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**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)**

**Financial Statements of General Funds Selected for Audit,
Schedule of Analysis of Changes in Accrued Compensated
Absences, Report on Program Specific Audit Under the
Uniform Guidance**

Year Ended June 30, 2016



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**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
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June 30, 2016**

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Carr, Riggs & Ingram, LLC
282 Commerce Park Drive
Ridgeland, MS 39157

Mailing Address:
P.O. Box 2418
Ridgeland, MS 39158-2418

(601) 853-7050
(601) 853-9331 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of General Funds 3324000000 and 5334000000 of the Mississippi Department of Rehabilitation Services ("the Department"), as of and for the year ended June 30, 2016, and the related notes to the financial statements. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements of General Funds 3324000000 and 5334000000 referred to above present fairly, in all material respects, the financial position of General Funds 3324000000 and 5334000000 as of June 30, 2016, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of General Funds 3324000000 and 5334000000 of the Department present only the financial position and changes in financial position of that portion of the governmental activities of the Department and of the State of Mississippi that is attributable to the transactions of General Funds 3324000000 and 5334000000. They do not purport to, and do not, present fairly the financial position of the Department or the State of Mississippi as of June 30, 2016, or the changes in financial position of each entity for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
January 31, 2017

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Balance Sheets of General Funds Selected for Audit**

<i>June 30, 2016</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Assets		
Equity (deficit) in State Treasury funds	\$ 3,283,764	\$ (3,183,817)
Due from other State Treasury funds	1,816,472	180,000
Due from Federal Government	-	8,435,090
Other receivable	115,803	26,184
Total assets	\$ 5,216,039	\$ 5,457,457
Liabilities and Fund Balance		
Accounts payable	\$ 450,955	\$ 5,549,786
Due to other State Treasury funds	5,885,996	1,048,599
Due to other governments	21,541	270,791
Total liabilities	6,358,492	6,869,176
Contingencies (Note 5)		
Fund deficit - unrestricted	(1,142,453)	(1,411,719)
Total liabilities and fund balance	\$ 5,216,039	\$ 5,457,457

See notes to financial statements of general funds selected for audit.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Statements of Revenues, Expenditures and Changes in
Fund Balances of General Funds Selected for Audit**

<i>Year ended June 30, 2016</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Revenues:		
Rehabilitation services revenue	\$ -	\$ 61,408,713
Licenses, fees & permits	-	10,054
Charges for sales & services	-	2,312,636
Other income	178,569	217,729
Total revenues	178,569	63,949,132
Expenditures:		
Salaries	7,939,805	29,316,095
Travel	402,247	1,091,134
Contractuals	3,536,468	9,535,078
Commodities	187,660	1,119,448
Capital outlay	83,215	169,776
Subsidies	40,518,965	20,975,222
Principal or other indebtedness	-	435,380
Interest or other indebtedness	-	203,929
Total expenditures	52,668,360	62,846,062
Excess (deficit) of revenues over expenditures	(52,489,791)	1,103,070
Other financing sources (uses):		
Transfers in	57,321,096	420,000
Transfers out	(1,865,019)	(2,961,953)
Net other financing sources (uses)	55,456,077	(2,541,953)
Excess (deficit) revenues and other financing sources over (under) expenditures	2,966,286	(1,438,883)
Fund balance (deficit), beginning of year	(4,108,739)	27,164
Fund deficit, end of year	\$ (1,142,453)	\$ (1,411,719)

See notes to financial statements of general funds selected for audit.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Background Information

The Mississippi Department of Rehabilitation Services ("the Department") is a state agency whose main function is to provide for rehabilitation, habilitation and other services to eligible individuals with disabilities, their families and the community. The Department also provides programs and services to assist individuals with disabilities to gain employment, retain employment and/or to live more independently.

Purpose of General Funds 3324000000 and 5334000000

General Fund 3324000000 is related to the Office of Special Disability Programs ("OSDP") and provides services to individuals with the most severe disabilities who do not necessarily demonstrate immediate potential for competitive employment. Substantially all services rendered are provided to individuals eligible for Medicaid coverage and thus the primary source of revenue for Fund 3324000000 is transfers from the Mississippi Division of Medicaid. General Fund 5334000000 is related to all Federal Funding including Office of Disability Determination Services ("DDS"), Vocational Rehabilitation (VR), and Office of Vocational Rehabilitation for the Blind (VRB). DDS operates in a partnership with the Social Security Administration ("SSA") to make disability decisions on Social Security and Supplemental Security Income disability claims. VR is the largest state agency committed solely to helping people with disabilities achieve independence through employment and their services include vocational evaluation, counseling and guidance, educational assistance, job training, job placement and assistive technology. VRB offers programs and services that specialize in working with blind and low vision impaired individuals to optimize their opportunities for inclusion into the workforce, community, and home. Fund balances are restricted for these purposes.

