

ABILITYFIRST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

June 5, 2018
Los Angeles, California

ABILITYFIRST

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With Summarized Totals at December 31, 2016

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 609,311	\$ -	\$ -	\$ 609,311	\$ 745,234
Investments	1,965,000	-	-	1,965,000	1,930,849
Receivables (Net)	1,285,762	-	-	1,285,762	1,046,609
Receivables - Bequests/Trusts	311,988	-	-	311,988	24,422
Pledges Receivable (Net)	176,877	56,250	-	233,127	228,885
Prepaid Expenses	52,566	-	-	52,566	44,862
TOTAL CURRENT ASSETS	4,401,504	56,250	-	4,457,754	4,020,861
OTHER ASSETS:					
Long-Term Investments	38,089,234	1,952,928	13,228,740	53,270,902	37,261,738
Beneficial Interest in Perpetual Trusts	-	-	4,345,640	4,345,640	4,004,469
Beneficial Interest in Charitable Remainder Trusts	-	848,062	-	848,062	804,633
Security and Insurance Deposits	53,486	-	-	53,486	53,173
Due from Sponsored Housing Corp - Non-Current (Net)	83,294	-	-	83,294	99,502
Property and Equipment (Net)	13,068,147	-	-	13,068,147	13,397,061
TOTAL OTHER ASSETS	51,294,161	2,800,990	17,574,380	71,669,531	55,620,576
TOTAL ASSETS	\$ 55,695,665	\$ 2,857,240	\$ 17,574,380	\$ 76,127,285	\$ 59,641,437
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts Payable	\$ 562,606	\$ -	\$ -	\$ 562,606	\$ 503,349
Accrued Expenses	771,330	-	-	771,330	660,971
Current Obligations Under Capital Leases	59,274	-	-	59,274	37,381
Deferred Revenue	94,324	-	-	94,324	63,889
TOTAL CURRENT LIABILITIES	1,487,534	-	-	1,487,534	1,265,590
OTHER LIABILITIES:					
Obligations Under Capital Leases	32,392	-	-	32,392	116,291
TOTAL LIABILITIES	1,519,926	-	-	1,519,926	1,381,881
NET ASSETS:					
Unrestricted	54,175,739	-	-	54,175,739	50,858,886
Temporarily Restricted	-	2,857,240	-	2,857,240	2,167,461
Permanently Restricted	-	-	17,574,380	17,574,380	5,233,209
TOTAL NET ASSETS	54,175,739	2,857,240	17,574,380	74,607,359	58,259,556
TOTAL LIABILITIES AND NET ASSETS	\$ 55,695,665	\$ 2,857,240	\$ 17,574,380	\$ 76,127,285	\$ 59,641,437

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING SUPPORT:					
Direct Support	\$ 1,187,955	\$ 27,257	\$ 12,000,000	\$ 13,215,212	\$ 1,650,011
Special Events (Net of Direct Donor Benefit Expenses of \$225,154)	917,314	72,995	-	990,309	934,389
Legacies and Bequests	1,029,996	805	-	1,030,801	781,817
Other Income	40,780	-	-	40,780	257,493
Change in Value - Beneficial Interest in Perpetual Trusts	-	-	341,171	341,171	161,910
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	43,429	-	43,429	53,668
TOTAL OPERATING SUPPORT	3,176,045	144,486	12,341,171	15,661,702	3,839,288
PROGRAM SERVICE REVENUE:					
Government	7,127,369	-	-	7,127,369	6,274,986
Non-Government	2,653,270	-	-	2,653,270	2,604,829
TOTAL PROGRAM SERVICE REVENUE	9,780,639	-	-	9,780,639	8,879,815
FACILITY REVENUE	426,458	-	-	426,458	448,010
TOTAL OPERATING REVENUE AND SUPPORT	13,383,142	144,486	12,341,171	25,868,799	13,167,113
OPERATING EXPENSES:					
Program Services	12,467,869	-	-	12,467,869	11,862,878
Support Services:					
Management and General	2,844,628	-	-	2,844,628	2,591,726
Fundraising	666,478	-	-	666,478	747,053
TOTAL OPERATING EXPENSES	15,978,975	-	-	15,978,975	15,201,657
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME	(2,595,833)	144,486	12,341,171	9,889,824	(2,034,544)
Investment Income (Net)	5,482,656	975,323	-	6,457,979	2,888,326
Loss on Sale of Property and Equipment	-	-	-	-	(5,326)
Net Assets Released from Purpose Restrictions	305,030	(305,030)	-	-	-
Appropriation of Endowment Net Assets for Expenditure	125,000	(125,000)	-	-	-
CHANGE IN NET ASSETS	3,316,853	689,779	12,341,171	16,347,803	848,456
Net Assets - Beginning of Year	50,858,886	2,167,461	5,233,209	58,259,556	57,411,100
NET ASSETS - END OF YEAR	\$ 54,175,739	\$ 2,857,240	\$ 17,574,380	\$ 74,607,359	\$ 58,259,556

