abilities united

Financial Statements
June 30, 2017
(With summarized comparative totals for June 30, 2016)

Together with
Independent Auditors' Report

ABILITIES UNITED

Table of Contents

June 30, 2017

Robert Lee & Associates, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Abilities United
Palo Alto, California

We have audited the accompanying financial statements of Abilities United (a California public benefit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, 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.

Auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Abilities United as of June 30, 2017, and the changes in net assets, functional expenses 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 the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robert Lee +Associates, LLP

San Jose, California
October 5, 2017

ABILITIES UNITED

Statement of Financial Position

Year Ended June 30, 2017

(With summarized comparative totals for the year ended June 30, 2016)

	June 30, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,525,764	$ 66,449
Accounts receivable, net	347,834	365,129
Grants and bequests receivable, net	13,501	654,319
Current portion of pledges receivable	206,525	135,436
Prepaid expenses	51,893	12,357
Total current assets	2,145,517	1,233,690
Property and equipment, net	306,471	358,944
Other assets:		
Endowment investment	1,344,212	1,261,853
Long-term portion of pledges receivable, net	113,632	204,146
Total assets	$ 3,909,832	$ 3,058,633
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	$ -	$ 102,590
Accounts payable	25,048	28,393
Accrued expenses	229,522	224,876
Deferred revenue	39,408	18,210
Total liabilities, all current	293,978	374,069
Commitments		
Net assets:		
Unrestricted net assets	571,625	896,819
Temporarily restricted net assets	1,767,867	511,383
Permanently restricted net assets	1,276,362	1,276,362
Total net assets	3,615,854	2,684,564
Total liabilities and net assets	$ 3,909,832	$ 3,058,633

ABILITIES UNITED
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017
(With summarized comparative totals for the year ended June 30, 2016)

Support and revenues:	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Support:					
Contributions	$ 612,912	$ 1,370,245	$	$ 1,983,157	$ 2,077,936
Special events, net	466,329	-	-	466,329	392,038
Donated services	25,791	-	-	25,791	20,973
Total support	1,105,032	1,370,245	-	2,475,277	2,490,947
Revenue:					
Fees from governmental agencies for program services	3,264,581	-	-	3,264,581	3,048,222
Program service fees	667,733	-	-	667,733	627,675
Contract income	5,186	-	-	5,186	3,728
Miscellaneous income	5,356	-	-	5,356	137
Endowment investment income (loss), net	-	113,082	-	113,082	(35,462)
Total revenue	3,942,856	113,082	-	4,055,938	3,644,300
Total support and revenues	5,047,888	1,483,327	-	6,531,215	6,135,247
Net assets released from restrictions	181,611	(181,611)	-	-	-
Amounts appropriated for expenditure	45,232	(45,232)	-	-	-
Total support, revenue, net assets released from restrictions and amounts appropriated for expenditure	5,274,731	1,256,484	-	6,531,215	6,135,247
Expenses:					
Program services	4,007,307	-	-	4,007,307	3,772,944
Supporting services:					
Management and general	1,113,192	-	-	1,113,192	1,183,213
Fundraising	479,426	-	-	479,426	310,141
Total support services	1,592,618	-	-	1,592,618	1,493,354
Total expenses	5,599,925	-	-	5,599,925	5,266,298
Change in net assets	(325,194)	1,256,484	-	931,290	868,949
Net assets, beginning of year	896,819	511,383	1,276,362	2,684,564	1,815,615
Net assets, end of year	$ 571,625	$ 1,767,867	$ 1,276,362	$ 3,615,854	$ 2,684,564

ABILITIES UNITED

Statement of Functional Expenses

Year ended June 30, 2017

(With summarized comparative totals for the year ended June 30, 2016)