Basis of Presentation

The accompanying program specific financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). General fund types are used for General Funds 3324000000 and 5334000000. These fund types are accounted for on a flow of current financial resources measurement focus. These focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are generally recognized when they are incurred. Principal and interest on general obligation long-term debt, if any, is recognized when due. In connection with the preparation of the financial statements, management of the Department evaluated subsequent events through January 31, 2017 which is the date the financial statements were available to be issued.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The Department's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Department is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenditures for the years then ended. Actual results could differ significantly from those estimates.

Fund Accounting

The financial activities of the Department are recorded in individual funds and account groups used to report financial position and results of operations. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The Department funds presented herein utilize the governmental fund category, which is further divided into separate "fund types". General funds are used to account for the proceeds of revenue sources that are not legally restricted to expenditures for specified purposes.

Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable. At June 30, 2016 there was no allowance deemed necessary. The total \$8,435,090 of the accounts receivable for Fund 5334000000 is receivable from the federal government. The remaining receivables are due from various other entities.

Interfund Activity

In the selected fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Transfers represent flows of assets between funds of the state without equivalent flows of assets in return and without a requirement for payment.

Deferred Inflows of Resources

In addition to liabilities, the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

This separate financial statement element represents items that are deferred revenues that will not be recognized as an inflow of resources until future period(s) when they become available.

When applicable, deferred inflows of resources consist of cumulative receipts of federal funding in excess of cumulative expenditures on specific grant awards that will not be recognized as an inflow of resources until future periods when they become available.

Risk Management

The Department is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The State of Mississippi has elected to finance most exposures to risk through the retention of risk. The State utilizes the internal service Risk Management Fund to account for these activities.

NOTE 2: EQUITY IN STATE TREASURY FUNDS

Equity in State Treasury funds consists of pooled cash held by the Treasurer of the State of Mississippi. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

NOTE 3: TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES

Net transfers from (to) other Department funds and other state agencies to (from) General Funds 3324000000 and 5334000000 were made in the amounts of \$55,456,077 and (\$2,541,953) respectively, during the year ended June 30, 2016.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 3: TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES (Continued)

Transfers from (to) other Department funds and other state agencies are detailed below.

<i>Year ended June 30, 2016</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Division of Medicaid	\$ 57,321,096	\$ -
Department of Mental Health	-	420,000
Department of Employment Security	(16,630)	(17,704)
Division of Medicaid	(1,330,259)	-
Department of Public Safety	-	(193,812)
Office of Attorney General	-	(104,979)
Department of Rehabilitation Services Fund 3335000000	(518,130)	(2,645,458)
	\$ 55,456,077	\$ (2,541,953)

NOTE 4: DUE FROM (TO) OTHER STATE TREASURY FUNDS

Due from other State Treasury Funds consisted of the following:

<i>June 30, 2016</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Division of Medicaid	\$ 207,415	\$ 180,000
Department of Rehabilitation Services Fund 2224000000	986,006	-
Department of Rehabilitation Services Fund 5334000000	623,051	-
	\$ 1,816,472	\$ 180,000

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 4: DUE FROM (TO) OTHER STATE TREASURY FUNDS (Continued)

Due to other State Treasury Funds consisted of the following:

<i>June 30, 2016</i>	General Funds	
	Fund 3324000000	Funds 5334000000
AbilityWorks, Inc. - Medicaid - (Division of MDRS)	\$ 5,521,470	\$ 75,164
Office of the Attorney General	16,666	18,357
Department of Public Safety	16,256	-
Department of Mental Health	-	42,828
Department of Employment Security	4,555	4,005
Information Technology Services	31,775	26,648
Personnel Board	2,360	8,500
Division of Medicaid	46,143	-
Department of Rehabilitation Services Fund 3324000000	-	623,051
Department of Rehabilitation Services Fund 3335000000	246,771	250,046
	\$ 5,885,996	\$ 1,048,599

NOTE 5: CONTINGENCIES

The Department is involved in litigation arising out of the normal course of operations and, in management's opinion; the outcome of these matters is not expected to have a material adverse effect on the Department's financial position or changes in financial position.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Schedule of Federal Grant Expenditures Selected for Audit
Year Ended June 30, 2016**

Federal Grantor / Cluster Title / Program Name	CFDA Number	Federal Expenditures
U.S. Department of Education /Rehabilitation Service:		
Rehabilitation Services - Vocational Rehabilitation		
Grants to States	84.126	
Fund 5334000000		\$ 33,237,562
Total Program Expenditures for CFDA 84.126		\$ 33,237,562

See independent auditors' report and accompanying notes to financial statements.



