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AbilityWorks, Inc.

(A Component Unit of the State of Mississippi)

FINANCIAL STATEMENTS
June 30, 2018 and 2017



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INDEPENDENT AUDITORS' REPORT

The Board of Directors AbilityWorks, Inc. Madison, Mississippi Carr, Riggs & Ingram, LLC 400 West Parkway Place Suite 300 Ridgeland, MS 39157

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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 year ended June 30, 2018, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AbilityWorks, Inc., a component unit of the State of Mississippi, as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements and supplementary financial information of AbilityWorks, Inc. as of and for the year ended June 30, 2017 were audited by other auditors whose report dated December 14, 2017, expressed an unmodified opinion on those statements.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 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 audit was conducted for the purpose of forming an opinion on the financial statements that comprise AbilityWorks, Inc., (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 2018 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 audit of the 2018 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 America. In our opinion, the accompanying 2018 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 a report dated December 13, 2018, 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 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 AbilityWorks, Inc.'s internal control over financial reporting and compliance.

Caux Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi December 13, 2018

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, 2018 and 2017.

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 \$28,049,447, which was an increase of \$1,783,860, or 7%, from the prior fiscal year.
- Revenues for fiscal year 2018 increased \$28,192, or .4%, from fiscal year 2017.
- Total expenses decreased 6%, or \$797,274, from 2017 to 2018. "Cost of production" decreased \$251,871, "general and administrative expenses" decreased \$545,403.
- Operating Transfers-in decreased \$545,403, or 8%.

Overview of the Financial Statements

Under GASB 34, the applicable accounting standards 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".

Fund Financial Statements

The financial statements for AbilityWorks report the financial activity for all fifteen locations included within AbilityWorks. As an enterprise fund, these facilities charge customers for services provided, whether to outside customers or to other agencies within the State.

Fund Financial Statements (Continued)

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

<u>Table 1</u> Statements of Net Position

| | Governmental Activities | | |
|-------------------------------|-------------------------|---------------|--|
| June 30, | 2018 | 2017 | |
| Current and other assets | \$ 30,829,886 | \$ 30,065,913 | |
| Current and other liabilities | 2,780,439 | 3,800,326 | |
| Net Position: | | | |
| Unrestricted | \$ 28,049,447 | \$ 26,265,587 | |

- "Current and other assets" increased \$763,973, of this amount:
 - o "Cash" decreased \$959,083.
 - o "Investments CD" increased \$495.
 - o The "Accounts receivables, net" account increased \$529,541. Due to the current economic climate, there has been a shift at facilities from entering into manufacturing contracts to entering into service/janitorial contracts. The majority of the Accounts Receivable balance at June 30, 2018, pertains to service contracts with the General Services Administration. Historically, payments for services on those contracts are not made as timely as with other contracts. Therefore, an increase in this account occurred.
 - o The "Unbilled receivables" account, which involved the Medicaid Waiver for payroll processing services, decreased \$222,736 or 9%. 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 decrease in this account was due to invoices being submitted timelier.

Financial Analysis (Continued)

- o The "Interfund receivables" account increased by \$1,250,393 or 11%. 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 subsequently invoiced by the parent agency before June 30th but were not paid by the parent agency by June 30th.
- o The "Inventories" account increased \$24,799. This is due to more inventory on hand based on an increase in the demand for products.
- "Current liabilities" decreased \$1,019,887. Of this amount:
 - The "accounts payable" account decreased \$3,068.
 - o The "accrued expenses" account decreased \$1,016,819. The balance in this account represents the hours earned by the personal care attendants from the period June 16-30, 2018 and subsequently paid in July 2018.

