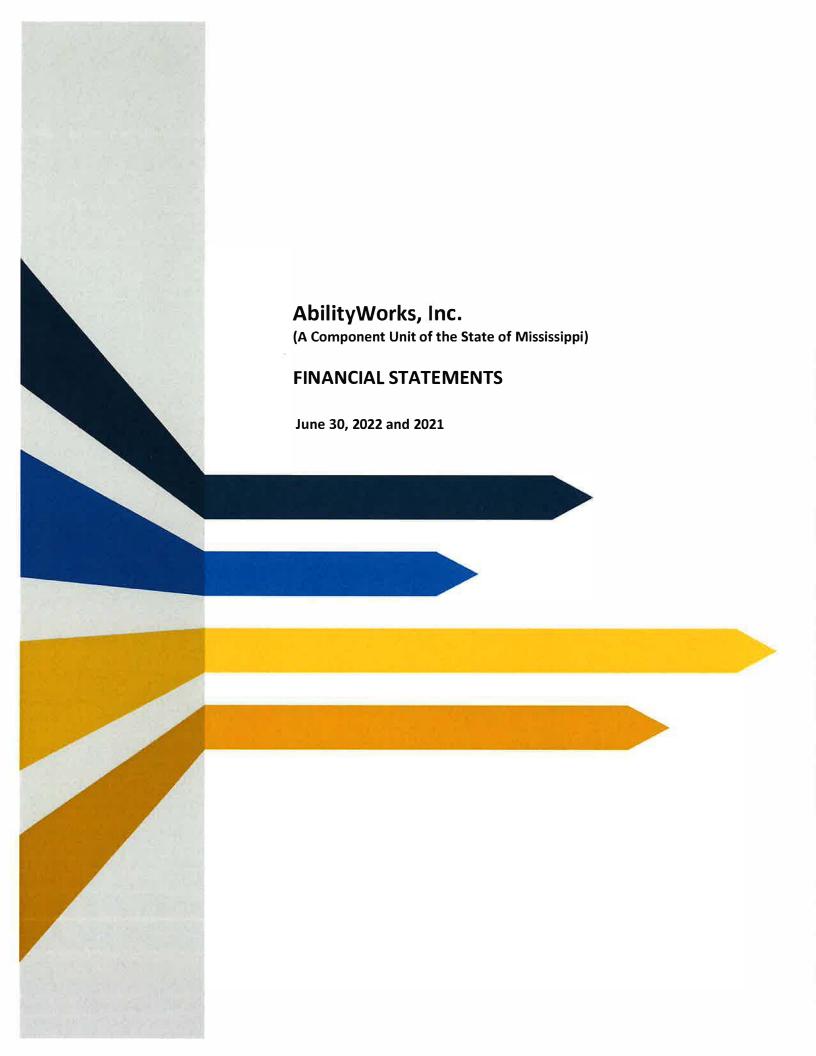


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### **REPORT**



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#### INDEPENDENT AUDITORS' REPORT

The Board of Directors AbilityWorks, Inc. Madison, Mississippi

#### **Opinion**

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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 June 30, 2022 and 2021, 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.

#### **Basis for Opinion**

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

#### Change in Accounting Principle

As described in Note 2 to the financial statements, in 2022, AbilityWorks, Inc. adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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. In preparing the financial statements, management is required to evaluate whether

there are conditions or events, considered in the aggregate, that raise substantial doubt about AbilityWorks, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether
  due to fraud or error, and design and perform audit procedures responsive to those risks.
   Such procedures include examining, on a test basis, evidence regarding the amounts and
  disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit
  procedures that are appropriate in the circumstances, but not for the purpose of expressing
  an opinion on the effectiveness of AbilityWorks, Inc.'s internal control. Accordingly, no such
  opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AbilityWorks, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

#### **Supplementary Information**

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.

#### **Other Information**

Our audits were 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 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 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 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 January 19, 2023, 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.

