

ABILITYFIRST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

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 December 31, 2016, 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, 2016, 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.

Green Hasson & Janks LLP

June 2, 2017
Los Angeles, California

ABILITYFIRST

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 745,234	\$ -	\$ -	\$ 745,234
Investments	1,930,849	-	-	1,930,849
Receivables (Net)	1,046,609	-	-	1,046,609
Receivables - Bequests/Trusts	24,422	-	-	24,422
Pledges Receivable (Net)	42,789	186,096	-	228,885
Prepaid Expenses	44,862	-	-	44,862
TOTAL CURRENT ASSETS	3,834,765	186,096	-	4,020,861
OTHER ASSETS:				
Long-Term Investments	34,856,266	1,176,732	1,228,740	37,261,738
Beneficial Interest in Perpetual Trusts	-	-	4,004,469	4,004,469
Beneficial Interest in Charitable Remainder Trusts	-	804,633	-	804,633
Security and Insurance Deposits	53,173	-	-	53,173
Due from Sponsored Housing Corp - Non-Current (Net)	99,502	-	-	99,502
Property and Equipment (Net)	13,397,061	-	-	13,397,061
TOTAL OTHER ASSETS	48,406,002	1,981,365	5,233,209	55,620,576
TOTAL ASSETS	\$ 52,240,767	\$ 2,167,461	\$ 5,233,209	\$ 59,641,437
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable	\$ 503,349	\$ -	\$ -	\$ 503,349
Accrued Expenses	660,971	-	-	660,971
Current Obligations Under Capital Leases	37,381	-	-	37,381
Deferred Revenue	63,889	-	-	63,889
TOTAL CURRENT LIABILITIES	1,265,590	-	-	1,265,590
OTHER LIABILITIES:				
Obligations Under Capital Leases	116,291	-	-	116,291
TOTAL LIABILITIES	1,381,881	-	-	1,381,881
NET ASSETS:				
Unrestricted	50,858,886	-	-	50,858,886
Temporarily Restricted	-	2,167,461	-	2,167,461
Permanently Restricted	-	-	5,233,209	5,233,209
TOTAL NET ASSETS	50,858,886	2,167,461	5,233,209	58,259,556
TOTAL LIABILITIES AND NET ASSETS	\$ 52,240,767	\$ 2,167,461	\$ 5,233,209	\$ 59,641,437

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF ACTIVITIES Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT:				
Direct Support	\$ 1,199,242	\$ 450,769	\$ -	\$ 1,650,011
Special Events (Net of Direct Donor Benefit Expenses of \$203,457)	835,615	98,774	-	934,389
Legacies and Bequests	773,022	8,795	-	781,817
Other Income	257,493	-	-	257,493
Change in Value - Beneficial Interest in Perpetual Trusts	-	-	161,910	161,910
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	53,668	-	53,668
TOTAL OPERATING SUPPORT	3,065,372	612,006	161,910	3,839,288
PROGRAM SERVICE REVENUE:				
Government	6,274,986	-	-	6,274,986
Non-Government	2,604,829	-	-	2,604,829
TOTAL PROGRAM SERVICE REVENUE	8,879,815	-	-	8,879,815
FACILITY REVENUE	448,010	-	-	448,010
TOTAL OPERATING REVENUE AND SUPPORT	12,393,197	612,006	161,910	13,167,113
OPERATING EXPENSES:				
Program Services	11,862,878	-	-	11,862,878
Support Services:				
Management and General	2,591,726	-	-	2,591,726
Fundraising	747,053	-	-	747,053
TOTAL OPERATING EXPENSES	15,201,657	-	-	15,201,657
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME	(2,808,460)	612,006	161,910	(2,034,544)
Investment Income (Net)	2,756,626	131,700	-	2,888,326
Loss on Sale of Property and Equipment	(5,326)	-	-	(5,326)
Net Assets Released from Purpose Restrictions	591,661	(591,661)	-	-
Appropriation of Endowment Net Assets for Expenditure	85,845	(85,845)	-	-
CHANGE IN NET ASSETS	620,346	66,200	161,910	848,456
Net Assets - Beginning of Year	50,238,540	2,101,261	5,071,299	57,411,100
NET ASSETS - END OF YEAR	\$ 50,858,886	\$ 2,167,461	\$ 5,233,209	\$ 58,259,556