Carr, Riggs & Ingram, LLC
282 Commerce Park Drive
Ridgeland, MS 39157

Mailing Address:
P.O. Box 2418
Ridgeland, MS 39158-2418

(601) 853-7050
(601) 853-9331 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF ANALYSIS OF CHANGES IN ACCRUED COMPENSATED ABSENCES

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on the Schedule of Analysis of Changes in Accrued Compensated Absences

We have audited the accompanying schedule of analysis of changes in accrued compensated absences of the Mississippi Department of Rehabilitation Services (the "Department") as of and for the year ended June 30, 2016. This schedule is presented for the purpose of assisting the State of Mississippi in preparation of its annual financial report and is not a required part of the fund financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this schedule 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 a schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule of analysis of changes in accrued compensated absences referred to above presents fairly, in all material respects, the balance of and the changes in accrued compensated absences of the Department as of and for the year ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
January 31, 2017

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Schedule of Analysis of Changes in Accrued Compensated Absences
Year Ended June 30, 2016**

	Balances as of		Additions	Deletions	Balances as of
	July 1, 2015				June 30, 2016
Accrued compensated absences	\$	3,278,718	\$ 2,213,055	\$ 2,057,736	\$ 3,434,037
	\$	3,278,718	\$ 2,213,055	\$ 2,057,736	\$ 3,434,037

See notes to Schedule of Analysis of Changes in Accrued Compensated Absences.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences
Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accumulated Compensated Absences

State law authorizes payment for a maximum of 30 days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave, unless employees present medical evidence that their physical condition is such that they can no longer work in a capacity of state government. The state's obligation for accumulated unpaid personal leave, up to the maximum of 30 days per employee, is reported as "accrued compensated absences" in the accompanying schedule of analysis of changes in long-term obligations. The state uses the last-in, first-out method of recognizing use of compensated absences. The reported liability applicable to all funds includes the related fringe benefits that the state, as employer, is required to pay when the accrued compensated absences are liquidated. Accumulated unpaid major medical leave is not accrued, because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

NOTE 2: COMPENSATED ABSENCES

The Department's liability for compensated absences at June 30, 2016, is \$3,434,037 for governmental activities. The report liability includes related fringe benefits and excludes any obligations related to leave accumulations in excess of 30 days per employee.



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Mailing Address:
P.O. Box 2418
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(601) 853-7050
(601) 853-9331 (fax)
www.cricpa.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mississippi Department of Rehabilitation Services
Madison, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of General Funds 3324000000 and 5334000000 of the Mississippi Department of Rehabilitation Services (the "Department"), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenditures and changes in fund balances as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated January 31, 2017. We have also audited the schedule of analysis of changes in accrued compensated absences (the "Schedule") as of and for the year ended June 30, 2016, and issued our report thereon dated January 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements and the Schedule, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements of General Funds 3324000000 and 5334000000 and the Schedule are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
January 31, 2017



Carr, Riggs & Ingram, LLC
282 Commerce Park Drive
Ridgeland, MS 39157

Mailing Address:
P.O. Box 2418
Ridgeland, MS 39158-2418

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(601) 853-9331 (fax)
www.cricpa.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE PROGRAM SPECIFIC AUDIT OPTION
UNDER THE UNIFORM GUIDANCE**

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on Compliance for Vocational Rehabilitation – Grants to State Program

We have audited the Mississippi Department of Rehabilitation Services (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the following programs: the Vocational Rehabilitation Cluster, which is comprised of the Rehabilitation Services - Vocational Rehabilitation Grants to States Program, ("the Program") for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Department's Rehabilitation Services - Vocational Rehabilitation Grants to States Program and Rehabilitation Services - Vocational Rehabilitation Grants to States Recovery Act Program, based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on the program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Compliance for the Program

In our opinion, the Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Department, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on the Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi

January 31, 2017



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

ABILITYWORKS, INC.

MADISON, MISSISSIPPI

FINANCIAL REPORT

JUNE 30, 2016



Harper, Rains, Knight & Company

ABILITYWORKS, INC.
MADISON, MISSISSIPPI
FINANCIAL REPORT
JUNE 30, 2016

HARPER, RAINS, KNIGHT & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
RIDGELAND, MISSISSIPPI

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The Board of Directors
AbilityWorks, Inc.
Madison, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of AbilityWorks, Inc., a component unit of the State of Mississippi, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors consider 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.

Certified Public Accountants • Consultants • hrkcpa.com

1052 Highland Colony Parkway, Suite 100
Ridgeland, MS 39157
p: 601-605-0722 • f: 601-605-0733

700 12th Street NW, Suite 700
Washington, DC 20005
p: 202-558-5162 • f: 601-605-0733

Auditors' Responsibility - continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AbilityWorks, Inc., a component unit of the State of Mississippi, as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise AbilityWorks, Inc.'s, a component unit of the State of Mississippi, basic financial statements. The supplementary information included in the accompanying schedules of cost of production, general and administrative expenses, and statistical analysis of operations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of cost of production, general and administrative expenses, and statistical analysis of operations are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

The Board of Directors
AbilityWorks, Inc. - Continued

Other Matters - continued

America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016 on our consideration of AbilityWorks, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Harper, Rains, Knight & Company, P.A.

November 21, 2016

ABILITYWORKS, INC.
FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the AbilityWorks, Inc. ("AbilityWorks") financial performance, providing an overview of the activities for the fiscal year ended June 30, 2016.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with AbilityWorks, Inc.'s basic financial statements.