Financial Analysis (Continued)

<u>Table 2</u> <u>Statements of Revenue, Expenses and Changes in Net Position</u>

| | Governmen | Governmental Activities | | |
|--------------------------------|---------------|--------------------------------|--|--|
| Year ended, | 2018 | 2017 | | |
| Revenues | | | | |
| Operating revenues | | | | |
| Revenue from production, net | \$ 7,484,100 | \$ 7,455,908 | | |
| Other operating income, net | 1,360,759 | 1,367,547 | | |
| Nonoperating revenues | | | | |
| Investment income | 17,985 | 11,920 | | |
| Total operating revenues | 8,862,844 | 8,835,375 | | |
| Expenses | | | | |
| Cost of production | 7,078,984 | 7,330,855 | | |
| General and administrative | 6,042,476 | 6,587,879 | | |
| Other | | 7,379 | | |
| Total expenditures | 13,121,460 | 13,926,113 | | |
| Transfers | | | | |
| Transfers-in | 6,042,476 | 6,587,879 | | |
| Total transfers (net) | 6,042,476 | 6,587,879 | | |
| Increase in net position | 1,783,860 | 1,497,141 | | |
| Net assets - beginning of year | 26,265,587 | 24,768,446 | | |
| Net assets - ending | \$ 28,049,447 | \$ 26,265,587 | | |

Financial Analysis (Continued)

- AbilityWorks consists of community rehabilitation programs in fifteen separate locations
 which provide a fee for service to production and manufacturing industries within each
 workshop's area. Ten of the fifteen locations represented over 83% of the production
 revenue recorded in 2018. These facilities are as follows: Corinth, Oxford, Tupelo,
 Columbus, Washington County, Greenwood, Starkville, Jackson, Laurel, and Hattiesburg.
- The decrease in the "cost of production" correlates with the closure of the facility located in Monroe County.
- The majority of the "other operating income, net" account is reported by our Medicaid Waiver payroll processing services. The decrease reported in this revenue account was \$6,788 and is mainly due to a slight decline in the number of persons served and therefore the decline in the number of personal care attendants on the payroll.
- 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. In fiscal year 2017, the Monroe County location was permanently closed, which contributes to the decrease in the account balance from prior year.
- There were no "Capital asset purchases" fiscal year 2018.
- There was an 8% decrease in the "transfers-in" account, which is related to transfer of salaries of program personnel by the parent agency.

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, LINCS (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.

Economic Factors (Continued)

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 2019 in the following areas:

- 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, flatbed trucks, planer/molder woodworking machinery, hot melt machine, air line compressor system, etc.
- The purchase of eight passenger vans for client transportation is anticipated for four AbilityWorks locations: Harrison County, Brookhaven, Olive Branch, and Oxford.

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. (A Component Unit of the State of Mississippi) Statements of Net Position

| Years ending June 30, | 2018 | 2017 |
|-------------------------------------|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash | \$13,480,669 | \$14,439,752 |
| Investment - certificate of deposit | 168,062 | 167,567 |
| Accounts receivable, net | 1,452,567 | 923,026 |
| Unbilled receivables | 2,180,041 | 2,402,777 |
| Interfund receivables | 12,753,844 | 11,503,451 |
| Inventories | 189,686 | 164,887 |
| Prepaid expenses and other | 605,017 | 464,453 |
| Total assets | \$30,829,886 | \$30,065,913 |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable | \$ 252,295 | \$ 255,363 |
| Accrued expenses | 2,528,144 | 3,544,963 |
| Total current liabilities | 2,780,439 | 3,800,326 |
| Net position - unrestricted | 28,049,447 | 26,265,587 |
| Total liabilities and net position | \$30,829,886 | \$30,065,913 |

AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Statements of Revenues, Expenses, and Changes in Net Position

| Years ended June 30, | 2018 | 2017 |
|---|---------------|-------------------|
| Revenue | | |
| Revenue from production, net | \$ 7,484,100 | \$ 7,455,908 |
| Cost of production | 7,078,984 | 7,330,855 |
| Cost of production | 7,070,304 | 7,550,655 |
| Gross profit | 405,116 | 125,053 |
| Other operating income | 1,360,759 | 1,367,547 |
| General and administrative expenses | 6,042,476 | 6,587,879 |
| Operating loss | (4,276,601) | (5,095,279) |
| Nonoperating Revenue (Expenses) Interest income Other expense | 17,985 | 11,920 (7,379) |
| Total nonoperating expenses | 17,985 | 4,541 |
| Loss before transfers | (4,258,616) | (5,090,738) |
| Transfers-in | 6,042,476 | 6,587,879 |
| Increase in net position | 1,783,860 | 1,497,141 |
| Net position - beginning of year | 26,265,587 | 24,768,446 |
| Net position - end of year | \$ 28,049,447 | \$ 26,265,587 |

AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Statements of Cash Flows

| Years ended June 30, | 2018 | 2017 |
|---|--------------|---------------|
| | | |
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 6,918,204 | \$ 7,627,130 |
| Receipts from DRS for payroll processing | 54,818,988 | 59,291,932 |
| Other receipts | 339,488 | 235,134 |
| Payment to suppliers | (3,826,784) | (2,385,844) |
| Payments to employees | (10,479,926) | (10,486,853) |
| Payments for payroll processing | (54,789,019) | (60,394,125) |
| | 1 | |
| Net cash used by operating activities | (7,019,049) | (6,112,626) |
| | | |
| Cash Flows From Noncapital Financing Activities | | |
| Transfers-in | 6,042,476 | 6,587,879 |
| | | |
| Net cash provided by non capital and related financing activities | 6,042,476 | 6,587,879 |
| | | |
| Cash Flows From Investing Activities | | |
| Interest income | 17,985 | 11,920 |
| Net change in investment - certificate of deposit | (495) | (494) |
| Capital asset purchases | | (7,379) |
| | | |
| Net cash provided by investing activities | 17,490 | 4,047 |
| | | |
| Net increase (decrease) in cash | (959,083) | 479,300 |
| | | |
| Cash at beginning of year | 14,439,752 | 13,960,452 |
| | | |
| Cash at end of year | \$13,480,669 | \$ 14,439,752 |

(Continued)

AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Statements of Cash Flows

| Years ended June 30, | 2018 | 2017 |
|---|----------------|----------------|
| Reconciliation of Operating Loss to Net Cash Used | | |
| by Operating Activities | | |
| | ¢ // 276 601\ | \$ (5,095,279) |
| Operating loss | \$ (4,270,001) | \$ (3,093,279) |
| Adjustments to Reconcile Operating Loss to Net Cash | | |
| Used by Operating Activities | | |
| Net effect of changes in assets and liabilities: | | |
| Accounts receivable | (565,896) | 178,742 |
| Unbilled receivables | 222,736 | 113,792 |
| Interfund receivables | (1,214,038) | (1,239,539) |
| Inventories | (24,799) | 4,299 |
| Prepaid expenses and other | (140,564) | (158,328) |
| Accounts payable | (3,068) | (17,979) |
| Accrued expenses | (1,016,819) | 101,666 |
| | | |
| Net cash used by operating activities | \$ (7,019,049) | \$ (6,112,626) |

(Concluded)

NOTE 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, fifteen (15) AbilityWorks facilities are located in communities throughout Mississippi. 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 (benefit) expense of \$-0- and \$(3,021) as of June 30, 2018 and 2017, respectively.

NOTE 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 non-operating revenues according to the following criteria:

<u>Operating revenues</u> – Operating revenues generally result from community rehabilitation programs in fifteen 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.

<u>Non-operating revenues</u> – Non-operating revenues are those revenues that do not meet the definition of operating revenues. Non-operating 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 maintained by and considered property of the State of Mississippi. These acquisition costs are classified as a nonoperating expense. Upon time of purchase a corresponding transfer out is made to transfer the assets to the Mississippi Department of Rehabilitation Services.

NOTE 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.

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

AbilityWorks employees are not eligible to receive State of Mississippi benefits. In some cases, State of Mississippi employees who work full time for AbilityWorks, however these workers are considered employees of and are provided employee benefits through the State of Mississippi. These 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.

Additionally, 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events were evaluated by AbilityWorks through December 13, 2018, which is the date the financial statements were available to be issued.

NOTE 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.

NOTE 3: INVESTMENTS – CERTIFICATE OF DEPOSIT

Investments at June 30, 2018 and 2017, consist of a non-negotiable certificate of deposit totaling \$168,062 and \$167,567, which matures in February 2019. The certificate of deposit is measured using level 2 inputs, in which fair value approximates carrying value. Interest received on the certificate of deposit was \$495 and \$494 for the years ending June 30, 2018 and 2017, respectively.

NOTE 4: ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

| Year ended, | 2018 | 2017 |
|--------------------------|------------------------|---------|
| Trade receivable | \$ 1,452,567 \$ | 923,026 |
| Accounts receivable, net | \$ 1,452,567 \$ | 923,026 |

All receivable are deemed to be 100% collectible by Abilitworks, therefore no allowance for doubtful accounts has been recorded for the years ended June 30, 2018 and 2017.

