

ABILITYFIRST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

ABILITYFIRST
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

**AUDIT
AND
ASSURANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
AbilityFirst

Opinion

We have audited the financial statements of AbilityFirst, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AbilityFirst as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of AbilityFirst and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AbilityFirst's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

To the Board of Directors
AbilityFirst

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AbilityFirst's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AbilityFirst's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited AbilityFirst's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

July 19, 2022
Los Angeles, California

ABILITYFIRST

STATEMENT OF FINANCIAL POSITION December 31, 2021 With Summarized Totals at December 31, 2020

ASSETS	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 2,893,714	\$ -	\$ 2,893,714	\$ 8,411,247
Investments	6,072,000	-	6,072,000	2,554,434
Receivables (Net)	1,446,591	-	1,446,591	924,487
Pledges Receivable	660,888	-	660,888	341,658
Inventory	242,428	-	242,428	342,419
Prepaid Expenses	200,156	-	200,156	77,810
TOTAL CURRENT ASSETS	11,515,777	-	11,515,777	12,652,055
OTHER ASSETS:				
Long-Term Investments	47,814,698	20,178,049	67,992,747	61,817,888
Pledges Receivable - Non-Current	14,600	502,070	516,670	392,633
Due from Sponsored Housing Corp - Non-Current (Net)	-	-	-	151,223
Security and Insurance Deposits	164,384	-	164,384	57,314
Beneficial Interest in Charitable Remainder Trusts	-	671,380	671,380	973,534
Beneficial Interest in Perpetual Trusts	-	5,038,618	5,038,618	4,683,804
Property and Equipment (Net)	25,645,317	-	25,645,317	21,384,684
TOTAL OTHER ASSETS	73,638,999	26,390,117	100,029,116	89,461,080
TOTAL ASSETS	\$ 85,154,776	\$ 26,390,117	\$ 111,544,893	\$ 102,113,135
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 1,173,355	\$ -	\$ 1,173,355	\$ 1,835,051
Accrued Liabilities	1,066,430	-	1,066,430	1,063,554
Deferred Revenue	1,349	-	1,349	183,540
TOTAL LIABILITIES	2,241,134	-	2,241,134	3,082,145
NET ASSETS:				
Without Donor Restrictions	82,913,642	-	82,913,642	73,521,648
With Donor Restrictions	-	26,390,117	26,390,117	25,509,342
TOTAL NET ASSETS	82,913,642	26,390,117	109,303,759	99,030,990
TOTAL LIABILITIES AND NET ASSETS	\$ 85,154,776	\$ 26,390,117	\$ 111,544,893	\$ 102,113,135

The Accompanying Notes are an Integral Part of These Financial Statements

ABILITYFIRST

STATEMENT OF ACTIVITIES
Year Ended December 31, 2021
With Summarized Totals for the Year Ended December 31, 2020

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING SUPPORT:				
Direct Support	\$ 2,317,909	\$ 75,000	\$ 2,392,909	\$ 1,874,877
Special Events (Net of Direct Donor Benefit Expenses of \$112,446)	534,355	-	534,355	677,907
Legacies and Bequests	263,971	-	263,971	919,773
In-kind Revenues	115,504	-	115,504	261,398
Other Income	126,730	-	126,730	17,893
Net Assets Released from Donor Restrictions	2,461,249	(2,461,249)	-	-
TOTAL OPERATING SUPPORT	5,819,718	(2,386,249)	3,433,469	3,751,848
PROGRAM SERVICE REVENUE:				
Government	8,531,345	-	8,531,345	7,942,242
Non-Government:				
Supported Employment	230,749	-	230,749	354,122
Other Programs	369,583	-	369,583	208,826
TOTAL PROGRAM SERVICE REVENUE	9,131,677	-	9,131,677	8,505,190
FACILITY REVENUE	541,086	-	541,086	188,950
TOTAL REVENUE AND SUPPORT	15,492,481	(2,386,249)	13,106,232	12,445,988
OPERATING EXPENSES:				
Program Services	11,909,151	-	11,909,151	11,318,557
Support Services:				
Management and General	2,638,529	-	2,638,529	3,205,689
Fundraising	896,073	-	896,073	804,765
TOTAL OPERATING EXPENSES	15,443,753	-	15,443,753	15,329,011
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME	48,728	(2,386,249)	(2,337,521)	(2,883,023)
Investment Return (Net)	7,004,346	2,707,007	9,711,353	7,862,142
Distributions from Perpetual Trusts	829,468	-	829,468	700,785
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	205,203	205,203	18,802
Change in Value - Beneficial Interest in Perpetual Trusts	-	354,814	354,814	354,043
Gain on Sale of Property and Equipment	-	-	-	2,733,194
Contribution Recognized on Acquisition of FVO	-	-	-	9,621,307
Forgiveness of Paycheck Protection Program Loan	1,509,452	-	1,509,452	1,810,743
CHANGE IN NET ASSETS	9,391,994	880,775	10,272,769	20,217,993
Net Assets - Beginning of Year	73,521,648	25,509,342	99,030,990	78,812,997
NET ASSETS - END OF YEAR	\$ 82,913,642	\$ 26,390,117	\$ 109,303,759	\$ 99,030,990