Financial Highlights

- Total net position for AbilityWorks at year end was reported at \$24,768,446, which was an increase of \$2,285,781, or 10.2%, from the prior fiscal year.
- Revenues for fiscal year 2016 increased \$675,121, or 7.2%, from fiscal year 2015. The change in Revenue included the following: "production revenue" decreased \$859,929, "other operating revenue" increased \$1,534,681, and "nonoperating revenue" increased \$369.
- Total expenses decreased 7.4%, or \$1,217,080, from 2015 to 2016. "Cost of production" decreased \$761,471, "general and administrative expenses" decreased \$382,226, and "capital asset purchases" decreased \$73,383.
- Operating Transfers-in decreased \$382,226, or 4.9%.

Overview of the Financial Statements

Under GASB 34, the applicable accounting standard for governmental financial statements, there are three components to the basic financial statements: 1) the government-wide financial statements, 2) the fund financial statements and 3) the notes to the financial statements.

Government-wide Statements

AbilityWorks is classified as an enterprise fund and therefore utilizes the accrual method as its basis of accounting, which is the same as a private sector business. By utilizing the accrual method of accounting, the presentation of financial information in the government-wide statements and the fund financial statements would contain no differences. However, due to the fact that AbilityWorks is a component unit of the State of Mississippi, government-wide statements are not included herein but will instead be included in the State of Mississippi's basic financial statements. AbilityWorks' financial statements will be presented in the State of Mississippi's government-wide statements under the "business type activities".

ABILITYWORKS, INC.
FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Fund Financial Statements

The financial statements for AbilityWorks report the financial activity for all sixteen locations making up AbilityWorks. As an enterprise fund, these facilities charge customers for services provided, whether to outside customers or to other agencies within the State. The method of accounting used by AbilityWorks is the accrual method of accounting, which is the same used by private sector businesses, in that revenues are recognized when earned and expenses are recognized when incurred. Included in the fund financial statements are the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows using the direct method. No other "required supplementary information" is presented. In addition, supplementary information is presented regarding cost of production, general and administrative expenses and certain statistical information.

Financial Analysis

AbilityWorks' net position increased \$2,285,781 over the course of this fiscal year's operations.

Table 1
Balance Sheets
June 30, 2016 and 2015

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 28,485,085	\$ 25,888,165
Current and other liabilities	<u>3,716,639</u>	<u>3,405,500</u>
Net position:		
Unrestricted	<u>\$ 24,768,446</u>	<u>\$ 22,482,665</u>

ABILITYWORKS, INC.
FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

- "Current and other assets" increased \$2,596,920 or 10%. Of this amount:
 - "Cash" decreased \$109,847 (less than 1% from the previous year).
 - "Investments" increased \$613.
 - The "Accounts receivables, net" account decreased \$115,030, or 9.45%. Loss of contracts at several locations contributes to this decrease.
 - The "Unbilled receivables" account, which involved the Medicaid Waiver for payroll processing services, increased \$46,873. The amount represents the payroll generated for those hours earned by personal care attendants prior to June 30th, however, the services were not invoiced to the parent agency by the June 30th cutoff. The increase in this account is the reflection of the growth that continues to be experienced in this program as well as our strengthening of review procedures regarding the invoicing process.
 - The "Interfund receivables" account increased by \$2,769,845. The majority of the Interfund receivables account relates to the Medicaid Waiver, which represents payroll items which have been generated for hourly wages earned by personal care attendants and job trainers and subsequently invoiced to the parent agency before June 30th but were not paid by the parent agency by June 30th. The number of Job Trainers has increased significantly from the prior year, as well as the number of personal care attendants. Therefore, an increase in the account occurred.
 - The "Inventories" account decreased \$25,826. This reduction is due to a decrease in the demand for products.
 - The "Prepaid Expenses" account increased by \$30,292, or 11% from 2015 to 2016. This increase can be attributed to the changing of insurance carriers for personal property insurance. The new policy covers a period of May to April, which results in ten months of prepayment being included on the books.
- "Current liabilities" increased \$311,139. Of this amount:
 - The "accounts payable" account decreased \$34,964. Under our centralized system, all invoices are submitted to the centralized office for processing. Due to the timing for which invoices were received and subsequently processed at the close of the fiscal year, AbilityWorks noted a 11% decrease in this account.
 - The "accrued expenses" account increased \$346,103. The balance in this account represents the hours earned by the personal care attendants from the period June 16 - 30, 2016 and subsequently paid in July 2016. The increase in this account is the reflection of the growth that continues to be experienced in this program.

ABILITYWORKS, INC.
FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Table 2
Statement of Revenue,
Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2016 and 2015

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Operating revenues		
Revenue from production, net	\$ 8,187,622	\$ 9,047,551
Other operating income, net	1,842,315	307,634
Nonoperating revenues		
Investment Income	<u>10,708</u>	<u>10,339</u>
Total revenues	<u>10,040,645</u>	<u>9,365,524</u>
Expenditures		
Cost of production	7,738,247	8,499,718
General and administrative	7,394,353	7,776,579
Capital asset purchases	<u>16,617</u>	<u>90,000</u>
Total expenditures	<u>15,149,217</u>	<u>16,366,297</u>
Transfers		
Transfers-in	<u>7,394,353</u>	<u>7,776,579</u>
Total transfers (net)	<u>7,394,353</u>	<u>7,776,579</u>
Increase in net position	2,285,781	775,806
Net assets - beginning of year	<u>22,482,665</u>	<u>21,706,859</u>
Net assets - ending	<u>\$ 24,768,446</u>	<u>\$ 22,482,665</u>