	2017					2016
		Supporting Services				
	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Comparative Totals
Salaries and related expenses:						
Salaries	$ 2,891,651	$ 498,324	$ 306,053	$ 804,377	$ 3,696,028	$ 3,460,294
Employee benefits	477,196	121,166	40,445	161,611	638,807	649,411
Payroll taxes	217,468	34,590	22,090	56,680	274,148	257,502
Total salaries and related expenses	3,586,315	654,080	368,588	1,022,668	4,608,983	4,367,207
Contracted services	50,681	126,781	10,886	137,667	188,348	155,415
Travel/ lodging/ meals	113,140	1,306	-	1,306	114,446	123,693
Occupancy	49,283	49,390	15,486	64,876	114,159	98,102
Insurance	49,076	8,876	5,002	13,878	62,954	64,542
Telephone	55,003	9,721	5,491	15,212	70,215	62,925
Supplies	33,169	16,993	1,995	18,988	52,157	55,316
Marketing and advertising	-	36,884	12,756	49,640	49,640	51,485
Professional fees	-	62,111	30,737	92,848	92,848	36,411
Technology	3,240	39,851	14,814	54,665	57,905	29,358
Training	17,121	16,431	1,968	18,399	35,520	27,376
Bank charges	-	23,320	1,033	24,353	24,353	24,112
Maintenance and repairs	4,369	14,457	-	14,457	18,826	23,777
Consulting fees	-	-	-	-	-	21,000
Donated services	-	25,791	-	25,791	25,791	20,973
Postage	29	5,441	5,684	11,125	11,154	12,738
Interest	-	5,827	-	5,827	5,827	11,443
Dues and publications	-	2,896	519	3,415	3,415	5,430
Awards and recognitions	1,416	3,927	140	4,067	5,483	4,872
Taxes and licenses	2,160	514	-	514	2,674	2,741
Equipment	176	906	-	906	1,082	1,833
Disposal of assets	1,087	204	109	313	1,400	-
Total expenses before depreciation and amortization	3,966,265	1,105,707	475,208	1,580,915	5,547,180	5,200,749
Depreciation and amortization	41,042	7,485	4,218	11,703	52,745	65,549
Total functional expenses	$ 4,007,307	$ 1,113,192	$ 479,426	$ 1,592,618	$ 5,599,925	$ 5,266,298

ABILITIES UNITED

Statement of Functional Expenses (Details of Program Services)

Year ended June 30, 2017

	Children's Development Services	Family Support Services	Adult Services	Enrichment Services	Aquatics	Total Program Services
Salaries and related expenses:						
Salaries	$ 675,071	$ 336,781	$ 1,702,018	$ 40,865	$ 136,916	$ 2,891,651
Employee benefits	100,908	60,006	292,958	8,751	14,573	477,196
Payroll taxes	50,410	26,028	127,462	3,383	10,185	217,468
Total salaries and related expenses	826,389	422,815	2,122,438	52,999	161,674	3,586,315
Contracted services	30,144	3,868	14,854	1,562	253	50,681
Travel/ lodging/ meals	10,951	13,876	86,987	95	1,231	113,140
Occupancy	15,460	4,796	11,857	2,224	14,946	49,283
Insurance	11,215	5,738	29,210	719	2,194	49,076
Telephone	12,406	6,561	32,740	818	2,478	55,003
Supplies	8,538	931	23,480	35	185	33,169
Technology	-	-	-	-	3,240	3,240
Training	3,505	1,893	10,024	131	1,568	17,121
Maintenance and repairs	-	-	4,369	-	-	4,369
Postage	-	29	-	-	-	29
Awards and recognitions	108	30	1,278	-	-	1,416
Taxes and licenses	726	242	1,192	-	-	2,160
Equipment	-	-	-	-	176	176
Disposal of assets	250	128	643	16	50	1,087
Total expenses before depreciation and amortization	919,692	460,907	2,339,072	58,599	187,995	3,966,265
Depreciation and amortization	9,457	4,839	24,289	607	1,850	41,042
Total functional expenses	$ 929,149	$ 465,746	$ 2,363,361	$ 59,206	$ 189,845	$ 4,007,307

ABILITIES UNITED

Statement of Cash Flows

Year Ended June 30, 2017

(With summarized comparative totals for the year ended June 30, 2016)

	For the Year Ended June 30, 2017	2016
Cash flows from operating activities:		
Change in net assets	$ 931,290	$ 868,949
Adjustments to reconcile change in net assets to net cash		
Provided by (used in) operating activities:		
Depreciation and amortization	52,744	65,549
Net realized and unrealized (gains) losses on investments	(115,095)	32,907
Disposal of long-lived assets	1,400	-
Change in allowance for doubtful bequests receivable	-	24,000
Changes in operating assets and liabilities:		
Accounts receivable, net	17,295	(43,142)
Grants and bequests receivable	640,818	(525,619)
Pledges receivable	19,425	(105,435)
Prepaid expenses	(39,536)	37,219
Accounts payable	(3,345)	(35,085)
Accrued expenses	4,646	27,637
Deferred revenue	21,198	(9,681)
Net cash provided by operating activities	1,530,840	337,299
Cash flows from investing activities:		
Acquisition of property and equipment	(1,671)	(3,906)
Acquisition of investments	(17,141)	(469,782)
Proceeds from sale of investments	49,877	50,782
Net cash provided by (used in) investing activities	31,065	(422,906)
Cash flows from financing activities:		
Borrowings on line of credit	58,437	102,590
Repayments on line of credit	(161,027)	(300,000)
Net cash used in financing activities	(102,590)	(197,410)
Net change in cash and cash equivalents	1,459,315	(283,017)
Cash and cash equivalents at beginning of year	66,449	349,466
Cash and cash equivalents at end of year	$ 1,525,764	$ 66,449

Supplemental disclosure of cash flow information:

	2017	2016
Cash paid during the year for interest	$ 5,827	$ 11,443

Note 1 - Organization and operations:

Vision - Abilities United sees a world where people of all abilities learn, live, work and play together.

