commitment at June 30, 2015.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 June 30, 2015 was \$65,987	\$ 1,323,016
20% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2015 was \$71,469	1,348,881
33.33% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2015 was \$12,213	418,881
50% Interest in Perpetual Trust; No income was received during the Year Ended June 30, 2015	443,707
16.67% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2015 was \$1,043,665. 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	231,401
50% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2015 was \$6,000	197,177
5% Interest in Perpetual Trust; Income received during the Year Ended June 30, 2015 was \$4,597	88,375
<i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i>	<u>\$ 4,051,438</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 \$829,168 at June 30, 2015, 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 ten independent apartment complexes and two group homes. AbilityFirst makes non-interest bearing advances to each sponsored housing corporation during the development phase to partially finance the construction of the facilities. At June 30, 2015, a net amount totaling \$50,007 was due from such sponsored housing corporations. Management has discounted a portion of the receivables over 30 years using the 30 year Treasury note as the discount rate as they do not anticipate sufficient surplus cash flows from the project during the sponsorship phase and a portion of the receivables is unlikely to be collected until the property comes under AbilityFirst's ownership. However, it is possible that these amounts will be collected earlier if the projects generate sufficient surplus cash flows to allow for payment. As of June 30, 2015, AbilityFirst evaluated the collectability of its due from Sponsored Housing Corporation and established an allowance for uncollectible receivables in the approximate amount of \$1,904,000.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2015:

Land	\$ 1,277,963
Buildings and Leasehold Improvements	19,962,159
Furniture and Equipment	2,293,862
Transportation Equipment	1,465,737
Construction in Progress	<u>516,368</u>
TOTAL	25,516,089
Less: Accumulated Depreciation	<u>(10,401,231)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 15,114,858</u>

Depreciation expense for the year ended June 30, 2015 was \$720,093.

Construction in progress consists of building, equipment, and improvements in the process of completion. The cost to complete these projects is estimated to be \$40,000.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

AbilityFirst leases real property under non-cancelable operating leases that expire through February 2020.

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

Fiscal Year End	
2016	\$ 401,452
2017	408,651
2018	227,892
2019	235,133
2020	<u>139,630</u>
TOTAL	<u>\$ 1,412,758</u>

Rent expense for the year ended June 30, 2015 totaled \$420,453.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

(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.

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 as of June 30, 2015.

Years Ending June 31		
2016	\$	72,345
2017		72,503
2018		71,207
2019		56,227
2020		17,437
		<hr/>
TOTAL MINIMUM LEASE PAYMENTS		289,719
Less: Amount Representing Interest		<hr/> (43,038)
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS		246,681
Less: Current Obligations		<hr/> (62,008)
NON-CURRENT OBLIGATIONS UNDER CAPITAL LEASES	\$	<hr/> <hr/> 184,673

Depreciation expense for equipment held under capital leases totaled \$6,335 for the year ended June 30, 2015

The following is an analysis of equipment under capital leases, which is included in property and equipment at June 30, 2015:

Transportation Equipment (Net)	\$	15,900
Furniture and Equipment (Net)		<hr/> 230,781
TOTAL	\$	<hr/> <hr/> 246,681

(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

June 30, 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

(d) RESERVE FOR UNEMPLOYMENT

AbilityFirst has elected to be self-insured for the purposes of employees' unemployment claims. The reserve for unemployment liability at June 30, 2015 of \$104,728 included in accounts payable, represents estimated future claims arising from current and past employees. Unemployment expense for the year ended June 30, 2015, was \$50,384.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at July 1, 2014	\$ 83,735	\$ -	\$ 83,735
Self-Insurance Expenses Incurred	50,384	-	50,384
Payments Made to Fund Related Liabilities	(29,589)	198	(29,391)
<i>BALANCE AT JUNE 30, 2015</i>	\$ 104,530	\$ 198	\$ 104,728

NOTE 10 - UNRESTRICTED NET ASSETS

Unrestricted net assets are available for the following purposes as of June 30, 2015:

Investment in Property and Equipment	\$ 15,114,858
Board Designated	15,544,690
General Operations	19,505,433
<i>TOTAL UNRESTRICTED NET ASSETS</i>	\$ 50,164,981

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2015:

Endowment Assets	\$ 714,806
Other Programs	130,064
Purchase of Capital Assets	54,210
Charitable Remainder Trusts	829,168
<i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i>	\$ 1,728,248

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are invested in perpetuity. The principal balance, from which the investment income is expendable only to support the programs specified by the donors are comprised of the following as of June 30, 2015:

Perpetual Trusts	\$ 4,051,438
Other Programs	617,131
Camp Scholarships	584,835
Other Scholarships	26,775

TOTAL PERMANENTLY RESTRICTED NET ASSETS	\$ 5,280,178

NOTE 13 - NET ASSETS RECLASSIFICATION

During the year ended June 30, 2015, management noted that the provisions of certain donations received in earlier years had been misinterpreted and as a result, the related contributions had been incorrectly classified. The effect of the net assets reclassification of these contributions is as follows, and the beginning balance of net assets, in total, is unchanged.

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Balance as Previously Reported	\$ 29,644,075	\$ 23,948,990	\$ 5,434,777
Reclassification of Net Assets	21,415,274	(21,415,274)	-
	_____	_____	_____
BEGINNING BALANCE AS RECLASSIFIED	\$ 51,059,349	\$ 2,533,716	\$ 5,434,777
	_____	_____	_____

NOTE 14 - ENDOWMENTS

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

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

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 14 - ENDOWMENTS (continued)

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.

**Endowment Net Asset
Composition by Type of Fund
at June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ 714,806	\$ 1,228,740	\$ 1,943,546

**Changes in Endowment Net
Assets for the Year Ended
June 30, 2015**

Endowment Net Assets -				
Beginning of Year	\$ -	\$ 709,905	\$ 1,228,740	\$ 1,938,645
Withdrawals	-	(51,408)	-	(51,408)
Investment Return:				
Interest and Dividends	-	47,468	-	47,468
Net Realized and Unrealized Gain	-	10,418	-	10,418
Less: Investment Fees	-	(1,577)	-	(1,577)
ENDOWMENT NET ASSETS - END OF YEAR	\$ -	\$ 714,806	\$ 1,228,740	\$ 1,943,546

NOTE 15 - EMPLOYEE BENEFIT PROGRAMS

AbilityFirst has a defined contribution retirement plan for all employees who are employed to work 20 or more hours per week. Eligible employees can voluntarily contribute immediately with employer contributions beginning after one year of employment. The calculated contribution is 5% of the employees' gross salaries. Additionally, AbilityFirst will match 100% of the employees' contributions up to 2% of the employees' gross salaries. Employees immediately vest in employer contributions to the defined contribution plan. Employer contributions for the year ended June 30, 2015 were \$350,852.