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021
With Summarized Totals for the Year Ended December 31, 2020

	2021								2020 Total
	Program Services				Support Services			Total	
	Community Centers	Community Programs	Camp Paivika	Total Program Services	Management and General	Fundraising			
Salaries	\$ 2,623,916	\$ 3,861,237	\$ 337,242	\$ 6,822,395	\$ 1,297,580	\$ 673,940	\$ 8,793,915	\$ 9,007,087	
Employee Benefits	350,178	684,135	44,174	1,078,487	147,910	49,269	1,275,666	1,551,089	
Payroll Taxes	192,137	277,134	25,267	494,538	88,665	45,377	628,580	648,709	
TOTAL PERSONNEL COSTS	3,166,231	4,822,506	406,683	8,395,420	1,534,155	768,586	10,698,161	11,206,885	
Building Occupancy, including									
Insurance	673,653	214,391	278,263	1,166,307	239,366	75	1,405,748	1,251,848	
Depreciation	394,913	13,947	234,407	643,267	73,797	-	717,064	711,942	
Other Expenses	310,360	48,150	14,475	372,985	176,211	32,579	581,775	682,931	
Telephone	116,957	104,671	13,646	235,274	294,313	17,575	547,162	328,299	
Professional Fees	160,974	118,473	20,649	300,096	85,969	5,422	391,487	297,007	
Local Transportation	109,009	72,829	36,712	218,550	67,654	566	286,770	221,124	
Supplies	149,459	11,602	87,275	248,336	8,682	4,471	261,489	177,490	
Other Personnel Costs	63,731	7,024	80,622	151,377	18,549	3,832	173,758	124,848	
Equipment Lease and Maintenance	37,392	51,135	5,302	93,829	16,002	31,102	140,933	111,304	
Data Processing	5,935	6,436	1,101	13,472	112,463	1,080	127,015	81,354	
Rent Subsidy	63,240	-	-	63,240	-	-	63,240	69,105	
Postage, Printing and Publication	2,979	418	2,670	6,067	5,352	30,451	41,870	57,306	
Conference, Convention, Meetings and Travel	143	471	317	931	6,016	334	7,281	7,568	
TOTAL FUNCTIONAL EXPENSES - 2021	\$ 5,254,976	\$ 5,472,053	\$ 1,182,122	\$ 11,909,151	\$ 2,638,529	\$ 896,073	\$ 15,443,753		
				77%	17%	6%	100%		
TOTAL FUNCTIONAL EXPENSES - 2020	\$ 4,605,684	\$ 5,707,801	\$ 1,005,072	\$ 11,318,557	\$ 3,205,689	\$ 804,765		\$ 15,329,011	
				74%	21%	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, 2021

With Summarized Totals for the Year Ended December 31, 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 10,272,769	\$ 20,217,993
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	717,064	711,942
Paycheck Protection Program Loan Forgiveness	(1,509,452)	(1,810,743)
Provision for Bad Debts	324,377	189,784
Realized and Unrealized Gain on Investments	(8,147,422)	(6,326,408)
Contribution Recognized on Acquisition of FVO	-	(9,621,307)
Gain on Sale of Property and Equipment	(3,500)	(2,733,194)
Change in Value - Beneficial Interest in Charitable Remainder Trusts	(205,203)	(18,802)
Change in Value - Beneficial Interest in Perpetual Trusts	(354,814)	(354,043)
(Increase) Decrease in:		
Receivables (Net)	(846,481)	532,553
Receivables - Bequests/Trusts	-	23,300
Inventory	99,991	55,029
Pledges Receivable	(443,267)	(36,976)
Prepaid Expenses	(122,346)	14,289
Security and Insurance Deposits	(107,070)	(3,828)
Increase (Decrease) in:		
Accounts Payable	(661,696)	1,188,005
Accrued Liabilities	2,876	98,247
Deferred Revenue	(182,191)	183,540
	(1,166,365)	2,309,381
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Due from Sponsored Housing Corp.	151,223	(130,211)
Distributions of Charitable Remainder Trusts	507,357	455,405
Purchase of Investments	(1,286,013)	(5,087,197)
Proceeds from Sale of Investments	1,304,941	5,402,933
Interest and Dividends Reinvested	(1,563,931)	(1,434,464)
Purchase of Property and Equipment	(4,974,197)	(1,833,977)
Proceeds from Sale of Property and Equipment	-	3,502,096
	(5,860,620)	874,585
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program Loan	1,509,452	1,810,743
	1,509,452	1,810,743
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,517,533)	4,994,709
Cash and Cash Equivalents - Beginning of Year	8,411,247	2,733,406
Cash Acquired on Acquisition of FVO	-	683,132
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,893,714	\$ 8,411,247