CARR, RIGGS & INGRAM, LLC

Carr, Riggs & Ungram, L.L.C.

Ridgeland, Mississippi January 19, 2023



### **FINANCIAL STATEMENTS**

### AbilityWorks, Inc. (A Component Unit of the State of Mississippi) 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, 2022 and 2021.

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, basic financial statements.

#### **Financial Highlights**

#### Fiscal year 2022:

- Total net position for AbilityWorks at year end 2022 was reported at \$29,405,528, which was a decrease of \$20,878, or 0.07%, from the prior fiscal year.
- Operating revenues for fiscal year 2022 decreased \$1,154,999, or 2.01%, from fiscal year 2021 due to less revenue from community based production caused by federal contracts being completed and not renewed.
- Total expenditures decreased 1.32%, or \$830,986, from 2021 to 2022 due to a decrease in Medicaid waiver payroll decreasing \$109,640, "Cost of production" decreasing \$524,408, and "general and administrative expenses" decreasing \$196,938.
- Transfers-in decreased \$196,938, or 3%.

#### Fiscal year 2021:

- Total net position, as restated, for AbilityWorks at year end was reported at \$29,426,406, which was an increase of \$500,342, or 1.73%, from the prior fiscal year.
- Operating revenues for fiscal year 2021 decreased \$2,198,239, or 3.68%, from fiscal year 2020 due to less revenue from production.
- Total expenditures decreased 4.33%, or \$2,849,756, from 2020 to 2021 due to a decrease in Medicaid waiver payroll. "Cost of production" increased \$77,864, "general and administrative expenses" decreased \$656,561.
- Transfers-in decreased \$656,561, or 10%.

#### Overview of the Financial Statements

Under GASB 34, the primary 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. (A Component Unit of the State of Mississippi) Management's Discussion and Analysis

#### **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.

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.

#### **Financial Analysis**

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

•		Restated	
June 30,	2022	2021	2020 *
Current and other assets	\$ 32,247,885	\$ 32,237,115	\$ 31,506,936
Right-to-use lease assets	1,441,402	1,802,455	
Total assets	33,689,287	34,039,570	31,506,936
Current liabilities	3,135,815	3,162,259	2,580,872
Noncurrent liabilities	1,147,944	1,450,905	
Total liabilities	4,283,759	4,613,164	2,580,872
Net Position			
Net investment in capital asset	(19,373)	(11,012)	<del></del>
Unrestricted	29,424,901	29,437,418	28,926,064
Total net position	\$ 29,405,528	\$ 29,426,406	\$ 28,926,064

<sup>\*</sup> GASB Statement No. 87 was implemented as of July 1, 2020.

#### Fiscal Year 2022:

- Total assets decreased \$350,283, of this amount:
  - o Cash decreased \$3,334,973.
  - o Investments CD increased \$344.
  - o The Accounts receivables, net account decreased \$217,120. This is due to two federal contracts being completed and not renewed, one at the Jackson location and the other at the Harrison County location.
  - o The Unbilled receivables account, which involved the Medicaid Waiver for payroll processing services, increased \$71,704 or 3%. 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 was due to invoices being submitted in a more timely manner.

## AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Management's Discussion and Analysis

#### Financial Analysis (Continued)

- o The Interfund receivables account increased by \$3,633,361 or 27%. 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 decreased \$84,004. This is due to less inventory on hand based on a decrease in the demand for products.
- o Prepaid expenses decreased \$58,542.
- o As a result of the implementation of GASB statement No. 87, Lease assets were recognized and 2021 restated. The decrease in lease assets is a result of the accumulated amortization of the lease asset.
- Total liabilities decreased \$329,405. Of this amount:
  - o The accounts payable account decreased \$34,780.
  - o The accrued expenses account increased \$58,067.
  - o As a result of the implementation of GASB statement No. 87, Lease liabilities were recognized and 2021 restated. The decrease in lease liabilities is a result of the principal payments of the lease liabilities.