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST**STATEMENT OF FUNCTIONAL EXPENSES**
Year Ended December 31, 2016

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 6,892,093	\$ 1,125,399	\$ 500,043	\$ 8,517,535
Employee Benefits	1,202,896	100,867	36,896	1,340,659
Payroll Taxes	501,981	80,373	34,949	617,303
TOTAL PERSONNEL COSTS	8,596,970	1,306,639	571,888	10,475,497
Building Occupancy including				
Insurance	1,270,801	273,605	9	1,544,415
Depreciation	610,772	138,393	-	749,165
Supplies	426,248	12,492	447	439,187
Other Expenses	193,462	183,760	39,038	416,260
Professional Fees	45,865	269,677	55,880	371,422
Local Transportation	293,929	36,635	5,593	336,157
Other Personnel Costs	85,009	213,368	35,802	334,179
Equipment Lease and Maintenance	120,334	36,427	-	156,761
Telephone	96,491	35,177	528	132,196
Data Processing Expense	20,669	53,492	16,011	90,172
Rent Subsidy	76,798	-	-	76,798
Postage, Printing and Publication	9,595	26,570	16,730	52,895
Conference, Convention, Meetings and Travel	15,935	5,491	5,127	26,553
TOTAL FUNCTIONAL EXPENSES	\$ 11,862,878	\$ 2,591,726	\$ 747,053	\$ 15,201,657

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF CASH FLOWS Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$	848,456	
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:			
Depreciation		749,165	
Provision for Bad Debts		127,435	
Direct Support Restricted for Purchase of Capital Assets		(351,912)	
Realized and Unrealized Gain on Investments		(1,764,524)	
Loss on Sale of Property and Equipment		5,326	
Change in Value of Beneficial Interest in Perpetual Trusts		(161,910)	
Change in Value of Beneficial Interest in Charitable Remainder Trusts		(53,668)	
(Increase) Decrease in:			
Accounts Receivable		(355,332)	
Accounts Receivable - Bequests/Trusts		365,221	
Pledges Receivable		75,645	
Prepaid Expenses		40,619	
Increase (Decrease) in:			
Accounts Payable		(167,793)	
Accrued Expenses		(154,708)	
Deferred Revenue		63,889	
		<hr/>	
<i>NET CASH USED IN OPERATING ACTIVITIES</i>	\$		(734,091)

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in Due from Sponsored Housing Corp.		(49,495)	
Purchase of Investments		(323,580)	
Proceeds from Sale of Investments		2,286,725	
Interest and Dividends Reinvested		(1,000,606)	
Purchase of Property and Equipment		(510,398)	
Payments on Obligations Under Capital Leases		(62,006)	
		<hr/>	
<i>NET CASH PROVIDED BY INVESTING ACTIVITIES</i>			340,640

CASH FLOWS FROM FINANCING ACTIVITIES:

Direct Support Restricted for Purchase of Capital Assets		201,912	
		<hr/>	
<i>NET CASH PROVIDED BY FINANCING ACTIVITIES</i>			201,912
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>			(191,539)
Cash and Cash Equivalents - Beginning of Year			<hr/> 936,773
<i>CASH AND CASH EQUIVALENTS - END OF YEAR</i>	\$		<hr/> <hr/> 745,234

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 December 31, 2016, the Board of Directors has no designated net assets. Amounts previously designated were undesignated in September 2016.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS December 31, 2016

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 time 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 \$2,167,461 of temporarily restricted net assets at December 31, 2016.
- **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 \$5,233,209 of permanently restricted net assets at December 31, 2016.

(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, 2016.

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 December 31, 2016

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 December 31, 2016, AbilityFirst evaluated the collectability of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$178,542.