The Accompanying Notes are an Integral Part of These Financial Statements

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 1 - NATURE OF ORGANIZATION

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

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

(b) NET ASSETS

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

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

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash equivalents approximates its fair value at December 31, 2021.

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 equity and debt securities with readily determinable market values are reported at fair value. The fair value of investments is valued at the closing price on the last business day of the fiscal year. Securities are generally held in custodial investment accounts administered by financial institutions. Investment purchases and sales are accounted for on a trade-date basis. Interest income is recorded as earned on an accrual basis, and dividend income is recorded based upon the ex-dividend date. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are included in investment return in the statement of activities and represent the change in the difference between the cost and fair value of investments held at the end of the fiscal year.

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, 2021 AbilityFirst evaluated the collectability of its receivables and established an allowance for uncollectible receivables in the amount of \$259,252.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Contributions, including endowment gifts and pledges, as well as unconditional promises to give, are recognized as revenue in the period promised. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not included as revenue until such time as the conditions on which they depend have been substantially met. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at an appropriate market interest rate at the time of the contribution. At December 31, 2021, management evaluated the collectability of pledges receivable and no allowance for uncollectible pledges receivable was considered necessary.

(h) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

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

(i) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Donors have established and funded trusts, which are administered by organizations other than AbilityFirst. Under the terms of the trusts, AbilityFirst has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. AbilityFirst does not control the assets held by an outside trust. Annual distributions from the trusts are reported under non-operating income on the statement of activities as distributions from perpetual trusts. 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.

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) INVENTORY

Inventory is stated at the lower of cost or net realizable value, with cost being determined using average cost.

(k) 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.

(l) 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 December 31, 2021.

(m) 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.

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) REVENUE FROM CONTRACTS WITH CUSTOMERS

AbilityFirst's revenues from contracts with customers are generated from program service fees, supported employment, and other programs. Ability First recognizes revenue from these revenue streams when the respective performance obligations are satisfied.

- Program service revenue (government) is earned from contracts with Regional Centers and the Department of Rehabilitation. The performance obligation for such contracts consists of coordinating and delivering services to individuals with developmental disabilities. Site contracts exist with Regional Centers for a flat or hourly fee for services provided to qualifying consumers. Payment agreements are determined on a client-by-client basis. AbilityFirst recognizes revenue from these contracts over time as the related services are provided.
- Program service revenue (non-government) consists of supported employment and other programs, including camp revenues. Supported employment relate to a program where individuals, accompanied by job coaches, go out into the community and perform various contracts including landscaping and janitorial services. These revenues are recognized when performance obligations to provide the noted services have been met. camp fee revenues consists of fees paid by individuals and private pay groups to attend summer and other camps at Camp Paivika. These revenues are recognized over the duration of the camp. The performance obligation consists of providing participants access to the camp facilities, camp programming, and is recognized ratably as services are simultaneously received and consumed by the individuals.

Fees for revenues with contracts with customers, which are billed and collected in advance are deferred and recognized as income in the period in which the related services are rendered.

(o) PAYCHECK PROTECTION PROGRAM LOANS

Management elected to account for the forgivable loans received under the Paycheck Protection Program (PPP) provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act as a debt instrument. The proceeds from the loan remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and AbilityFirst has been legally released or (2) AbilityFirst repays the loan to the lender.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) INCOME TAXES

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

In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic No. 740, *Uncertainty in Income Taxes*, AbilityFirst recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended December 31, 2021 AbilityFirst performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

(q) 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.