#### Fiscal Year 2021:

- Total assets increased \$2,532,634 of this amount:
  - o Cash" decreased \$3,859,462.
  - o Investments CD increased \$1,051.
  - o The Accounts receivables, net account increased \$102,643. 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, 2022 and 2021, 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.
  - o The Unbilled receivables account, which involved the Medicaid Waiver for payroll processing services, increased \$82,008 or 4%. 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 was due to invoices being submitted in a more timely manner.
  - The Interfund receivables account increased by \$4,314,852 or 46%. 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 \$84,037. This is due to more inventory on hand based on an increase in the demand for products.
  - o As a result of the implementation of GASB statement No. 87, Lease assets were recognized in 2021 and related amortization for a net increase of \$1,802,455

## AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Management's Discussion and Analysis

#### **Financial Analysis (Continued)**

- Total liabilities increased \$2,032,292. Of this amount:
  - o The accounts payable account increased \$86,367.
  - o The accrued expenses account increased \$132,458. The increase is related to the payroll accrual for the fiscal year ended June 30, 2021 had an extra day than previous year's accrual.
  - o As a result of the implementation of GASB statement No. 87, Lease liabilities were recognized and 2021 and principal payments for a net increase of \$1,813,467.

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

Year ended June 30,		2022		Restated 2021	2020*
Revenues					
Operating revenues					
Revenue from production	\$	5,340,572	\$	6,828,245	\$ 7,029,688
Medicaid waiver income	•	50,254,445	·	50,105,285	52,345,966
Other		813,194		629,680	385,795
Nonoperating revenues (expenses)					
Investment income		20,000		22,898	27,225
Interest expense		(24,792)		(27,421)	190
Total revenues		56,403,419		57,558,687	59,788,674
Expenses					
Cost of production		6,916,095		7,440,503	7,362,639
Medicaid waiver expense		49,508,202		49,617,842	51,888,901
General and administrative		5,648,860		5,845,798	6,502,359
Total expenditures		62,073,157		62,904,143	65,753,899
		,,			
Transfers					
Transfers-in		5,648,860		5,845,798	6,502,359
Total transfers (net)		5,648,860		5,845,798	6,502,359
Increase (Decrease) in net position		(20,878)		500,342	537,134
Net position - beginning of year as restated (see Note 2)		29,426,406		28,926,064	28,388,930
Net position - ending	\$	29,405,528	\$	29,426,406	\$ 28,926,064

<sup>\*</sup> GASB Statement No. 87 was implemented as of July 1, 2020.

## AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Management's Discussion and Analysis

#### Financial Analysis (Continued)

#### Fiscal Year 2022:

- 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. Four of the fifteen locations represented approximately 52% of the production revenue recorded in 2022. These facilities are as follows: Olive Branch, Starkville, Jackson, and Meridian.
- The increase reported in the Medicaid Waiver income account was \$149,160.
- The decrease reported in general and administrative expenses was \$196,938 which 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.
- There was 3% decrease in the transfers-in account, which is related to transfer of salaries
  of program personnel by the parent agency.

#### Fiscal Year 2021:

- 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. Three of the fifteen locations represented approximately 52% of the production revenue recorded in 2022. These facilities are as follows: Meridian, Harrison County and Jackson.
- The decrease reported in the Medicaid Waiver income account was \$2,240,681 and is mainly due to a decrease in employees working overtime and being paid time and a half.
- 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.
- There was a 10% 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, Community Rehabilitation, provides vocational evaluation and job readiness opportunities outside the boundaries of the facility and places clients directly in local businesses.

