abilities united

Consolidated Financial Statements
June 30, 2018
(With summarized comparative totals for June 30, 2017)

Together with
Independent Auditors' Report

ABILITIES UNITED
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June 30, 2018

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Abilities United (a California public benefit corporation), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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)

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Abilities United as of June 30, 2018, 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 Agency's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robert Lee + Associates, LLP

San Jose, California
September 27, 2018

ABILITIES UNITED

Consolidated Statements of Financial Position

Year Ended June 30, 2018

(With summarized comparative totals for the year ended June 30, 2017)

	June 30, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,220,436	$ 1,525,764
Accounts receivable, net	376,426	347,834
Grants and bequests receivable, net	100,000	13,501
Current portion of pledges receivable	231,833	206,525
Prepaid expenses	36,746	51,893
Total current assets	1,965,441	2,145,517
Property and equipment, net	276,694	306,471
Other assets:		
Endowment investment	1,353,233	1,344,212
Long-term portion of pledges receivable, net	235,110	113,632
Total assets	$ 3,830,478	$ 3,909,832
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	$ 150,000	$ -
Accounts payable	28,380	25,048
Accrued expenses	211,854	229,522
Deferred revenue	62,845	39,408
Total liabilities, all current	453,079	293,978
Commitments		
Net assets:		
Unrestricted net assets	277,792	571,625
Temporarily restricted net assets	1,823,245	1,767,867
Permanently restricted net assets	1,276,362	1,276,362
Total net assets	3,377,399	3,615,854
Total liabilities and net assets	$ 3,830,478	$ 3,909,832

The accompanying notes are an integral part of these consolidated financial statements

ABILITIES UNITED

Consolidated Statements of Activities and Changes in Net Assets

Year Ended June 30, 2018

(With summarized comparative totals for the year ended June 30, 2017)

Support and revenues:	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
Support:					
Contributions	$ 820,371	$ 410,123	$ -	$ 1,230,494	$ 1,983,157
Special events, net	398,222	-	-	398,222	466,329
Donated services	52,026	-	-	52,026	25,791
Total support	1,270,619	410,123	-	1,680,742	2,475,277
Revenue:					
Fees from governmental agencies for program services	2,894,013	-	-	2,894,013	3,264,581
Program service fees	728,233	-	-	728,233	667,733
Contract income	6,170	-	-	6,170	5,186
Miscellaneous income	482	-	-	482	5,356
Endowment investment income, net	-	79,103	-	79,103	113,082
Total revenue	3,628,898	79,103	-	3,708,001	4,055,938
Total support and revenues	4,899,517	489,226	-	5,388,743	6,531,215
Net assets released from restrictions	363,766	(363,766)	-	-	-
Amounts appropriated for expenditure	70,082	(70,082)	-	-	-
Total support, revenue, net assets released from restrictions and amounts appropriated for expenditure	5,333,365	55,378	-	5,388,743	6,531,215
Expenses:					
Program services	3,854,317	-	-	3,854,317	4,007,307
Supporting services:					
Management and general	1,139,924	-	-	1,139,924	1,113,192
Fundraising	632,957	-	-	632,957	479,426
Total support services	1,772,881	-	-	1,772,881	1,592,618
Total expenses	5,627,198	-	-	5,627,198	5,599,925
Change in net assets	(293,833)	55,378	-	(238,455)	931,290
Net assets, beginning of year	571,625	1,767,867	1,276,362	3,615,854	2,684,564
Net assets, end of year	$ 277,792	$ 1,823,245	$ 1,276,362	$ 3,377,399	$ 3,615,854

The accompanying notes are an integral part of these consolidated financial statements

ABILITIES UNITED

Consolidated Statements of Functional Expenses

Year ended June 30, 2018

(With summarized comparative totals for the year ended June 30, 2017)