ABILITYWORKS, INC.
FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

- AbilityWorks consists of community rehabilitation programs in sixteen separate locations which provide a fee for service to production and manufacturing industries within each workshop's area. Nine of the sixteen locations represented over 85% of the production revenue recorded in 2016. These facilities are as follows: Monroe County, Corinth, Washington County, Harrison County, Jackson, Attala/Neshoba, Meridian, Starkville, and Laurel. The decrease in production revenue was due to the loss of contracts experienced by some of the facilities throughout the state.
- The decrease in the "cost of production" correlates to the decrease in the "revenue from production". Loss of contracts at several locations attributes to this decrease. As production revenue decreases, the cost of production decreases. In addition, the Philadelphia AbilityWorks location was permanently closed on November 30, 2015.
- The majority of the "other operating income, net" account is reported by our Medicaid Waiver payroll processing services. The increase reported in this revenue account was \$1,534,681 and is mainly due to the growth that continues to be experienced in this program.
- The "general and administrative expenses" represent those costs associated with office personnel of the AbilityWorks system, including facility managers, office managers, production managers, evaluators, instructors and administrative assistants as well as reimbursements to the facilities for client transportation and community based services. The majority of general and administrative expenses represent salaries and wages (over 75%). In fiscal year 2016, the Philadelphia AbilityWorks location was permanently closed, thus resulting in a 5% decrease in general and administrative expenditures from prior year.
- "Capital asset purchases" account in 2016 was \$16,617, which decreased \$73,383. The reason for the decrease was due to purchases made in 2015 that were not required in 2016. For FY 2016, purchases included seven MICR Printers (\$10,545) and an electric Pallet Jack in Meridian (\$3,999).
- There was a slight decrease in the "transfers-in" account.

ABILITYWORKS, INC.
FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Economic Factors

Mississippi has experienced a steady decrease in the number of jobs in the manufacturing sector over the last decade. While some manufacturing job gains have occurred, statewide manufacturing jobs continues to be stagnant. The loss of manufacturing jobs is a direct reflection of the number of manufacturing businesses that closed down their operations in Mississippi. The production income generated by each AbilityWorks' facility is tied to the availability of subcontract work obtained from manufacturing businesses in the local community. Since manufacturing contracts have been declining in recent years, the AbilityWorks' system has been intentionally expanding production income from service sector contracts. These service contracts include janitorial, housekeeping, and ground maintenance.

Additionally, OVR leadership has incorporated a community based program within the AbilityWorks system. This program, LINC'S (Linking Innovative Networks of Community Services), provides vocational evaluation and job readiness opportunities outside the boundaries of the facility and places clients directly in local businesses. Once the clients' vocational interests are obtained, the facility staff seeks businesses that offer those specific skill opportunities and contracts with them directly to help train our clients. This is a winning scenario for businesses, clients and AbilityWorks.

The AbilityWorks, Inc. system anticipates additional capital asset purchases in fiscal year 2017 in the following area:

- To ensure the viability of the AbilityWorks, Inc. system, we continue to work with local businesses to develop additional contract work. In order to add new contracts throughout the state, we anticipate purchases of new or additional production related equipment, such as fork-lifts, delivery trucks, planer/molder woodworking machinery, etc.
- The purchase of six passenger vans for client transportation is anticipated for six AbilityWorks locations: Brookhaven, Harrison County, Jackson, Meridian, Olive Branch, and Hattiesburg.

Financial Contact

AbilityWorks' financial statements are designed to present users with a general overview of AbilityWorks' finances and to demonstrate its accountability. If you have any questions about the report or need additional information, contact the Director of Finance at the Mississippi Department of Rehabilitation Services, 1281 Highway 51 North, Madison, Mississippi 39110.

ABILITYWORKS, INC.

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets		
Cash	\$ 13,960,452	\$ 14,070,299
Investments	167,073	166,460
Accounts receivable, net	1,101,768	1,216,798
Unbilled receivables	2,516,569	2,469,696
Interfund receivable	10,263,912	7,494,067
Inventories	169,186	195,012
Prepaid expenses and other	<u>306,125</u>	<u>275,833</u>
 Total assets	 <u>\$ 28,485,085</u>	 <u>\$ 25,888,165</u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable	\$ 273,342	\$ 308,306
Accrued expenses	<u>3,443,297</u>	<u>3,097,194</u>
Total current liabilities	3,716,639	3,405,500
 Net position - unrestricted	 <u>24,768,446</u>	 <u>22,482,665</u>
 Total liabilities and net position	 <u>\$ 28,485,085</u>	 <u>\$ 25,888,165</u>

The Notes to Financial Statements are an integral part of these statements.

ABILITYWORKS, INC.