Mission - Abilities United advances advocacy, inclusion, and independence for children and adults with developmental disabilities.
Founded in 1963 by 12 families whose children had intellectual disabilities, Abilities United (formerly C.A.R., Community Association for Rehabilitation), now serves a diverse group of individuals in the San Francisco Bay Area, who have developmental and physical disabilities or are at risk of developmental delay. Since its inception, Abilities United has offered people of all ages and abilities educational, therapeutic, recreational and vocational experiences to help them lead meaningful lives and with resource connections that make it easier for them to lead the lives they choose.

Abilities United has been accredited by CARF, an International rehabilitation services accreditation commission, since 1980.

Program Services:

Children's Development Services ensures that children from birth to nine years of age, and their families, learn the techniques and skills needed to achieve the best possible start in life. These services are provided through Early Intervention and Milestones Preschool. This department served 185 unduplicated infants and children and their families this last year.

Early Intervention - Early Intervention services offers in home and community based services for children and their families from birth to 3 years old that have development delays or are at risk of delay. The Agency's multi-disciplinary team of early interventionists, inclusion specialists, and therapists provides structured developmental and educational opportunities. Family participation and support are integral parts of this service. The Agency serves families throughout the Bay Area. Non English speaking families work directly with the Agency's multi-cultural staff.

Abilities United believes in a family oriented, collaborative approach, emphasizing parent/caregiver involvement and partnership with other professionals who work with the children. The Agency's therapists and staff are trained pediatric specialists with extensive experience and knowledge regarding resources and interventions for young children. In collaboration with other early childhood professionals, the program provides high quality 1:1 therapeutic (occupational, physical, and speech) services as well as small group services such as social skill development groups, which improve the quality of life for the children and their family.

Note 1 - Organization and operations (continued):

Milestones Preschool - Milestones Preschool is a relationship-based developmental program providing preschool in an inclusionary environment, supporting children ages 2-5 years and their families. As an inclusion program, Milestones Preschool serves small groups of children both with and without developmental delays or risk factors. The program focuses on individual growth and progress for each child in all developmental domains, using project-based curriculum, access to specialized services, and collaboration with the Early Intervention services.

Adult Services assists individuals with developmental or other disabilities to fully participate in their community through employment, educational, recreational, social, and volunteer activities. Using community resources and experiences, Adult Services Specialists and Community Training Instructors assist individuals to acquire or expand their skills through the Adult Day Activities, Tailored Day Services, Community Connections, Independent Living Skills, Integrated Living and Employment Services programs. 319 adults received services.

Adult Day Activities - At Adult Day Activities, adults choose from a variety of activities to experience new opportunities and learn daily living and community skills. Participants learn household tasks such as shopping, cooking, laundry, cleaning, and gardening; community life skills like transportation usage and restaurant dining; and how to access community resources such as libraries, museums, theatres, parks, and other public areas. The participants we serve make their own goals, choices, and decisions about the support and assistance they need from their family, friends, and Adult Day Activities staff.

Tailored Day Services - In lieu of the Day Program - If participants prefer to work with a one-to-one life skills coach and customize their training to fit their unique needs, the Tailored Day service is the right choice for them. They determine how they spend their time and can chose from volunteer work, computer education, social activities, post-secondary education, daily living skills, or their own special interests.

Community Connections - As a member of the community, the participants we serve have access to many free public resources and activities. They choose from a variety of social and volunteer activities that provide opportunities to give back to their community in meaningful ways. Participants also have opportunities to make new friends and learn exciting new skills. At Community Connections, they can volunteer at dozens of local nonprofit agencies, learn skills through the Agency's educational series, and develop communication, integration, and independence skills when they help produce the Community Connections cable TV show.

Note 1 - Organization and operations (continued):

Independent Living Skills - The participants we serve in Independent Living Skills may already have many life skills, but Abilities United can assist in acquiring additional ones through this program. In Independent Living Skills (ILS), adults work 1:1 with their Adult Services Specialists to learn the additional daily living skills they need to be as independent as possible. A customized plan is created with the person-served participant, and encompasses personal/social goals, domestic goals, financial, goals and community goals.