	2018					2017
		Supporting Services				
	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Comparative Totals
Salaries and related expenses:						
Salaries	$ 2,712,523	$ 526,919	$ 433,911	$ 960,830	$ 3,673,353	$ 3,696,028
Employee benefits	509,438	64,255	50,752	115,007	624,445	611,852
Payroll taxes	203,849	37,787	33,171	70,958	274,807	274,148
Total salaries and related expenses	3,425,810	628,961	517,834	1,146,795	4,572,605	4,582,028
Contracted services	64,006	170,939	20,290	191,229	255,235	188,348
Travel/ lodging/ meals	107,035	8,721	2,550	11,271	118,306	114,446
Occupancy	43,614	30,399	22,334	52,733	96,347	114,159
Insurance	44,244	8,123	6,688	14,811	59,055	62,954
Telephone	56,861	9,085	7,480	16,565	73,426	70,215
Supplies	44,260	9,253	2,483	11,736	55,996	52,157
Marketing/Printing	-	28,075	13,670	41,745	41,745	49,640
Professional Fees	-	90,691	-	90,691	90,691	119,803
Technology	2,374	40,880	14,738	55,618	57,992	57,905
Training	15,688	2,692	2,216	4,908	20,596	35,520
Bank Charges	-	14,678	10,130	24,808	24,808	24,353
Maintenance and repairs	9,554	6,978	-	6,978	16,532	18,826
Consulting fees	-	12,919	3,800	16,719	16,719	-
Donated services	-	52,026	-	52,026	52,026	25,791
Postage	-	4,362	3,042	7,404	7,404	11,154
Interest	-	194	-	194	194	5,827
Dues and publications	-	6,511	157	6,668	6,668	3,415
Awards and recognitions	1,659	2,459	171	2,630	4,289	5,483
Taxes and licenses	2,984	5,202	-	5,202	8,186	2,674
Equipment	2,513	586	278	864	3,377	1,082
Disposal of assets	-	-	-	-	-	1,400
Total expenses before depreciation and amortization	3,820,602	1,133,734	627,861	1,761,595	5,582,197	5,547,180
Depreciation and amortization	33,715	6,190	5,096	11,286	45,001	52,745
Total functional expenses	$ 3,854,317	$ 1,139,924	$ 632,957	$ 1,772,881	$ 5,627,198	$ 5,599,925

The accompanying notes are an integral part of these consolidated financial statements

ABILITIES UNITED

Consolidated Statements of Functional Expenses (Details of Program Services)

Year ended June 30, 2018

	Children's Development Services	Family Support Services	Adult Services	Enrichment Services	Aquatics	Total Program Services
Salaries and related expenses:						
Salaries	$ 588,281	$ 294,894	$ 1,613,319	$ 85,521	$ 130,508	$ 2,712,523
Employee benefits	108,254	60,692	306,008	13,467	21,017	509,438
Payroll taxes	43,676	22,627	122,915	5,089	9,542	203,849
Total salaries and related expenses	740,211	378,213	2,042,242	104,077	161,067	3,425,810
Contracted services	19,278	7,450	28,314	6,851	2,113	64,006
Travel/ lodging/ meals	7,426	15,618	82,366	510	1,115	107,035
Occupancy	15,563	4,106	2,678	9,055	12,212	43,614
Maintenance and repairs	2,250	-	7,304	-	-	9,554
Supplies	11,356	589	29,223	2,980	112	44,260
Telephone	11,362	6,548	34,612	1,663	2,676	56,861
Training	3,168	1,718	9,373	445	984	15,688
Equipment	1,813	-	700	-	-	2,513
Insurance	9,560	4,885	26,375	1,344	2,080	44,244
Technology	-	-	-	499	1,875	2,374
Awards and recognitions	41	-	1,618	-	-	1,659
Taxes and licenses	484	242	2,258	-	-	2,984
Total expenses before depreciation and amortization	822,512	419,369	2,267,063	127,424	184,234	3,820,602
Depreciation and amortization	7,285	3,722	20,099	1,024	1,585	33,715
Total functional expenses	$ 829,797	$ 423,091	$ 2,287,162	$ 128,448	$ 185,819	$ 3,854,317

ABILITIES UNITED

Consolidated Statements of Cash Flows

Year Ended June 30, 2018

(With summarized comparative totals for the year ended June 30, 2017)