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

	2016	2015
Revenue		
Revenue from production, net	\$ 8,187,622	\$ 9,047,551
Cost of production	<u>7,738,247</u>	<u>8,499,718</u>
Gross profit	449,375	547,833
Other operating income	1,842,315	307,634
General and administrative expenses	<u>7,394,353</u>	<u>7,776,579</u>
Operating loss	(5,102,663)	(6,921,112)
Nonoperating revenue (expenses)		
Investment income	10,708	10,339
Capital asset purchases	<u>(16,617)</u>	<u>(90,000)</u>
Total nonoperating expenses	<u>(5,909)</u>	<u>(79,661)</u>
Loss before transfers	(5,108,572)	(7,000,773)
Transfers-in	<u>7,394,353</u>	<u>7,776,579</u>
Increase in net position	2,285,781	775,806
Net position, beginning of year	<u>22,482,665</u>	<u>21,706,859</u>
Net position, end of year	<u>\$ 24,768,446</u>	<u>\$ 22,482,665</u>

The Notes to Financial Statements are an integral part of these statements.

ABILITYWORKS, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers	\$ 8,338,076	\$ 9,002,485
Receipts from DRS for payroll processing	59,352,555	62,451,722
Other operating receipts	297,252	278,136
Payments to suppliers	(3,712,850)	(4,235,502)
Payments to employees	(11,148,947)	(11,774,055)
Payments for payroll processing	(60,623,764)	(58,658,645)
Net cash used by operating activities	<u>(7,497,678)</u>	<u>(2,935,859)</u>
Cash flows from noncapital financing activities:		
Transfers-in	<u>7,394,353</u>	<u>7,776,579</u>
Net cash provided by noncapital financing activities	<u>7,394,353</u>	<u>7,776,579</u>
Cash flows from investing activities:		
Investment income	10,708	10,339
Sale and maturity of investments	166,460	165,970
Investment purchases	(167,073)	(166,460)
Capital asset purchases	(16,617)	(90,000)
Net cash used in investing activities	<u>(6,522)</u>	<u>(80,151)</u>
Net increase (decrease) in cash	(109,847)	4,760,569
Cash at beginning of year	<u>14,070,299</u>	<u>9,309,730</u>
Cash at end of year	<u>\$ 13,960,452</u>	<u>\$ 14,070,299</u>

The Notes to Financial Statements are an integral part of these statements.

ABILITYWORKS, INC.

STATEMENTS OF CASH FLOWS - Continued
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (5,102,663)	\$ (6,921,112)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Net effect of changes in assets and liabilities:		
Accounts receivable	115,030	(73,061)
Unbilled receivables	(46,873)	(146,803)
Interfund receivables	(2,769,845)	3,908,303
Inventories	25,826	(22,460)
Prepaid expenses and other	(30,292)	6,417
Accounts payable	(34,964)	89,729
Accrued expenses	<u>346,103</u>	<u>223,128</u>
Net cash used by operating activities	<u>\$ (7,497,678)</u>	<u>\$ (2,935,859)</u>

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of AbilityWorks, Inc., (hereafter referred to as "AbilityWorks"), a component unit of the State of Mississippi, have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The more significant of AbilityWorks' accounting policies follow.

Organization and Nature of Operations

AbilityWorks is a non-profit corporation owned and operated by the State of Mississippi, Department of Rehabilitation Services, Office of Vocational Rehabilitation (the "Division"). AbilityWorks was incorporated on July 18, 1969 with the granting of a charter by the State of Mississippi. Legal authority for AbilityWorks is granted under Section 37-33-101 of the Mississippi Code of 1972. AbilityWorks' purpose is to operate a statewide system of community rehabilitation programs through which citizens with disabilities receive work experience to prepare them for employment outside the workshop setting.

Currently, sixteen (16) AbilityWorks facilities are located in communities throughout Mississippi. AbilityWorks of Philadelphia was permanently closed on November 30, 2015. These facilities provide work settings with realistic job stations where vocational evaluation, work adjustment, counseling, guidance and other services are provided. The Division funds some of the general and administrative expenses, such as staff payroll, rent, utilities, etc. The Division also provides all management necessary to administer AbilityWorks at no cost. Also, the Division transfers funds to the facilities on a monthly basis for additional expenses incurred as a result of expanded client services, such as maintenance to clients and incentive allowances.

Basis of Presentation

Basic financial statements include government wide financial statements, fund financial statements and notes to the financial statements. Since AbilityWorks is a component unit of the State of Mississippi, it only presents fund financial statements. AbilityWorks continues to report as a business-type enterprise fund.

Basis of Accounting

The accounts of AbilityWorks are reported using the accrual basis of accounting and the economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Revenue from production and payroll processing income are stated net of provision for bad debt expense of \$7,455 in 2016 and \$2,981 in 2015.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Finished goods inventories are stated at the lower of manufacturing cost (first-in, first-out) or market (net realizable value). Purchased raw materials and supplies are stated at the lower of cost (first-in, first-out) or replacement market.

Revenue Recognition

Production revenue is recognized when the goods are shipped or the services performed.

Operating/Nonoperating Income

AbilityWorks has classified its revenue as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues generally result from community rehabilitation programs in sixteen separate locations which provide a fee for service to production and manufacturing industries within each workshop's area. Other operating income consists of net payroll income for processing payroll under the Medicaid Waiver program.