(r) USE OF ESTIMATES

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

(s) 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, 2020, from which the summarized information was derived.

ABILITYFIRST

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. For AbilityFirst, the ASU will be effective for the year ending December 31, 2022.

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

(u) SUBSEQUENT EVENTS

AbilityFirst has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2021 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through July 19, 2022, 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 consist of the following at December 31, 2021:

U.S. Equity Mutual Funds	\$ 29,844,265
International Equity Mutual Funds	18,518,618
U.S. Fixed Income Mutual Funds	15,645,218
Real Estate Mutual Funds	7,970,811
International Fixed Income Mutual Funds	<u>2,085,835</u>
TOTAL INVESTMENTS	74,064,747
Less: Current Portion	<u>(6,072,000)</u>
LONG-TERM INVESTMENTS	<u>\$ 67,992,747</u>

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

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 December 31, 2021 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Total at December 31, 2021	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	\$ 29,844,265	\$ 29,844,265	\$ -	\$ -
International Equity Mutual Funds	18,518,618	18,518,618	-	-
U.S. Fixed Income Mutual Funds	15,645,218	15,645,218	-	-
Real Estate Mutual Funds	7,790,811	7,790,811	-	-
International Fixed Income Mutual Funds	2,085,835	2,085,835	-	-
TOTAL INVESTMENTS	74,064,747	74,064,747	-	-
Beneficial Interest in:				
Charitable Remainder Trusts	671,380	-	-	671,380
Perpetual Trusts	5,038,618	-	-	5,038,618
TOTAL	\$ 79,774,745	\$ 74,064,747	\$ -	\$ 5,709,998

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:

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2021.

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. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2021.

U.S. Fixed Income Mutual Funds

Investments in U.S. fixed income mutual funds include actively traded investment funds that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. The fair value of the actively traded fixed income mutual fund portfolio is based on the ticker prices of the underlying bonds listed on the global exchanges. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2021.

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. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2021.

International Fixed Income Mutual Funds

Investments in international fixed income mutual funds include actively traded investment funds that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. The fair value of the actively traded fixed income mutual fund portfolio is based on the ticker prices of the underlying bonds listed on the global exchanges. Redemptions can be made daily with redemption notice periods ranging from one to five business days. There were no unfunded commitments at December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Beginning Balance	\$ 973,534	\$ 4,683,804	\$ 5,657,338
Change in Value of Beneficial Interest	205,203	354,814	560,017
Distributions	(507,357)	-	(507,357)
ENDING BALANCE	\$ 671,380	\$ 5,038,618	\$ 5,709,998

NOTE 5 - PLEDGES RECEIVABLE

At December 31, 2021, pledges receivable are due to be collected as follows:

Within One Year	\$ 660,888
In Two to Five Years	516,670
TOTAL	\$ 1,177,558

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 \$671,380 at December 31, 2021, representing the portion of the net present value of the charitable remainder trusts for which AbilityFirst is the designated beneficiary.

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 7 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

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

	<u>Carrying Value</u>
20% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2021 were \$73,600	\$ 1,881,998
50% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2021 were \$60,000	1,544,130
50% Interest in Perpetual Trust; No distributions were received the year ended December 31, 2021	524,243
33.33% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2021 were \$25,947	554,268
16.67% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2021 were \$658,325. A portion of the assets in this trust are oil and gas royalties, the carrying value of which is not determinable and, therefore, has not been recorded. The annual distributions received fluctuate based upon changing market prices for oil and gas.	203,024
50% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2021 were \$7,000	231,925
5% Interest in Perpetual Trust; Distributions received during the year ended December 31, 2021 were \$4,596	99,030
TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>\$ 5,038,618</u>

The total income distributed by the perpetual trusts to AbilityFirst during the year ended December 31, 2021 amounted to \$829,468.

NOTE 8 - DUE FROM SPONSORED HOUSING CORPORATIONS

AbilityFirst currently sponsors two group homes. AbilityFirst makes non-interest bearing advances and charges management fees to each sponsored housing corporation. At December 31, 2021, an amount totaling \$187,853 was due from such sponsored housing corporations.

At December 31, 2021, AbilityFirst evaluated the collectability of its due from sponsored housing corporation and the full amount was reserved for as AbilityFirst is not expecting payment on these amounts.