(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 December 31, 2016 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

December 31, 2016

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 then ended December 31, 2016.

(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.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) INCOME TAXES

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

(o) FUNCTIONAL ALLOCATION OF EXPENSES

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

(p) USE OF ESTIMATES

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

(q) NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For AbilityFirst, the ASU will be effective for the year ending December 31, 2018.

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

(r) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 2, 2017, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, other than described in Note 14.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 3 - INVESTMENTS

Investments are summarized as follows at December 31, 2016:

U.S. Equities and Mutual Funds	\$ 14,025,105
International Securities	7,687,628
Government and Corporate Bonds	6,907,171
Real Estate Securities	3,947,789
U.S. Fixed Income Funds	3,901,789
International Fixed Income Funds	2,723,105
TOTAL INVESTMENTS	39,192,587
Less: Current Portion	(1,930,849)
LONG-TERM INVESTMENTS	\$ 37,261,738

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 1,116,311	\$ 49,686	\$ 1,165,997
Net Realized and Unrealized Gain on Investments	1,680,501	84,023	1,764,524
Management Fees	(40,186)	(2,009)	(42,195)
INVESTMENT INCOME (NET)	\$ 2,756,626	\$ 131,700	\$ 2,888,326

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, 2016

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, 2016 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2016	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	\$ 14,025,105	\$ 14,025,105	\$ -	\$ -
International Securities	7,687,628	7,687,628	-	-
Government and Corporate Bonds	6,907,171	6,907,171	-	-
Real Estate Securities	3,947,789	3,947,789	-	-
U.S. Fixed Income Funds	3,901,789	3,901,789	-	-
International Fixed Income Funds	2,723,105	2,723,105	-	-
TOTAL INVESTMENTS	39,192,587	39,192,587	-	-
Beneficial Interest in:				
Perpetual Trusts	4,004,469	-	-	4,004,469
Charitable Remainder Trusts	804,633	-	-	804,633
TOTAL	\$ 44,001,689	\$ 39,192,587	\$ -	\$ 4,809,102

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, 2016.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Permanently Restricted	Total
Beneficial Interest in Charitable Remainder Trusts		Beneficial Interest in Perpetual Trusts	
Beginning Balance	\$ 750,965	\$ 3,842,559	\$ 4,593,524
Change in Value of Beneficial Interest	53,668	161,910	215,578
ENDING BALANCE	\$ 804,633	\$ 4,004,469	\$ 4,809,102

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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 December 31, 2016.

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 December 31, 2016.

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 December 31, 2016.

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 December 31, 2016.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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 December 31, 2016.

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 December 31, 2016.

NOTE 5 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

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

	<u>Carrying Value</u>
50% Interest in Perpetual Trust; Income received during the year ended December 31, 2016 was \$60,500	\$ 1,244,053
20% Interest in Perpetual Trust; Income received during the year ended December 31, 2016 was \$37,846	1,326,718
33.33% Interest in Perpetual Trust; Income received during the year ended December 31, 2016 was \$14,480	399,258
50% Interest in Perpetual Trust; No income was received the year ended December 31, 2016	488,655
16.67% Interest in Perpetual Trust; Income received during the year ended December 31, 2016 was \$624,931. 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	269,534
50% Interest in Perpetual Trust; Income received during the year ended December 31, 2016 was \$6,000	190,131
5% Interest in Perpetual Trust; Income received during the year ended December 31, 2016 was \$4,369	<u>86,120</u>
<i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i>	<u>\$ 4,004,469</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 \$804,633 at December 31, 2016, representing the portion of the net present value of the charitable remainder trusts for which AbilityFirst is the designated beneficiary.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 7 - DUE FROM SPONSORED HOUSING CORPORATIONS