Integrated Living Services - Abilities United's Integrated Living Program is a comprehensive, individualized two-year long program designed for adults over age 18, with developmental disabilities, to learn the daily life skills needed to be self-sufficient and live independently in the community.

Employment Services - For those adults looking for paid employment, Employment Services has a variety of services to support them. This program helps participants attain work skills to complement those they already have. Through their work with the Employment Services Specialists and Job Developers, participants may access employment preparation services, assistance with interviewing, job development and placement services. Participants also have access to coaching services, and personal, vocational and social adjustment services for employment success.

Family Support Services helps families remain together and grow together, as a strong and healthy unit. Support is provided through After School Socialization Training and Respite programs. During the year, 109 children and adults received services.

After School Socialization Training - After School Socialization Training is a community integration service for children and young adults; ages 5 to 22 years old, which have an intellectual / developmental or other disability. Each day offers children and young adults the opportunity to learn the daily living skills that help them to do well in school and social settings, to become more independent, to enjoy recreational opportunities with their peers, and to transition into community afterschool programs that serve children from all walks of life. Additionally, this program offers two summer camps: —Creative Discoveries Camp and Summer's Excellent Adventure Camp, an inclusionary summer camp in partnership with the City of Palo Alto.

Respite - Respite / Home Companion Services provides highly trained home companions for families caring for a family member with an intellectual/ developmental or other disability. The agency's Respite Specialists work in private homes and in varied community settings throughout Santa Clara and San Mateo counties, providing care, companionship and fun activities for the person-served participants of all ages, and giving respite to parents and other primary care givers so that they can go to work, school, vacation, run errands, or care for other family members.

Note 1 - Organization and operations (continued):

Enrichment Services provides additional offerings to both children and adults to further enhance the programs provided by Children's Development Services and Adult Services above.

Computer Education - The agency's Computer Education Program offers accessible computer and technology classes to help children and adults of all ages and all abilities develop their everyday living skills and increase their level of independence through training in computer access, academic, and daily living skills. Classes may be 1:1 or in small group, and can be customized based on an individual's goals. Each computer station at the campus classroom is wheelchair accessible and equipped with adaptive technology tools to accommodate limited range of motion, visual and hearing impairment, or other special needs. A variety of educational software packages designed by education specialists are utilized to teach the various skill sets. Computer Education classes can also be accessed in the community at community partner locations.

Art Program - Our Art Program opens doors for people with disabilities. Art is a universal language; it is a connector between people with and without disabilities. For a child or adult with a developmental disability who cannot communicate effectively through words, a rich brightly colored painting may say more than verbal sentences ever could. Their creativity and talent enriches their lives and the lives of members in the community; it connects us all. Over the years, our public art displays have increased mutual respect and understanding, and created dialogue between people from all walks of life and all abilities. Abilities United's goal is to give all Abilities United participants and community members (children and adults), who want to make art, the tools needed so they can create art alongside their friends and colleagues.

Aquatic Services, through partnerships with local community aquatic sites, includes a continuum of care services for rehabilitation and fitness goals, and a swim school offering learn-to-all levels of swim lessons, and adapted aquatics. These services, provided by experienced and skilled practitioners and recreational instructors, serve a diverse cross-section of the community and people of all ages and abilities. This department served 414 unduplicated individuals in fiscal year 2017.

Services include personalized assessments, 1:1 hydrotherapy / personal training, small group fitness classes, adapted aquatics, summertime water safety classes, and both 1:1 and semi-private swim lessons for children and adults. The agency provides a continuum of care services and individualized swim school classes via satellite services at our community partner's' pools, located in San Jose at the Timpany Center, Hoover Pool in Redwood City, and in Palo Alto at Channing House. Services are available to children, adults and seniors with and without disabilities.

For further information about the Organization's services go to www.abilitiesunited.org or call (650) 494 0550.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. The Organization reports information regarding its financial position and operating activities in three classes of net assets:

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current year for which the restrictions have been met in the current year.
- *Temporarily restricted net assets* - include those assets which are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting year.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments.

Functional expense allocations - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, specifically identified expenses are charged to the applicable program. The remaining costs are allocated among the programs and services benefited based on management estimates.

Comparative financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates under different assumptions or conditions.

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition - The Organization's programs are supported by government grants and contracts, earned revenue, and by contributions from individuals, corporations and organizations. The Organization recognizes support and revenue on the accrual basis of accounting. Grants and contracts which are exchange transactions (service contracts) are recognized as program service fees in the period in which the service is provided. These contracts are reported as an increase in unrestricted revenue if expenditures are incurred in the current period that effectively fulfilled the conditions of the contract.