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 9 - PROPERTY AND EQUIPMENT

Land	\$ 7,002,572
Buildings and Leasehold Improvements	20,489,145
Furniture and Equipment	3,181,183
Transportation Equipment	1,370,417
Construction in Progress	<u>6,063,192</u>
TOTAL	38,106,509
Less: Accumulated Depreciation	<u>(12,461,192)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 25,645,317</u>

Depreciation expense for the year ended December 31, 2021 was \$717,064.

Construction in progress consists of improvements to various community centers. As of December 31, 2021, the cost to complete these projects is estimated by management to be \$800,000, with estimated final completion by July 31, 2022.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

AbilityFirst leases real property under non-cancelable operating leases that expire through January 2023.

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

Year Ending December 31

2022	\$ 144,013
2023	<u>3,361</u>
TOTAL	<u>\$ 147,374</u>

Rent expense for the year ended December 31, 2021 totaled \$320,844.

(b) CONTRACTS

AbilityFirst's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. Where liabilities resulting from such governmental audits can be reasonably estimated, they are accrued for.

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

(c) LEGAL PROCEEDINGS

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

NOTE 11 - PAYCHECK PROTECTION PROGRAM LOANS

In February 2021, AbilityFirst received a second draw PPP loan in the amount of \$1,500,000. The PPP loan, administered by the Small Business Administration (SBA), bears interest at a fixed rate of 1.0% per annum, has a term of five years, and is unsecured and guaranteed by the SBA. Interest accrues on the loan beginning with the initial disbursement; however, payments of principal and interest are deferred until the lender's determination of the amount of forgiveness applied for by the borrower is approved by the SBA.

In September 2021, AbilityFirst applied for and received forgiveness of the full amount of the second draw PPP loan, including accrued interest of \$9,452. Accordingly, AbilityFirst recognized debt forgiveness income of \$1,509,452 for the year ended December 31, 2021.

NOTE 12 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are available for the following purposes at December 31, 2021:

Investment in Property and Equipment	\$ 25,645,317
Board Designated for Capital Campaign	2,000,000
General Operations	<u>55,268,325</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 82,913,642</u>

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2021:

Subject to Expenditure for Specified Purpose:	
Other Programs	\$ 502,070
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	502,070
Subject to the Passage of Time:	
Charitable Remainder Trusts	671,380
Subject to Appropriation or Spending Policy:	
Donor-Restricted Perpetual Endowments:	
Camp Paivika	12,000,000
Other Programs	617,181
Camp Scholarships	584,785
Other Scholarships	26,775
Unspent Endowment Earnings	6,949,308
TOTAL SUBJECT TO APPROPRIATION OR SPENDING POLICY	20,178,049
TOTAL NOT SUBJECT TO APPROPRIATION OR SPENDING POLICY:	
Perpetual Trusts	5,038,618
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 26,390,117

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2021:

Satisfaction of Time Restrictions	
Distribution of Charitable Remainder Trusts	\$ 507,357
Satisfaction of Purpose Restrictions	
Purchase of Capital Assets	973,742
Appropriation of Endowment Assets	980,150
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 2,461,249

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

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 an endowment required to be maintained in perpetuity, which is to provide a permanent source of income to AbilityFirst.

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

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

In the absence of explicit donor instructions, AbilityFirst's spending policy allows that up to 5% of the endowment base shall be available to support AbilityFirst programs annually. The endowment base is defined as a 12-quarter moving average of the market value of the total endowment portfolio.

Endowment Net Asset Composition by Type of Fund at December 31, 2021	<u>With Donor Restrictions</u>
Donor-Restricted	<u>\$ 20,178,049</u>
Changes in Endowment Net Assets for the Year Ended December 31, 2021	
Endowment Net Assets - Beginning of Year	18,451,192
Investment Return (Net)	2,707,007
Appropriations for Expenditures	<u>(980,150)</u>
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	<u>\$ 20,178,049</u>

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

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NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 15 - EMPLOYEE BENEFIT PLAN

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

Effective January 1, 2017, the defined contribution retirement plan was amended so that all employees hired prior to January 1, 2017 are immediately vested in employer contributions. Participants hired on or after this date vest at a rate of 20% per year with full vesting at five years of service. The employer's annual matching contribution is up to 3% of the employees' gross salaries. The matching contribution totaled \$134,000 during the year ended December 31, 2021.

NOTE 16 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by AbilityFirst at December 31, 2021 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at December 31, 2021	
Cash and Cash Equivalents	\$ 2,878,714
Investments	6,072,000
Receivables (Net)	1,446,591
Pledges Receivable	<u>660,888</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 11,073,193</u>

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

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