AbilityFirst currently sponsors two group homes. AbilityFirst makes non-interest bearing advances to each sponsored housing corporation. Ten independent apartment complexes were transferred to another sponsor during the year ending December 31, 2016. At December 31, 2016, a net amount totaling \$99,502 (including two notes receivable totaling \$22,000) was due from such sponsored housing corporations. Management has discounted a portion of the receivables over 30 years using the 30 year Treasury note as the discount rate as they do not anticipate sufficient surplus cash flows from the project during the sponsorship phase and a portion of the receivables is unlikely to be collected. As of December 31, 2016, AbilityFirst evaluated the collectability of its due from Sponsored Housing Corporation and established an allowance for uncollectible receivables in the approximate amount of \$14,873.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2016:

Land	\$ 1,102,570
Buildings and Leasehold Improvements	17,889,061
Furniture and Equipment	2,521,719
Transportation Equipment	1,417,275
Construction in Progress	407,040
TOTAL	23,337,665
Less: Accumulated Depreciation	(9,940,604)
PROPERTY AND EQUIPMENT (NET)	\$ 13,397,061

Depreciation expense for the year ended December 31, 2016 was \$749,165.

Construction in progress consists of building, equipment, and improvements in the process of completion. The cost to complete these projects is estimated to be \$391,000.

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:

Year Ending December 31	
2017	\$ 318,269
2018	231,507
2019	238,761
2020	19,947
TOTAL	\$ 808,484

Rent expense for the year ended December 31, 2016 totaled \$470,759.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS December 31, 2016

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 December 31, 2016.

Years Ending December 31	
2017	\$ 72,503
2018	68,524
2019	41,570
2020	2,002
TOTAL MINIMUM LEASE PAYMENTS	184,599
Less: Amount Representing Interest	<u>(30,927)</u>
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	153,672
Less: Current Obligations	<u>(37,381)</u>
NON-CURRENT OBLIGATIONS UNDER CAPITAL LEASES	\$ 116,291

The following is an analysis of equipment under capital leases, which is included in property and equipment at December 31, 2016:

Transportation Equipment (Net)	\$ 11,052
Furniture and Equipment (Net)	<u>220,969</u>
TOTAL	\$ 232,021

Depreciation expense for equipment held under capital leases totaled \$38,358 for the year ended December 31, 2016.

(c) LEGAL PROCEEDINGS

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 10 - UNRESTRICTED NET ASSETS

Unrestricted net assets are available for the following purposes as of December 31, 2016:

Investment in Property and Equipment	\$ 13,397,061
General Operations	<u>37,461,825</u>
TOTAL UNRESTRICTED NET ASSETS	<u>\$ 50,858,886</u>

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2016:

Endowment Net Assets	\$ 688,082
Other Programs	255,094
Purchase of Capital Assets	419,652
Charitable Remainder Trusts	<u>804,633</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,167,461</u>

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, is comprised of the following as of December 31, 2016:

Perpetual Trusts	\$ 4,004,469
Other Programs	617,180
Camp Scholarships	584,785
Other Scholarships	<u>26,775</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 5,233,209</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 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 December 31, 2016

NOTE 13 - 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 December 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ 688,082	\$ 1,228,740	\$ 1,916,822

**Changes in Endowment Net
Assets for the Year Ended
December 31, 2016**

Endowment Net Assets -				
Beginning of Year	\$ -	\$ 642,227	\$ 1,228,740	\$ 1,870,967
Appropriations for Expenditure	-	(85,845)	-	(85,845)
Investment Return:				
Interest and Dividends	-	49,686	-	49,686
Net Realized and Unrealized Gains	-	84,023	-	84,023
Less: Investment Fees	-	(2,009)	-	(2,009)

**ENDOWMENT NET
ASSETS - END OF YEAR**

	\$ -	\$ 688,082	\$ 1,228,740	\$ 1,916,822
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NOTE 14 - EMPLOYEE BENEFIT PROGRAMS

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 statutory exclusions that apply to those who are employed to work less than 20 or more hours per week and non-resident aliens.

The employer's annual matching contribution is up to 5% of the employees' gross salaries. Effective January 1, 2017, the defined contribution retirement plan has been 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.