Earned revenue is recognized when the organization provides a service or class through one of its programs. A majority of the program revenue is generated and collected at the point of service but some have a billing schedule that the organization provides because of the length of the service provided.

Contributions are recognized when the donor makes a pledge that is, in substance, an unconditional promise to give. Unconditional promises to give are recorded as unrestricted, temporarily restricted or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current period. See pledges received and receivable policy for description of conditional contributions.

In-kind contributions - Significant donated equipment, facility and other goods are recorded at their estimated fair market value as of the date of receipt. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. The Organization may also receive donated services that do not require specific expertise but which are nonetheless central to the Organization's operations; these amounts are not recorded.

Cash and cash equivalents - Cash and cash equivalents include demand deposits in banks, money market funds and liquid asset accounts held in brokerage accounts with a maturity of three months or less. The carrying amount in the Statements of Financial Position approximates fair value.

Accounts receivable and allowance for doubtful accounts - Accounts receivable consists primarily of amounts billed for services provided. The Organization provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The valuation allowance was $10,000 at June 30, 2017 and 2016.

Note 2 - Summary of significant accounting policies (continued):

Grants receivable - The Organization receives grants which may be granted and paid within the same year granted or payable to the Organization over multiple years. The Organization discounts the multi-year grants receivable at a reasonable rate of interest based on the Federal Prime Rate, when material to the financial statements.

Bequests receivable - The Organization records a bequest receivable when it receives written notification that it has been named as a beneficiary of an irrevocable trust or estate for which the amount to be received has been made known or an estimate has been provided by the executor of the estate. If appropriate, the amount is adjusted for fair value measurements, if measureable. An allowance for doubtful bequests receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. The valuation allowance was $24,000 at June 30, 2017 and 2016.

Pledges received and receivable - Pledges received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any.

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of the year are recorded at fair value which includes among other factors, a discount at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. As of June 30, 2017 there was $75,000 of conditional pledges and none as of June 30, 2016

Investments - The Organization's investments are valued in accordance with GAAP, including Fair Value Measurements. Investments consist primarily of investments in the Silicon Valley Community Foundation investment pool and a Wells Fargo Savings Account. Gains and losses that result from market fluctuations are recognized in the year such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined by comparison of specific costs of acquisition to proceeds at the time of disposal. Dividend and interest income are recognized when earned.

Note 2 - Summary of significant accounting policies (continued):

Fair value of financial instruments - Financial instruments included in the Organization's statements of financial position as of June 30, 2017 and 2016 include cash and cash equivalents, receivables, investments, accounts payable and accrued expenses. The balances of these instruments represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying statements of financial position at their estimated fair values using methodologies described above.

Prepaid expenses - Prepaid expenses primarily consists of payments made associated with the Organization's workers compensation, liability insurance and certain event prepaid expenses. Such prepayments are amortized over the term of the related insurance coverage or at the time the event occurs.

Property, equipment, depreciation and amortization - Property and equipment are recorded at cost, or if contributed, at the estimated fair market value when donated. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. There were no restrictions placed on property, plant and equipment at June 30, 2017 and 2016.

Depreciation and amortization is computed using the straight-line method over estimated useful lives of the related assets which range from five to thirty nine years. The Organization capitalizes all expenditures for fixed assets in excess of $500. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Long-lived assets - The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. No such impairments have been identified as of June 30, 2017 and 2016.

Accrued vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2017 and 2016. The accrued vacation balance as of June 30, 2017 and 2016 was approximately $158,000 and $157,000, respectively.

Concentration of credit risk - Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash, cash equivalents and receivables. The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions. At times, such amounts might exceed Federal Deposit Insurance Corporation ("FDIC") limits. It is the Organization's opinion that it is not exposed to any significant credit risks.

Note 2 - Summary of significant accounting policies (continued):

Concentration of revenue sources - For the years ending June 30, 2017 and 2016, approximately 78% and 80%, respectively, of the Organization's revenue is derived from contracts from two governmental entities. These same two governmental entities also accounted for 76% and 71% of accounts receivable balance for June 30, 2017 and 2016, respectively.

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2017 management did not identify any uncertain tax positions.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is June 30, 2014 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2013 and forward.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2017 and 2016 totaled approximately $20,000 and $19,000, respectively.