	For the Year Ended June 30, 2018	2017
Cash flows from operating activities:		
Change in net assets	$ (238,455)	$ 931,290
Adjustments to reconcile change in net assets to net cash		
Provided by (used in) operating activities:		
Depreciation and amortization	45,001	52,745
Net realized and unrealized gains on investments	(84,419)	(115,095)
Loss on disposal of long-lived assets	-	1,400
Changes in operating assets and liabilities:		
Accounts receivable	(28,592)	17,294
Grants and bequests receivable	(86,499)	640,818
Pledges receivable	(146,786)	19,425
Prepaid expenses	15,147	(39,536)
Accounts payable	3,332	(3,345)
Accrued expenses	(17,668)	4,646
Deferred revenue	23,437	21,198
Net cash provided by (used in) operating activities	(515,502)	1,530,840
Cash flows from investing activities:		
Acquisition of property and equipment	(7,996)	(1,671)
Acquisition of construction-in-progress	(7,228)	-
Acquisition of investments	(472,302)	(17,141)
Proceeds from sale of investments	547,700	49,877
Net cash provided by investing activities	60,174	31,065
Cash flows from financing activities:		
Borrowings on line of credit	153,396	58,437
Repayments on line of credit	(3,396)	(161,027)
Net cash provided by (used in) financing activities	150,000	(102,590)
Net change in cash and cash equivalents	(305,328)	1,459,315
Cash and cash equivalents at beginning of year	1,525,764	66,449
Cash and cash equivalents at end of year	$ 1,220,436	$ 1,525,764

Supplemental disclosure of cash flow information:

	2018	2017
Cash paid during the year for interest	$ 194	$ 5,827

The accompanying notes are an integral part of these consolidated financial statements

ABILITIES UNITED

Notes to Consolidated Financial Statements

Year Ended June 30, 2018

Note 1 - Organization and operations:

Vision - Abilities United (the "Agency") 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.

The Agency was founded in 1963 by 12 families whose children had intellectual disabilities. Abilities United now serves a diverse group of individuals who have developmental and physical disabilities or are at risk of developmental delays in the Bay Area's Santa Clara and San Mateo counties. Since its inception, Abilities United has offered people of all ages and abilities educational, therapeutic, recreational and vocational services to help them lead meaningful lives. Abilities United has been accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF), since 1980.

Principles of Consolidation - The consolidated financial statements include the accounts of the Abilities United Redevelopment Foundation (the "Foundation"), a separate 501(c)(3) entity. The Abilities United Redevelopment Foundation was created in July 2017 for purposes of separating redevelopment funds from the remainder of the Agency. The Foundation will focus on the fundraising, planning, and construction of the Agency's new campus. The organization is currently in the process of moving assets to the new entity. All intercompany accounts have been eliminated in the accompanying consolidated financial statements.

Program Services:

Children's Development Services ensures that children from birth to sixteen 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 191 unique infants and children and their families during fiscal year 2018.

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 these services. The Agency serves families throughout the Bay Area. Non-English speaking families work directly with our multi-cultural staff.

The Agency believes in a family oriented, collaborative approach, emphasizing parent/caregiver involvement and partnership with other professionals who work with the children. Abilities United's therapists and staff are trained pediatric specialists with extensive experience and knowledge regarding resources and interventions for young children.

Note 1 - Organization and operations (continued):

Early Intervention (continued) - 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.

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. The department served 287 unique adults during fiscal year 2018.

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 Socialization Training and Respite programs. During the year ended June 30, 2018, 63 unique children and adults received services.

Socialization Training - Socialization Training is a community integration service for children and young adults; ages 5 to 22 years old, who 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 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. During the year ended June 30, 2018, 90 participants received services.

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 groups, 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 - Artists of all ages, abilities, and backgrounds participate in the Abilities United Art Program. The Art Program serves as a representative for artists (primarily those with developmental disabilities) who want to learn the techniques of running an art business while increasing their exposure and recognition within the local, national, and international arts community, To encourage art sales and revenue generation, the program provides portfolio development, framing, marketing, and exhibition opportunities to each artist. Exhibition partnerships range from libraries and cafes to galleries and museums. The program also has an online art gallery featuring the artists and their portfolio of work for sale. Opportunities to interact with other artists and other institutions are also provided to artists. Art critiques, exhibition and museum visits, and open studios are available to artists to gain inspiration, interact with artists of all abilities, and become familiar with the art world.