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	Program Services	Support Services		2017 Total	2016 Total
		Management and General	Fundraising		
Salaries	\$ 7,163,638	\$ 1,558,080	\$ 510,289	\$ 9,232,007	\$ 8,517,535
Employee Benefits	1,152,167	291,136	35,905	1,479,208	1,340,659
Payroll Taxes	529,924	102,595	37,805	670,324	617,303
TOTAL PERSONNEL COSTS	8,845,729	1,951,811	583,999	11,381,539	10,475,497
Building Occupancy, including					
Insurance	1,366,333	254,002	849	1,621,184	1,544,415
Depreciation	626,153	129,327	-	755,480	749,165
Supplies	461,934	13,977	727	476,638	439,187
Other Expenses	196,861	61,909	30,264	289,034	416,260
Local Transportation	310,816	54,586	4,317	369,719	336,157
Other Personnel Costs	201,133	75,817	11,502	288,452	334,179
Professional Fees	48,730	130,756	6,249	185,735	371,422
Equipment Lease and Maintenance	140,337	31,522	-	171,859	156,761
Telephone	112,471	38,365	1,493	152,329	132,196
Rent Subsidy	116,013	-	-	116,013	76,798
Data Processing Expense	16,570	66,666	2,519	85,755	90,172
Postage, Printing and Publication	12,868	22,291	17,100	52,259	52,895
Conference, Convention, Meetings and Travel	11,921	13,599	7,459	32,979	26,553
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 12,467,869	\$ 2,844,628	\$ 666,478	\$ 15,978,975	
	78%	18%	4%	100%	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 11,862,878	\$ 2,591,726	\$ 747,053		\$ 15,201,657
	78%	17%	5%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 16,347,803	\$ 848,456
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	755,480	749,165
Provision for Bad Debts	(6,672)	127,435
Direct Support Restricted for Purchase of Capital Assets	-	(351,912)
Direct Support Restricted for Investment in Perpetuity	(12,000,000)	-
Realized and Unrealized Gain on Investments	(5,166,413)	(1,764,524)
Loss on Sale of Property and Equipment	-	5,326
Change in Value of Beneficial Interest in Perpetual Trusts	(341,171)	(161,910)
Change in Value of Beneficial Interest in Charitable Remainder Trusts	(43,429)	(53,668)
(Increase) Decrease in:		
Receivables	(232,481)	(355,332)
Receivables - Bequests/Trusts	(287,566)	365,221
Pledges Receivable	(104,242)	75,645
Prepaid Expenses	(7,704)	40,619
Security and Insurance Deposits	(313)	-
Increase (Decrease) in:		
Accounts Payable	59,257	(167,793)
Accrued Expenses	110,359	(154,708)
Deferred Revenue	30,435	63,889
	(886,657)	(734,091)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in Due from Sponsored Housing	16,208	(49,495)
Purchase of Investments	(12,000,000)	(323,580)
Proceeds from Sale of Investments	2,286,704	2,286,725
Interest and Dividends Reinvested	(1,163,606)	(1,000,606)
Purchase of Property and Equipment	(426,566)	(510,398)
	(11,287,260)	402,646
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Direct Support Restricted for Purchase of Capital Assets	100,000	201,912
Direct Support Restricted for Investment in Perpetuity	12,000,000	-
Payments on Obligations Under Capital Leases	(62,006)	(62,006)
	12,037,994	139,906
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(135,923)	(191,539)
Cash and Cash Equivalents - Beginning of Year	745,234	936,773
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 609,311	\$ 745,234
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	\$ 10,496	\$ 10,417

The Accompanying Notes are an Integral Part of These Financial Statements

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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 2,000 children, youth and adults benefit from services that include after school and full-day children's programs, adult community, 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 using 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.
- **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 \$2,857,240 of temporarily restricted net assets at December 31, 2017.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **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 \$17,574,380 of permanently restricted net assets at December 31, 2017.

(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, 2017.

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.