Endowment accounting and interpretation of relevant law - The Organization is subject to the State Prudent Management of Institutional Funds Act ("SPMIFA"), the provisions of which apply to its endowment funds. As required by SPMIFA and GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Recently adopted accounting guidance - In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-15 "Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", which requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The new guidance is effective for non-public entities for the annual period ending after December 15, 2016. The Organization has adopted this ASU effective July 1, 2016.

Note 2 - Summary of significant accounting policies (continued):

Recent accounting pronouncements - In August 2016, the FASB issued ASU No. 2016-14 “Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities.” The ASU is intended to improve identified issues about the current financial reporting for not-for-profits. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted. Management has not determined the impact of this pronouncement.

In February 2016, the FASB issued ASU No. 2016-02 “Leases.” The ASU is intended to increase transparency and comparability between organizations recognizing lease assets and liabilities by recognizing lease assets and lease liabilities on the balance sheet and increasing the related disclosures. For non-public entities, the effective date will be effective for annual reporting periods beginning after December 15, 2019. Early application is permitted. Management has not determined the impact of this pronouncement.

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)”, which provides guidance over the core principle of recognizing 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. The purpose of the new standard is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP.

In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which will defer the effective date of ASU No. 2014-09 "Revenue from Contracts with Customers" for all entities by one year.

In March 2016, the FASB issued ASU No. 2016-08 “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations. The ASU improves operability and understandability of Topic 606 in principal versus agent considerations.

In April 2016, the FASB issued ASU No. 2016-10 “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. The ASU expands on Topic 606 with clarification over identifying performance obligations and licensing.

In May 2016, the FASB issued ASU No. 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.” The ASU improves Topic 606 by reducing the potential for diversity in practice at initial application and the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. For non-public entities, the effective date will be effective for annual reporting periods beginning after December 15, 2018. Management has not determined the impact on the financial statements.

Note 2 - Summary of significant accounting policies (continued):

Reclassification - Certain fiscal year 2016 balances have been reclassified to conform to the 2017 financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

Subsequent events - Subsequent events are evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and determined that no material subsequent events, except as disclosed at Note 16, require an estimate to be recorded or disclosed as of June 30, 2017.

Note 3 - Investments:

The Organization has entered into an agreement with Silicon Valley Community Foundation ("SVCF") to manage, hold in trust, and invest certain assets according to the Organization's investment policy guideline. The Organization maintains a beneficial interest in investments of SVCF, which is valued by applying the percentage of ownership of the overall investment portfolio. The interest is fully held in the SVCF's Long-Term Growth Pool (the "Pool"). The performance objective of the Pool is to earn a rate of return that is at least equivalent to the rate of inflation plus the spending rate. Thus, the long-term objective of the Pool is to earn a return of at least the Consumer Price Index plus 5%. Given that this benchmark is not directly related to market performance, success or failure in achieving this objective should be evaluated over ten to twenty years.

The Pool is constructed in such a way as to achieve its return objective while minimizing volatility to the degree possible. Silicon Valley Community Foundation believes that this is best accomplished through the use of a well-diversified asset allocation strategy. The Silicon Valley Community Foundation Long-Term Growth Pool has a broad target allocation of 25% fixed income, 50% equity and 25% alternative investments.

These investments are carried at estimated fair values as determined by SVCF's investment managers after giving consideration to operating results, financial condition, recent sales prices of issuers' securities, and other pertinent information. As SVCF's portfolio is comprised of various investments with varying levels of observable inputs, valuation of the entire portfolio cannot be valued using observable market data.

At June 30, 2017, the Organization has no unfunded commitments and all investments in the beneficial interest held by others can be redeemed at any time by written request with certain restrictions for large withdrawals and full redemption. Under the terms of the agreement, the principal and accumulated income and interest of the fund is at all times owned by the Organization. In addition, the Organization's Board of Directors may direct the expenditure of any or all of the principal or income from the fund.

ABILITIES UNITED

Notes to Financial Statements

Year Ended June 30, 2017

Note 3 - Investments (continued):

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

The following are major categories measured at fair value on a reoccurring basis:

- Level 1: Quoted prices in active markets for identical assets
- Level 3: Significant unobservable inputs

	Year Ended June 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash/savings account	$ 464,455	$ -	$ -	$ 464,455
Community Foundation pool	-	-	879,757	879,757
	$ 464,455	$ -	$ 879,757	$ 1,344,212

	Year Ended June 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash/savings account	$ 464,218	$ -	$ -	$ 464,218
Community Foundation pool	-	-	797,635	797,635
	$ 464,218	$ -	$ 797,635	$ 1,261,853

Note 3 - Investments (continued):

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a reoccurring basis using significant unobservable inputs (Level 3):