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 262 unique individuals in fiscal year 2018.

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.

Overall, during fiscal year 2018, the Agency's programs served 429 unique adults and 425 unique infants and children. For further information about the Agency's services go to www.abilitiesunited.org or call (650) 494-0550.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The consolidated 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 Agency follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. The Agency 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 Agency. Under this category, the Agency maintains an operating fund plus any net assets designated by the Board for specific purposes. The Agency 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 that either expire by the passage of time or can be fulfilled and removed by actions of the Agency, 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 consolidated 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 consolidated 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 Agency's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Use of estimates - The preparation of consolidated 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 consolidated 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 Agency's programs are supported by government grants and contracts, earned revenue, and by contributions from individuals, corporations and organizations. The Agency 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 Agency 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 Agency 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 Agency would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. The Agency may also receive donated services that do not require specific expertise but which are nonetheless central to the Agency'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 consolidated 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 Agency provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts 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. Management has estimated the allowance for doubtful accounts to be $10,000 at June 30, 2018 and 2017. The balance of receivables that are more than 90 days past due is approximately $25,000 as of June 30, 2018.

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

Grants receivable, net - The Agency receives grants which may be granted and paid within the same year granted or payable to the Agency over multiple years. The Agency discounts the multi-year grants receivable at a reasonable rate of interest based on the Federal Prime Rate, when material to the consolidated financial statements. There were no multi-year grants as of June 30, 2018 and 2017.

Bequests receivable, net - The Agency 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. No allowance was recorded at June 30, 2018. The allowance for doubtful bequests was $24,000 at June 30, 2017.

Pledges received and receivable, net - Pledges received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any. Long-term pledge receivables, which are due in over one year from the balance sheet date, are discounted at the federal prime rate of 5% for the year ended June 30, 2018.

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. There was no allowance for doubtful pledges as of June 30, 2018 and 2017. As of June 30, 2018, there were no conditional pledges. As of June 30, 2017 there was $75,000 of conditional pledges.

Investments - The Agency'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 is recognized when earned.

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

Fair value of financial instruments - Financial instruments included in the Agency's consolidated statements of financial position as of June 30, 2018 and 2017 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 consolidated statements of financial position at their estimated fair values using methodologies described above.

Prepaid expenses - Prepaid expenses primarily consist of payments made associated with the Agency'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, 2018 and 2017.

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 Agency 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 Agency 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, 2018 and 2017.

Construction in progress – Construction in progress represents assets acquired and not yet placed into service. Applicable interest charges incurred during the construction are capitalized as an element of the cost and are amortized over the asset's estimated useful life. Capitalized interest was determined to be immaterial as of June 30, 2018 and 2017.

Accrued vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2018 and 2017. The accrued vacation balance as of June 30, 2018 and 2017 was approximately $148,000 and $158,000, respectively, and is included in accrued expenses on the consolidated statements of financial position.

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

Concentration of credit risk - Financial instruments, which potentially subject the Agency to credit risk, consist primarily of cash, cash equivalents and receivables. The Agency 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 Agency's opinion that it is not exposed to any significant credit risks.

Concentration of revenue sources - For the years ending June 30, 2018 and 2017, approximately 74% and 78%, respectively, of the Agency's revenue is derived from contracts from two governmental entities. These same two governmental entities also accounted for 63% and 76% of accounts receivable balance for June 30, 2018 and 2017, respectively.

Accounting for uncertainty in income taxes - The Agency 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 consolidated 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, 2018 management did not identify any uncertain tax positions.

The Agency 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, 2015 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2014 and forward.

Advertising - The Agency's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2018 and 2017 totaled approximately $27,000 and $20,000, respectively.

Endowment accounting and interpretation of relevant law - The Agency is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the provisions of which apply to its endowment funds. As required by UPMIFA 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.