### AbilityWorks, Inc. (A Component Unit of the State of Mississippi) Management's Discussion and Analysis

#### **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.

#### **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

June 30,	2022	Restated 2021
Assets		
Current Assets		
Cash	\$ 10,902,842	\$ 14,237,815
Investment - certificate of deposit	172,083	171,739
Accounts receivable, net	709,401	926,521
Unbilled receivables	2,204,566	2,132,862
Interfund receivables	17,327,851	13,694,490
Inventories	230,801	314,805
Prepaid expenses and other	700,341	758,883
Total current assets	32,247,885	32,237,115
Noncurrent Assets		
Right-to-use lease assets, net	1,441,402	1,802,455
Total assets	\$ 33,689,287	\$ 34,039,570
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 266,814	\$ 301,594
Accrued expenses	2,556,170	2,498,103
Lease liabilities	312,831	362,562
Total current liabilities	3,135,815	3,162,259
Noncurrent Liabilities	1 147 044	1 450 005
Lease liabilities	1,147,944	1,450,905
Total noncurrent liabilities	1,147,944	1,450,905
Total liabilities	4,283,759	4,613,164
Net Position		
	/10 272\	(11 012)
Net investment in capital assets Unrestricted	(19,373) 29,424,901	(11,012) 29,437,418
Total net position - restated (see Note 2)	\$ 29,405,528	\$ 29,426,406

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

Years ended June 30,	2022	Restated 2021
Operating revenue		
Revenue from production	\$ 5,340,572	\$ 6,828,245
Medicaid waiver income	50,254,445	50,105,285
Administrative services and other	813,194	629,680
Total operating revenues	56,408,211	57,563,210
Operating expenses		
Cost of production	6,916,095	7,440,503
Medicaid waiver expenses	49,508,202	49,617,842
General and administrative expenses	5,648,860	5,845,798
Total operating expenses	62,073,157	62,904,143
Operating loss	(5,664,946)	(5,340,933)
Nonoperating Revenues and Expense		
Interest income	20,000	22,898
Interest expense	(24,792)	(27,421)
Total nonoperating revenues and expenses	(4,792)	(4,523)
Loss before transfers	(5,669,738)	(5,345,456)
Transfers-in	5,648,860	5,845,798
Increase (decrease) in net position	(20,878)	500,342
Net position - beginning of year as restated (See Note 2)	29,426,406	28,926,064
Net position - end of year	\$ 29,405,528	\$ 29,426,406

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

Years ended June 30,	2022	Restated 2021
Cash Flows From Operating Activities		
Receipts from customers	\$ 5,557,692	\$ 6,723,819
Receipts for payroll processing	46,549,380	45,708,425
Other receipts	813,194	417,599
Payment to suppliers	(3,741,905)	(3,363,598)
Payments to employees	(8,283,225)	(9,205,794)
Payments for payroll processing	(49,508,202)	(49,617,842)
y cymente tel peyton processing	(10/000/202)	(10,021,012)
Net cash provided by (used by) operating activities	(8,613,066)	(9,337,391)
Cash Flows From Noncapital Financing Activities		
Transfers-in	5,648,860	5,845,798
Net cash provided by (used by) non capital and related financing activities	5,648,860	5,845,798
Cash Flows From Capital and Related Financing Activities		
Principal payments on leased buildings	(365,975)	(363,346)
Interest paid on leased buildings	(24,792)	(27,421)
	(= :,, ==)	(=-,-=-,
Net cash provided by (used by) capital and related financing activities	(390,767)	(390,767)
Cash Flows From Investing Activities		
Interest income	20,000	22,898
THE CSE MEANING	20,000	22,030
Net cash provided by (used by) investing activities	20,000	22,898
Net increase (decrease) in cash	(3,334,973)	(3,859,462)
Cash at beginning of year	14,237,815	18,097,277
Cash at end of year	\$ 10,902,842	\$ 14,237,815

(Continued)

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

Years ended June 30,	2022	Restated 2021
Reconciliation of Operating Loss to Net Cash Provided		
by (Used by) Operating Activities		
Operating loss	\$ <b>(5,664,946)</b> \$	(5,340,933)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by (Used by) Operating Activities		
Amortization	374,336	374,358
Net effect of changes in assets and liabilities:		
Accounts receivable	217,120	(102,643)
Unbilled receivables	(71,704)	(82,008)
Interfund receivables	(3,633,361)	(4,314,852)
Inventories	84,004	(84,037)
Prepaid expenses and other	58,198	(6,101)
Accounts payable	(34,780)	86,367
Accrued expenses	58,067	132,458
Net cash provided by (used by) operating activities	\$ (8,613,066) \$	(9,337,391)

#### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of AbilityWorks, Inc., ("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 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.