Nonoperating revenues - Nonoperating revenues are those revenues that do not meet the definition of operating revenues. Nonoperating revenues include investment income.

Interfund/Intrafund Transactions

Interfund represents transactions with a fund outside of AbilityWorks, while intrafund represents transactions within AbilityWorks. Interfund/intrafund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon combination. Services provided are treated as revenues and expenditures/expenses.

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related expense as a reimbursement. All other interfund/intrafund transactions are treated as transfers. Intrafund balances have been eliminated and are not reflected in the basic financial statements.

Capital Asset Purchases

Property and equipment purchased directly by the facilities are the property of the State of Mississippi. These acquisition costs are classified as a nonoperating expense.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

AbilityWorks is exempt from federal and state income taxes.

Investments

Investments consist of certificates of deposit which are carried at cost which approximates fair value.

Other

AbilityWorks provides transportation and maintenance funds to clients of the Department of Rehabilitation Services based on the orders of client counselors. The clients are not necessarily those employed by AbilityWorks. The amounts provided, \$32,266 in 2016 and \$91,733 in 2015, have been fully reimbursed by the State of Mississippi. The funds provided do not represent income or expenses of AbilityWorks and have not been recorded in the financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash includes all checking and savings accounts. AbilityWorks has no cash equivalents.

Employee Benefits

Employees of AbilityWorks, who are eligible for employee benefits, are considered employees of and are provided employee benefits through the State of Mississippi. The employees are covered by the State of Mississippi Public Employee Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the Mississippi State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. Disclosures regarding employee benefits are maintained and communicated within the State of Mississippi financial reports.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Employee Benefits - continued

Employee benefit expenses are allocated to AbilityWorks through state paid expenditure transactions and are reported within the general and administrative expenses and cost of production schedules.

Subsequent Events

Subsequent events were evaluated by AbilityWorks through November 21, 2016, which is the date the financial statements were available to be issued.

(2) CONCENTRATIONS OF CREDIT AND OTHER RISKS

Financial instruments that potentially subject AbilityWorks to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and loss of financial assistance from the State of Mississippi. AbilityWorks receives substantial support in the form of financial assistance from the State of Mississippi, the loss of which could have a material effect on the continuation of operations. Accounts receivable are due from customers in numerous industries within the State of Mississippi. Each facility monitors the credit worthiness of its customers to limit credit risk.

AbilityWorks maintains cash balances at various financial institutions. Accounts at each institution are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). Amounts in excess of \$250,000 are collateralized by certain assets pledged by the financial institution's trust department in AbilityWorks' name. In addition, AbilityWorks has minimized credit risk by depositing cash and cash equivalents in banks with a high credit standing. AbilityWorks has not experienced any losses of such funds and management believes exposure to significant credit risk on cash and cash equivalents is minimal.

(3) INVESTMENTS

Investments at June 30, 2016, consist of a certificate of deposit totaling \$167,073 which matures in February 2017. Investments at June 30, 2015, consist of a certificate of deposit totaling \$166,460 which matured in February 2016. Interest earned on investments and cash balances for the years ended June 30, 2016 and 2015 was \$10,708 and \$10,339, respectively.

(4) ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

	<u>2016</u>	<u>2015</u>
Trade receivable	\$ 1,109,223	\$ 1,219,779
Less allowance for doubtful accounts	<u>(7,455)</u>	<u>(2,981)</u>
Accounts receivable, net	<u>\$ 1,101,768</u>	<u>\$ 1,216,798</u>

(5) UNBILLED RECEIVABLES

Unbilled receivables are the total amounts for payroll processing services rendered but not yet invoiced, related to the Medicaid Waiver program. Unbilled receivables totaled \$2,516,569 in 2016 and \$2,469,696 in 2015.

(6) INTERFUND RECEIVABLES

Interfund receivables/payables related to payroll processing and other services provided to the agencies of the State of Mississippi consist of the following:

	<u>2016</u>	<u>2015</u>
Interfund receivables		
Office of Special Disability Programs	\$ 7,266,339	\$ 5,178,116
Spinal Cord Trauma Brain Injury	2,909,166	2,190,316
Office of Vocational Rehabilitation	84,169	121,642
Mississippi Department of Transportation	2,204	1,485
Mississippi Department of Human Services	801	-
University of Mississippi Medical Center	<u>1,233</u>	<u>2,508</u>
	<u>\$10,263,912</u>	<u>\$ 7,494,067</u>

(7) INVENTORIES

A summary of inventories follows:

	<u>2016</u>	<u>2015</u>
Finished goods	\$ 63,174	\$ 71,077
Raw materials and supplies	<u>106,012</u>	<u>123,935</u>
Total inventories	<u>\$ 169,186</u>	<u>\$ 195,012</u>

(8) OTHER OPERATING INCOME, NET

A summary of other operating income, net follows:

	<u>2016</u>	<u>2015</u>
Payroll processing income, net	\$ 62,204,697	\$ 58,718,218
Payroll processing expense	(60,659,633)	(58,688,720)
Other income	<u>297,251</u>	<u>278,136</u>
Other operating income, net	<u>\$ 1,842,315</u>	<u>\$ 307,634</u>

(9) RELATED PARTY TRANSACTIONS

Net transfers-in of \$7,394,353 in 2016 and \$7,776,579 in 2015 represent general and administrative expenses paid on behalf of the AbilityWorks' facilities by the State of Mississippi Department of Rehabilitation Services. Transfers-in are from sources as follows:

(9) RELATED PARTY TRANSACTIONS - Continued

	<u>2016</u>	<u>2015</u>
MDRS - general and administrative expenses	<u>\$ 7,394,353</u>	<u>\$ 7,776,579</u>
Total operating transfers	<u>\$ 7,394,353</u>	<u>\$ 7,776,579</u>

(10) FACILITIES

Production facilities utilized by seven AbilityWorks locations are provided without rent by the counties in which the facilities are located. The other eleven facilities reported rent expense of \$401,853 in 2016 and \$402,663 in 2015 under cancellable operating leases. During fiscal years 2016 and 2015, AbilityWorks offset a portion of the rent expense by charging state agencies which occupied space in the facilities an allocated portion of the related rent expense. The amount charged and offset against rent expense was \$209,810 in 2016 and \$209,514 in 2015.

ABILITYWORKS, INC.

SCHEDULES OF COST OF PRODUCTION

Years Ended June 30, 2016 and 2015

	2016	2015
Bank charges	\$ 16,392	\$ 17,854
Commissions	151,007	159,351
Employee benefits	1,027,081	1,120,799
Equipment rent and maintenance	209,499	253,073
Facility repairs and maintenance	104,764	109,689
General shop and tools	51,898	69,936
Marketing	42,631	62,574
Miscellaneous	119,036	80,960
Opportunity wages production	1,779,377	1,958,096
Other administrative expenses	15,441	25,132
Professional fees	243,906	247,220
Rent	192,043	193,149
Salaries, non-client employees	2,611,079	2,675,088
Supplies	1,026,522	1,342,322
Uniforms	31,162	30,884
Vehicle expense	116,409	153,591
	<u> </u>	<u> </u>
Total cost of production	\$ 7,738,247	\$ 8,499,718

See Independent Auditors' Report.

ABILITYWORKS, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

Years Ended June 30, 2016 and 2015

	2016	2015
Client transportation	\$ 484,160	\$ 628,355
Commodities	51,587	14,157
Community based	803,409	805,210
Contractual services	421,473	419,802
Equipment	-	916
Salaries and related expenses	5,564,593	5,789,497
Subsidy - opportunity wages	60,376	118,227
Travel	8,755	415
	<u>7,394,353</u>	<u>7,776,579</u>
Total general and administrative expenses	\$ 7,394,353	\$ 7,776,579

See Independent Auditors' Report.

ABILITYWORKS, INC.

SCHEDULE OF STATISTICAL ANALYSIS OF OPERATIONS
Year Ended June 30, 2016
(Unaudited)

	Total per the Statement of Revenues, Expenses and Changes in Net Assets	Total Cost of Operations for Year in Relation to		
		Clients Served	Client Days	Clients Closed/ Rehabilitated
Cost of production	\$ 7,738,247	3,898	95	\$ 11,532
General and administrative expenses	<u>7,394,353</u>	<u>3,725</u>	<u>91</u>	<u>11,020</u>
Total operating cost	15,132,600	7,623	186	22,552
Less revenue and other operating income	<u>8,484,874</u>	<u>4,274</u>	<u>104</u>	<u>12,645</u>
Total operating cost, net of revenue and other operating revenue	6,647,726	3,349	82	9,907
Nonoperating (revenue) expense	<u>5,909</u>	<u>3</u>	<u>-</u>	<u>9</u>
Total operating cost after nonoperating (revenue) expense *	<u>\$ 6,653,635</u>	<u>3,352</u>	<u>82</u>	<u>\$ 9,916</u>
Totals for the year ended June 30, 2016:				
Clients served	1,985			
Client days	81,252			
Clients closed/rehabilitated	671			
Average daily attendance	326			
Average length of stay	<u>Client days</u>	41		
per client in days	<u>Clients served</u>			

* Total operating cost after nonoperating expense does not include payroll processing income and payroll processing expenses. These items are not related to clients served and employed data and are appropriately not included in the above analysis.

See Independent Auditors' Report.



The Board of Directors
AbilityWorks, Inc.
Madison, Mississippi

Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of AbilityWorks, Inc., a component unit of the State of Mississippi, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise AbilityWorks, Inc.'s, a component unit of the State of Mississippi, basic financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AbilityWorks, Inc.'s, a component unit of the State of Mississippi, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of AbilityWorks, Inc.'s, a component unit of the State of Mississippi, internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting - continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AbilityWorks, Inc.'s, a component unit of the State of Mississippi, basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and is not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AbilityWorks, Inc.'s, a component unit of the State of Mississippi, internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harper, Rainis, Knight & Company, P.A.

November 21, 2016