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

Recent accounting pronouncements - In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08 "Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." The new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction based on whether a resource provider is receiving value in return for the resources transferred. Further, the ASU provides additional guidance to help determine whether a contribution is conditional and better distinguish a donor-imposed condition from a donor-imposed restriction. The effective date of this amendment is for fiscal years beginning after December 15, 2018. Early application is permitted. Management has not determined the impact of this pronouncement.

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 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."

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

Recent accounting pronouncements (continued) **-** The ASU gives clarification and guidance of Topic 606 on assessing collectability, presenting sales taxes, and certain transition matters. For non-public entities, the effective date will be effective for annual reporting periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted under several options, the earliest for a year beginning after December 15, 2016 and interim periods within that year. Various retrospective application methods are available. Management has not determined the impact on the financial statements.

Reclassification - Certain fiscal year 2017 balances have been reclassified to conform to the 2018 consolidated 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 consolidated financial statements were available to be issued and determined that no material subsequent events are required to be recorded or disclosed as of June 30, 2018.

Note 3 - Investments:

The Agency has entered into an agreement with Silicon Valley Community Foundation ("SVCF") to manage, hold in trust, and invest certain assets according to the Agency's investment policy guideline. The Agency 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 20% fixed income, 55% 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.

Note 3 - Investments (continued):

At June 30, 2018, the Agency 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 Agency. In addition, the Agency's Board of Directors may direct the expenditure of any or all of the principal or income from the fund.

The Agency 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 Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency 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 Agency'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 Agency's perceived risk of that investment.

ABILITIES UNITED

Notes to Consolidated Financial Statements

Year Ended June 30, 2018

Note 3 - Investments (continued):

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, 2018			
	Level 1	Level 2	Level 3	Total
Community Foundation pool	$ -	$ -	$ 1,353,233	$ 1,353,233
	$ -	$ -	$ 1,353,233	$ 1,353,233

	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

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):

	2018	2017
Beginning balance	$ 879,757	$ 797,635
Realized gains and losses, net	100,820	26,006
Unrealized gains and losses, net	(16,401)	89,089
Interest and dividends	7,849	4,806
Fees	(13,165)	(7,106)
Purchases	464,455	11,474
Disbursements	(70,082)	(42,147)
Ending balance	$ 1,353,233	$ 879,757

Note 3 - Investments (continued):

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

	2018	2017
Realized gains and losses, net	$ 100,820	$ 26,006
Unrealized gains and losses, net	(16,401)	89,089
Interest and dividends	7,849	5,093
Total investment income	92,268	120,188
Investment related expenses	(13,165)	(7,106)
Total investment returns	$ 79,103	$ 113,082

Note 4 - Pledges receivable:

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying consolidated 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 5% at June 30, 2018.

Pledge receivables consist of the following at June 30:

	2018	2017
Receivables in less than one year	$ 231,833	$ 206,525
Receivables in one to five years	251,667	120,500
	483,500	327,025
Less: discount to net present value	(16,557)	(6,868)
	466,943	320,157
Less: current portion	(231,833)	(206,525)
Non-current portion	$ 235,110	$ 113,632

Note 5 - Grants and bequests receivable:

The Agency did not have any grants receivable at June 30, 2018 and 2017. The Agency had total bequests receivable of approximately $100,000 and $14,000 at June 30, 2018 and June 30, 2017, respectively.

Note 6 - Property and equipment:

Property and equipment consists of the following at June 30:

		2018		2017
Leasehold improvements:				
Buildings	$	773,836	$	773,836
Building improvements		540,589		540,589
Furniture and equipment		277,655		273,149
Transportation equipment		200,137		196,647
		1,792,217		1,784,221
Less: accumulated depreciation and amortization		(1,522,751)		(1,477,750)
		269,466		306,471
Contruction-in-progess		7,228		-
Property and equipment, net	$	276,694	$	306,471

For the years ended June 30, 2018 and 2017, depreciation expense was approximately $45,000 and $53,000, respectively. Leasehold improvements are buildings and building improvements that were constructed from County-owned land (see Note 11).