(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, 2017 AbilityFirst evaluated the collectability of its receivables and established an allowance for uncollectible receivables in the approximate amount of \$140,900.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2017 are due within one year.

(h) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Donors have established and funded trusts, which are administered by organizations other than AbilityFirst. Under the terms of the trust, AbilityFirst has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. AbilityFirst does not control the assets held by an outside trust. Annual distributions from the trusts are reported as investment income or contribution income. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as a change in value of beneficial interest in perpetual trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

AbilityFirst has been designated as the beneficiary of assets held in charitable remainder trusts administered by other trustees. AbilityFirst recognizes 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

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) PROPERTY AND EQUIPMENT (continued)

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, 2017.

(l) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time to AbilityFirst. The services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

(m) DEFERRED REVENUE

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

(n) INCOME TAXES

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

(o) FUNCTIONAL ALLOCATION OF EXPENSES

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

(p) USE OF ESTIMATES

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

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2016, from which the summarized information was derived.

(r) NEW ACCOUNTING PRONOUNCEMENTS

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

In August 2016, FASB issued 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.

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NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 5, 2018, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

Investments are summarized as follows at December 31, 2017:

U.S. Equity Mutual Funds	\$ 20,300,302
International Equity Mutual Funds	13,619,881
U.S. Fixed Income Funds	13,729,078
International Fixed Income Funds	2,126,249
Real Estate Mutual Funds	<u>5,460,392</u>
TOTAL INVESTMENTS	55,235,902
Less: Current Portion	<u>(1,965,000)</u>
LONG-TERM INVESTMENTS	<u>\$ 53,270,902</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 886,586	\$ 448,963	\$ 1,335,549
Net Realized and Unrealized Gain on Investments	4,638,508	527,905	5,166,413
Management Fees	<u>(42,438)</u>	<u>(1,545)</u>	<u>(43,983)</u>
INVESTMENT INCOME (NET)	<u>\$ 5,482,656</u>	<u>\$ 975,323</u>	<u>\$ 6,457,979</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

AbilityFirst has implemented the accounting standard that defines fair value for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

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NOTES TO FINANCIAL STATEMENTS December 31, 2017

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, 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Total at December 31, 2017	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	\$ 20,300,302	\$ 20,300,302	\$ -	\$ -
International Equity Mutual Funds	13,619,881	13,619,881	-	-
U.S. Fixed Income Funds	13,729,078	13,729,078	-	-
International Fixed Income Funds	2,126,249	2,126,249	-	-
Real Estate Mutual Funds	5,460,392	5,460,392	-	-
TOTAL INVESTMENTS	55,235,902	55,235,902	-	-
Beneficial Interest in:				
Perpetual Trusts	4,345,640	-	-	4,345,640
Charitable Remainder Trusts	848,062	-	-	848,062
TOTAL	\$ 60,429,604	\$ 55,235,902	\$ -	\$ 5,193,702

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 was no unfunded commitment at December 31, 2017.

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 was no unfunded commitment at December 31, 2017.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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. 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, 2017.

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. 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, 2017.

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 was no unfunded commitment at December 31, 2017.

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, 2017.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Permanently Restricted	
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Beginning Balance	\$ 804,633	\$ 4,004,469	\$ 4,809,102
Change in Value of Beneficial Interest	43,429	341,171	384,600
<i>ENDING BALANCE</i>	\$ 848,062	\$ 4,345,640	\$ 5,193,702

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NOTES TO FINANCIAL STATEMENTS December 31, 2017

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, 2017 was \$57,250	\$ 1,339,475
20% Interest in Perpetual Trust; Income received during the year ended December 31, 2017 was \$46,252	1,419,292
33.33% Interest in Perpetual Trust; Income received during the year ended December 31, 2017 was \$14,292	450,169
50% Interest in Perpetual Trust; No income was received the year ended December 31, 2017	495,197
16.67% Interest in Perpetual Trust; Income received during the year ended December 31, 2017 was \$727,443. 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	335,142
50% Interest in Perpetual Trust; Income received during the year ended December 31, 2017 was \$6,000	216,164
5% Interest in Perpetual Trust; Income received during the year ended December 31, 2017 was \$4,166	<u>90,201</u>
<i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i>	<u>\$ 4,345,640</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 \$848,062 at December 31, 2017, representing the portion of the net present value of the charitable remainder trusts for which AbilityFirst is the designated beneficiary.