NOTE 5: UNBILLED RECEIVABLES

Unbilled receivables are the total amount for payroll processing services rendered but not yet invoiced, related to the Medicaid Waiver program. Unbilled receivables totaled \$2,180,041 \$2,402,777 For the years ended June 30, 2018 and 2017, respectively.

NOTE 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:

| Year ended, | 2018 | 2017 |
|--|---------------|---------------|
| | | |
| Interfund receivables | | |
| Department of Rehabilitation Services | | |
| Office of Special Disability Programs | \$ 9,320,529 | \$ 8,897,744 |
| Spinal Cord Trauma Brain Injury | 3,990,518 | 3,601,195 |
| Office of Vocational Rehabilitation | 517,439 | 81,865 |
| Rehabilitation Services | (1,100,000) | (1,100,000) |
| Mississippi Department of Transportation | 350 | 390 |
| University of Mississippi Medical Center | 6,844 | 11,573 |
| Mississippi Department of Human Services | 18,164 | 7,240 |
| Mississippi Department of Marine Resources | | 3,444 |
| | | _ |
| | \$ 12,753,844 | \$ 11,503,451 |

NOTE 7: INVENTORIES

A summary of inventories follows:

| Year ended, | 2018 | 2017 |
|----------------------------|---------------|---------------|
| Finished goods | \$ 65,267 | \$ 66,984 |
| Raw materials and supplies | 124,419 | 97,903 |
| Total inventories | \$ 189,686 | \$ 164,887 |

NOTE 8: OTHER OPERATING INCOME, NET

A summary of other operating income, net follows:

| Year ended, | 2018 | 2017 |
|--------------------------------|---------------|---------------|
| Payroll processing income, net | \$ 55,810,290 | \$ 61,510,157 |
| Payroll processing expense | (54,789,019) | (60,377,745) |
| Other income | 339,488 | 235,135 |
| Other operating income, net | \$ 1,360,759 | \$ 1,367,547 |

NOTE 9: RELATED PARTY TRANSACTIONS

Net transfers-in of \$6,042,476 and \$6,587,879 during June 30, 2018 and 2017 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:

| Year ended, | 2018 | 2017 |
|--|------------------------------|-------|
| MDRS - general and administrative expenses | \$ 6,042,476 \$ 6,58° | 7,879 |
| Total operating transfers | \$ 6,042,476 \$ 6,58 | 7,879 |

NOTE 10: FACILITIES

Production facilities utilized by seven (7) AbilityWorks locations are provided without rent by the counties in which the facilities are located. The other nine facilities reported rent expense of \$429,853 and \$410,463 as of June 30, 2018 and 2017 under cancellable operating leases. 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. For the year ended, June 30, 2018 and 2017, the amount charged and offset against rent expense was \$219,454 and \$206,824, respectively.

SUPPLEMENTARY INFORMATION

AbilityWorks, Inc. Schedules of Cost of Production Year Ended June 30, 2018

| Years ended June 30, | 2018 | 2017 |
|----------------------------------|-----------------|-----------------|
| | | |
| Bank charges | \$ 13,276 | \$ 12,468 |
| Commissions | 123,343 | 143,865 |
| Employee benefits | 390,473 | 882,807 |
| Equipment repair and maintenance | 213,995 | 196,338 |
| Facility repair and maintenance | 162,879 | 149,563 |
| General shop and tools | 53,133 | 66,056 |
| Marketing | 27,161 | 28,957 |
| Miscellaneous | 156,165 | 174,519 |
| Opportunity wages production | 1,309,450 | 1,187,107 |
| Other administrative expenses | 39,504 | 54,199 |
| Professional fees | 262,792 | 323,765 |
| Rent | 210,420 | 203,639 |
| Salaries, non-client employees | 2,832,328 | 2,767,980 |
| Supplies | 1,087,058 | 997,935 |
| Uniforms | 45,009 | 31,279 |
| Vehicle expense | 151,998 | 110,378 |
| | | |
| Total cost of production | \$ 7,078,984 | \$ 7,330,855 |