	2017	2016
Beginning balance	$ 797,635	$ 875,760
Realized gains and losses, net	26,006	11,701
Unrealized gains and losses, net	89,089	(44,608)
Interest and dividends	4,806	5,565
Fees	(7,106)	(8,886)
Contributions	11,474	-
Disbursements	(42,147)	(41,897)
Ending balance	$ 879,757	$ 797,635

The following schedule summarizes total investment returns as of June 30:

	2017	2016
Realized gains and losses, net	$ 26,006	$ 11,701
Unrealized gains and losses, net	89,089	(44,608)
Interest and dividends	5,093	6,331
Total investment income (loss)	120,188	(26,576)
Investment related expenses	(7,106)	(8,886)
Total investment returns (loss)	$ 113,082	$ (35,462)

ABILITIES UNITED
Notes to Financial Statements
Year Ended June 30, 2017

Note 4 - Pledges receivable:

Pledges receivable - Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as pledges receivable and revenue in the appropriate net asset category. Pledges receivable are recorded at fair value which includes a discount rate of 4.25% at June 30, 2017.

Pledge receivables consist of the following at June 30:

	2017	2016
Receivables in less than one year	$ 206,525	$ 135,436
Receivables in one to five years	120,500	217,000
	327,025	352,436
Less: discount to net present value	(6,868)	(12,854)
	320,157	339,582
Less: current portion	(206,525)	(135,436)
Non-current portion	$ 113,632	$ 204,146

Note 5 - Grants and bequests receivable:

Grants receivable - The Organization did not have any grants receivable at June 30, 2017 and 2016.

Bequests receivable - The Organization had total bequests receivable of approximately $14,000 and $654,000 at June 30, 2017 and June 30, 2016, respectively.

Note 6 - Property and equipment:

Property and equipment consists of the following at June 30:

	2017	2016
Leasehold improvements:		
Buildings	$ 773,836	$ 773,836
Building improvements	540,589	540,589
Furniture and equipment	273,149	274,818
Transportation equipment	196,647	196,647
	1,784,221	1,785,890
Less: accumulated depreciation and amortization	(1,477,750)	(1,426,946)
Property and equipment, net	$ 306,471	$ 358,944

For the years ended June 30, 2017 and 2016, depreciation expense was approximately $53,000 and $66,000, respectively. Leasehold improvements are buildings and building improvements that were constructed from County-owned land (see Note 11).

Note 7 - Line of credit:

The Organization has a $350,000 line of credit agreement with Wells Fargo expiring in November 2017. The line is secured by various assets and bears interest at the greater of a floating rate equal to the prime rate plus 0.75% or the floor rate of 4.25% (5% at June 30, 2017).

ABILITIES UNITED

Notes to Financial Statements

Year Ended June 30, 2017

Note 8 - Temporarily restricted net assets and net assets released from restrictions:

The temporarily restricted net asset activity for the year ended June 30, 2017 was as follows:

	2016	Additions	Releases	2017
Time Restrictions:				
Pledges receivable	$ 139,582	$ -	$ (69,425)	$ 70,157
Endowment accumulated earnings - unappropriated	-	113,082	(45,232)	67,850
Purpose Restrictions:				
Child Development Services	-	15,000	-	15,000
Family Support Services	-	25,000	-	25,000
Enrichment Services	5,425	40,285	(28,674)	17,036
Adult Services	23,111	25,960	(6,430)	42,641
Aquatics	15,250	-	(15,250)	-
Technology	328,015	-	(56,717)	271,298
Redevelopment	-	1,264,000	(5,115)	1,258,885
Total temporarily restricted net assets	$ 511,383	$ 1,483,327	$ (226,843)	$ 1,767,867

The temporarily restricted net asset activity for the year ended June 30, 2016 was as follows:

	2015	Additions	Releases	2016
Time Restrictions:				
Pledges receivable	$ 234,147	$ 139,582	$ (234,147)	$ 139,582
Endowment accumulated earnings - unappropriated	62,849	(35,462)	(27,387)	-
Purpose Restrictions:				
Enrichment Services	5,989	-	(564)	5,425
Adult Services	15,578	91,400	(83,867)	23,111
Aquatics	19,267	-	(4,017)	15,250
Technology	94,673	250,000	(16,658)	328,015
Total temporarily restricted net assets	$ 432,503	$ 445,520	$ (366,640)	$ 511,383

Note 9 - Permanently restricted net assets:

At June 30, 2017 and 2016, permanently restricted net assets consist of the Organization's endowment funds (see Note 12).