NOTE 7 - DUE FROM SPONSORED HOUSING CORPORATIONS

AbilityFirst currently sponsors two group homes. AbilityFirst makes non-interest bearing advances to each sponsored housing corporation. At December 31, 2017, a net amount totaling \$83,294 (including one note receivable of \$16,000) was due from such sponsored housing corporations. Management has discounted a portion of the receivables over 30 years using the 30 year Treasury note as the discount rate as they do not anticipate sufficient surplus cash flows from the project during the sponsorship phase and a portion of the receivables is unlikely to be collected. At December 31, 2017, AbilityFirst evaluated the collectability of its due from sponsored housing corporation and established an allowance for uncollectible receivables in the amount of \$14,873.

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NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2017:

Land	\$ 1,102,570
Buildings and Leasehold Improvements	17,988,447
Furniture and Equipment	2,664,841
Transportation Equipment	1,417,275
Construction in Progress	591,098
TOTAL	23,764,231
Less: Accumulated Depreciation	(10,696,084)
PROPERTY AND EQUIPMENT (NET)	\$ 13,068,147

Depreciation expense for the year ended December 31, 2017 was \$755,480.

Construction in progress consists of building, equipment, and improvements in the process of completion. The cost to complete these projects is estimated to be \$190,000.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

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

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

Year Ending December 31

2018	\$ 425,168
2019	436,295
2020	221,432
2021	205,515
2022	103,775
TOTAL	\$ 1,392,185

Rent expense for the year ended December 31, 2017 totaled \$479,238.

(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.

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NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

(b) CAPITAL LEASE OBLIGATIONS (continued)

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at December 31, 2017:

Years Ending December 31	
2018	\$ 68,524
2019	41,570
2020	<u>2,002</u>
TOTAL MINIMUM LEASE PAYMENTS	112,096
Less: Amount Representing Interest	<u>(20,430)</u>
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	91,666
Less: Current Obligations	<u>(59,274)</u>
NON-CURRENT OBLIGATIONS UNDER CAPITAL LEASES	<u>\$ 32,392</u>

The following is an analysis of equipment under capital leases, which is included in property and equipment at December 31, 2017:

Transportation Equipment	\$ 22,754
Furniture and Equipment	<u>285,836</u>
TOTAL EQUIPMENT HELD UNDER CAPITAL LEASES	308,590
Less: Accumulated Depreciation	<u>(114,929)</u>
NET EQUIPMENT HELD UNDER CAPITAL LEASES	<u>\$ 193,661</u>

Depreciation expense for equipment held under capital leases totaled \$38,358 for the year ended December 31, 2017.

(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.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 10 - UNRESTRICTED NET ASSETS

Unrestricted net assets are available for the following purposes at December 31, 2017:

Investment in Property and Equipment	\$ 13,068,147
General Operations	<u>41,107,592</u>
TOTAL UNRESTRICTED NET ASSETS	<u>\$ 54,175,739</u>

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017:

Endowment Net Assets	\$ 1,538,405
Charitable Remainder Trusts	848,062
Other Programs	247,097
Purchase of Capital Assets	<u>223,676</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,857,240</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 at December 31, 2017:

Camp Paivika	\$ 12,000,000
Perpetual Trusts	4,345,640
Other Programs	617,180
Camp Scholarships	584,785
Other Scholarships	<u>26,775</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 17,574,380</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.

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NOTES TO FINANCIAL STATEMENTS December 31, 2017

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, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ 1,538,405	\$ 13,228,740	\$ 14,767,145

**Changes in Endowment Net
Assets for the Year Ended
December 31, 2017**

Endowment Net Assets -				
Beginning of Year	\$ -	\$ 688,082	\$ 1,228,740	\$ 1,916,822
Contributions	-	-	12,000,000	12,000,000
Appropriations for Expenditures	-	(125,000)	-	(125,000)
Investment Return:				
Interest and Dividends	-	448,963	-	448,963
Net Realized and Unrealized Gains	-	527,905	-	527,905
Less: Investment Fees	-	(1,545)	-	(1,545)
ENDOWMENT NET ASSETS - END OF YEAR	\$ -	\$ 1,538,405	\$ 13,228,740	\$ 14,767,145

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 or more hours per week and non-resident aliens.

Effective January 1, 2017, the defined contribution retirement plan was amended so that all employees hired prior to January 1, 2017 are immediately vested in employer contributions. Participants hired on or after this date vest at a rate of 20% per year with full vesting at five years of service. The employer's annual matching contribution is up to 5% of the employees' gross salaries. The matching contribution totaled \$223,807 during the year ended December 31, 2017.