AbilityWorks, Inc. Schedules of General and Administrative Expenses Year Ended June 30, 2018

| Years ended June 30, | 2018 | 2017 |
|---|-----------------|-----------------|
| | | |
| Client transportation | \$ 413,662 | \$ 340,865 |
| Commodities | 130,794 | 33,062 |
| Community based | 107,658 | 195,397 |
| Contractual services | 453,802 | 566,019 |
| Equipment | 4,557 | 1,813 |
| Salaries and related expenses | 4,930,856 | 5,437,890 |
| Subsidy - opportunity wages | | 7,679 |
| Travel | 1,147 | 5,154 |
| | | |
| Total general and administrative expenses | \$ 6,042,476 | \$ 6,587,879 |

AbilityWorks, Inc. Schedule of Statistical Analysis of Operations Year Ended June 30, 2018

Year ended June 30, 2018

| | | Total per the Statement of Revenues, | | | Total Cost of Operations for Year in Relation to | | | |
|--|-----------------------|--|----|-------------|---|------------|--|--|
| | Expenses, and Changes | | | Clients | | Client | | |
| | | n Net Assets | | Served | | Days | | |
| Coat of anaduation | Ś | 7,078,984 | ¢ | 4,348 | ۲. | 151 | | |
| Cost of production | Ş | | Ş | • | Ş | | | |
| General and administrative expenses | | 6,042,476 | | 3,712 | | 129 280 | | |
| Total operating cost | | 13,121,460 | | 8,060 | | 280 | | |
| Less revenue and other operating | | 7 022 500 | | 4 906 | | 167 | | |
| Total operating cost, net of revenue | | 7,823,588 | - | 4,806 | | 167 | | |
| | | E 207 972 | | 2.254 | | 113 | | |
| and other operating revenue | | 5,297,872 | | 3,254 11 | | 113 | | |
| Nonoperating (revenue) expense | | 17,985 | | 11 | | (8) | | |
| Total operating cost after | | | | | | | | |
| nonoperating (revenue) expense | \$ | 5,315,857 | \$ | 3,265 | \$ | 113 | | |
| Totals for the year ended June 30, 2018: | | | | | | | | |
| | | 240 | | | | | | |
| Average daily attendance | | 240 | | | | | | |
| Clients served | | 1,628 | | | | | | |
| Client days | | 46,800 | | | | | | |
| Average length of stay | Clie | ent days | | 20 | | | | |
| per client in days | Clie | ents served | | 29 | | | | |

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

AbilityWorks, Inc. Schedule of Statistical Analysis of Operations Year Ended June 30, 2017

Year ended June 30, 2017

| | | Total per the Statement of Revenues, Expenses, and Changes in Net Assets | otal Cost of for Year in | Operations Relation to | |
|---|----|--|-----------------------------|---------------------------|--|
| | | | Clients Served | Client Days | |
| Cost of production | \$ | 7,330,855 | \$ 5,077 | \$ 157 | |
| General and administrative expenses | | 6,587,879 | 4,562 | 141 | |
| Total operating cost Less revenue and other operating | | 13,918,734 | 9,639 | 297 | |
| income | | 7,691,043 | 5,326 | 164 | |
| Total operating cost, net of revenue | | .,00=,0.0 | -, | | |
| and other operating revenue | | 6,227,691 | 4,313 | 134 | |
| Nonoperating (revenue) expense | | (4,541) | (3) | | |
| Total operating cost after | | | | | |
| nonoperating (revenue) expense | \$ | 6,223,150 | \$ 4,310 | \$ 134 | |
| Totals for the year ended June 30, 2018: Average daily attendance | | 192 | | | |
| Clients served Client days | _ | 1,444 46,800 | | | |
| Average length of stay per client in days | | ent days ents served | 32 | | |

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



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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

AbilityWorks, Inc. Madison, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of AbililtyWorks, Inc., a component unit of the State of Mississippi as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise AbililtyWorks, Inc., a component unit of the State of Mississippi basic financial statements and have issued our report thereon dated December 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AbilityWorks, Inc., 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 AbilityWorks, Inc., a component unit of the State of Mississippi internal control. Accordingly, we do not express an opinion on the effectiveness of AbilityWorks, Inc., 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 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 the attention of 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 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.

Caux Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi December 13, 2018