Note 10 - Donated services:

During the years ended June 30, 2017 and 2016, individuals volunteered their time to the Organization's various programs in professional services such as marketing and financial services. The volunteers performing these services required specialized training. Since the volunteers required specialized skills to perform these services, they are considered contributed professional services, and the volunteer services are recorded as support in the financial statements. Management has estimated the value of these services for the years ended June 30, 2017 and 2016 to be approximately $25,800 and $21,000, respectively.
During the years ended June 30, 2017 and 2016, volunteers also donated approximately 12,200 and 9,900 hours of non-professional services, respectively, such as childcare and general administrative services. Management has estimated the values of these services for the years ended June 30, 2017 and 2016 to be approximately $323,000 and $260,000 in each year, respectively. Since these services did not require specialized skills, they have not been recorded as support and expense in the financial statements.

Note 11 - Operating lease commitment:

Facility lease - The County of Santa Clara leases two parcels of land to the Organization on which the Organization's facilities are located. Both leases were renewed in September 2015. One lease expires in April 2050 with an option to renew for 14-years and the other expires in October 2022 with an option to renew for 2-years. The leases require the Organization to perform certain functions in consideration of reduced lease payments of $1 per year for each facility. These leases are considered exchange transactions. Rental expense for years ended June 30, 2017 and 2016 totaled $2 for each year.

Equipment lease - The Organization leases three pieces of office equipment which expire in 2019. The minimum lease obligations are as follows:

Year ending June 30,		
2018		7,860
2019		3,930
Total	$	11,790

Note 12 - Endowment:

The Organization, with authorization from its Board of Directors, has entered into an agreement with Silicon Valley Community Foundation (“SVCF") to manage, hold in trust, and invest certain assets according to the Organization's investment policy guidelines. The Organization also has certain endowment assets in a Wells Fargo investment account (see Note 3). The Organization’s endowment consists of funds established for earnings thereon to support general operations. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the SPMIFA.

In accordance with the SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

Investment Return Objectives, Risk Parameters and Strategies - Certain endowment assets are held in the Silicon Valley Community Foundation Long-Term Growth Pool (the "Pool"). (See Note 3).

Spending policy - The Organization’s current spending policy for endowment funds is 5% of the fair market value at prior calendar year end.

Note 12 - Endowment (continued):

Changes in endowment relating to permanently restricted net assets for the fiscal year ended June 30, 2017 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 1,276,362	$ 1,276,362
Investment income	-	120,188	-	120,188
Fees	-	(7,106)	-	(7,106)
Amounts appropriated for expenditure	-	(45,232)	-	(45,232)
Endowment net assets, end of year	$ -	$ 67,850	$ 1,276,362	$ 1,344,212

Changes in endowment relating to permanently restricted net assets for the fiscal year ended June 30, 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 62,849	$ 812,911	$ 875,760
Contributions	-	-	463,451	463,451
Investment income	-	(27,293)	-	(27,293)
Fees	-	(8,169)	-	(8,169)
Amounts appropriated for expenditure	-	(27,387)	-	(27,387)
Endowment net assets, end of year	$ -	$ -	$ 1,276,362	$ 1,276,362

Note 13 - Defined contribution plan:

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue code. The plan covers all employees who are at least 21 years old. Eligibility commences on the date of hire. The Organization has not made any matching contributions to the Plan for the years ended June 30, 2017 and 2016.

ABILITIES UNITED

Notes to Financial Statements

Year Ended June 30, 2017

Note 14 - Special events:

Special event revenues, contribution and expenses by event for the year ended June 30, 2017 are as follows:

	Author's Luncheon	Aquathon	Total
Special event contributions	$ 357,231	81,371	$ 438,602
Special event registration fees	86,875	-	86,875
Less special event expenses	(56,021)	(3,127)	(59,148)
	$ 388,085	78,244	$ 466,329

Special event revenues, contribution and expenses by event for the year ended June 30, 2016 are as follows:

	Author's Luncheon	Aquathon	Total
Special event contributions	$ 269,179	84,008	$ 353,187
Special event registration fees	96,973	-	96,973
Less special event expenses	(53,128)	(4,994)	(58,122)
	$ 313,024	79,014	$ 392,038

Note 15 - Related party transactions:

Contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately $141,000 and $100,000 for the years ended June 30, 2017 and 2016. There were no related receivables at June 30, 2017 and $2,000 at June 30, 2016.

Note 16 - Subsequent event:

In July 2017, the Organization created the Abilities United Redevelopment Foundation (the "Foundation") for purposes of separating redevelopment funds from the remainder of the entity. The Foundation will focus on the fundraising, planning, and construction of the Organization's new campus.