Note 7 - Line of credit:

The Agency has a $350,000 line of credit agreement with Wells Fargo expiring in December 2018. 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 5% (5.75% at June 30, 2018). The balance outstanding on the line of credit was $150,000 as of June 30, 2018. There was no balance outstanding as of 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, 2018 was as follows:

	2017	Additions	Releases	2018
Time Restrictions:				
Pledges receivable	$ 70,157	$ 42,875	$ (106,026)	$ 7,006
Endowment accumulated earnings - unappropriated	67,850	79,103	(70,082)	76,871
Purpose Restrictions:				
Child Development Services	15,000	-	(14,129)	871
Family Support Services	25,000	-	(25,000)	-
Enrichment Services	17,036	6,000	(18,696)	4,340
Adult Services	42,641	2,515	(24,756)	20,400
Technology	271,298	-	(80,674)	190,624
Redevelopment	1,258,885	352,022	(88,185)	1,522,722
General support	-	6,711	(6,300)	411
	$ 1,767,867	$ 489,226	$ (433,848)	$ 1,823,245

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
	$ 511,383	$ 1,483,327	$ (226,843)	$ 1,767,867

Note 9 - Permanently restricted net assets:

At June 30, 2018 and 2017, permanently restricted net assets consist of the Agency's endowment funds (see Note 12).

Note 10 - Donated services:

During the years ended June 30, 2018 and 2017, individuals volunteered their time by providing professional services in a variety of capacities, such as marketing and finance, to the Agency's various programs. The volunteers performing these services required specialized training. Since the volunteers required a specialized skillset to perform these services, they are considered contributed professional services, and the volunteer services are recorded as support and expense in the consolidated financial statements. Management has estimated the value of these services for the years ended June 30, 2018 and 2017 equate to approximately $52,000 and $26,000, respectively.

During the years ended June 30, 2018 and 2017, volunteers also donated approximately 9,200 and 12,200 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, 2018 and 2017 to be approximately $267,000 and $323,000 in each year, respectively. Since these services did not require specialized skills, they have not been recorded as support and expense in the consolidated financial statements.

Note 11 - Operating lease commitment:

Facility lease - The County of Santa Clara leases two parcels of land to the Agency on which the Agency'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 Agency 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, 2018 and 2017 totaled $2 for each year.

Equipment lease - The Agency leases three pieces of office equipment under operating leases which expire in 2023. The minimum lease obligations are as follows:

Year ending June 30,		
2019	$	7,736
2020		7,736
2021		7,736
2022		7,736
2023		7,170
Total	$	38,114

Note 12 - Endowment:

The Agency, 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 Agency's investment policy guidelines. The Agency also has certain endowment assets in a Wells Fargo investment account (see Note 3). The Agency'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 Agency has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Agency 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 Agency in a manner consistent with the standard of prudence prescribed by the UPMIFA.

In accordance with the UPMIFA, the Agency 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 Agency 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 Agency
(7) The investment policies of the Agency

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 Agency'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, 2018 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 67,850	$ 1,276,362	$ 1,344,212
Investment income	-	92,268	-	92,268
Fees	-	(13,165)	-	(13,165)
Amounts appropriated for expenditure	-	(70,082)	-	(70,082)
Endowment net assets, end of year	$ -	$ 76,871	$ 1,276,362	$ 1,353,233

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
Contributions	-	-	-	-
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

Note 13 - Defined contribution plan:

The Agency 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 Agency has not made any matching contributions to the Plan for the years ended June 30, 2018 and 2017.

Note 14 - Special events:

Special event revenues, contribution and expenses by event for the year ended June 30, 2018 are as follows:

	Author's Luncheon	Aquathon	Total
Special event contributions	$ 306,251	67,774	$ 374,025
Special event registration fees	83,300	-	83,300
Less special event expenses	(56,774)	(2,329)	(59,103)
	$ 332,777	65,445	$ 398,222

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

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 $510,000 and $141,000 for the years ended June 30, 2018 and 2017. The related receivables were approximately $342,000 and $2,000, respectively at June 30, 2018 and 2017.