#### **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.

#### 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 and transactions have been eliminated and are not reflected in the basic financial statements.

#### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Right-to-Use Lease Assets and Liabilities

Abilityworks has recorded right-to-use lease assets as a result of implementing GASB Statement 87. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the related lease liability. The right-to-use lease assets are amortized on a straight-line basis over the life of the related lease. The lease liabilities are recorded at the present value of future lease payments, discounted using AbilityWorks' incremental borrowing rate of 1.5 % (the interest rates charged in the leases were not readily available). See Note 2.

#### Capital Asset Purchases

Property and equipment purchased directly by the facilities are maintained by and considered property of the State of Mississippi. At time of purchase a corresponding transfer out is made to transfer the assets to the Mississippi Department of Rehabilitation Services.

#### **Net Position Classifications**

Net position of AbilityWorks is classified in three components, as follows:

Net investment in capital assets — consists of right-to-use lease assets net of accumulated amortization and reduced by the lease liabilities related to the right-to-use lease assets.

Restricted net position – Consists of net position amounts with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. There are no restrictions at June 30, 2022 or 2021.

Unrestricted net position – All other net position amounts that do not meet the definition of "restricted".

AbilityWorks utilizes restricted fund balances first, followed by unrestricted when available to use for the same purpose.

#### Revenue Recognition

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. Medicaid Waiver income consists of net payroll income for processing payroll under the Medicaid Waiver program.

#### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Operating/Nonoperating Income (continued)

<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.

#### 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.

#### **Employee Benefits**

AbilityWorks employees are not eligible to receive State of Mississippi benefits. In some cases, State of Mississippi employees work full time for AbilityWorks, however these workers are 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

Management has evaluated events through January 19, 2023, the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require additional recognition or disclosure in the financial statements.

#### Recently Issued and Implemented Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, Leases (GASB 87). This statement provides guidance for lease contracts for nonfinancial assets - including vehicles, heavy equipment and buildings - but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). The lease definition now focuses on a contract that conveys control of the right to use another entity's nonfinancial assets, which is referred to in the new Statement as the underlying asset. Under GASB 87, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The requirements of the Statement are effective for reporting periods beginning after June 15, 2021 with early adoption permitted. Additional information on changes to the financial statements related to the implementation of this statement can be found in Notes 2 and 11.

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021

In March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement {SCA}, which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the

#### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recently Issued and Implemented Accounting Pronouncements (continued)

arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement is effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements {SBITAs} for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement is effective for fiscal years beginning after June 15, 2022.

In June 2022, the GASB issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, the GASB issued Statement No. 100, Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change

#### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recently Issued and Implemented Accounting Pronouncements (continued)

in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement is effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 101, Compensated Absences. This Statement provides updated guidance on the recognition and measurement for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement is effective for fiscal years beginning after December 15, 2023.

Management is evaluating the requirements of the above statements and the impact on reporting.

#### **Note 2: CHANGE IN ACCOUNTING PRINCIPLE**

#### Implementation of GASB Statement No. 87

For 2022, AbilityWorks implemented GASB Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset. These changes were incorporated in AbilityWorks' 2022 financial statements and had an effect on the beginning net position.

The implementation of GASB Statement No. 87 had the following effect on net position as reported July 1, 2020:

Net Position July, 1, 2020, as previously reported	\$28,926,064
Restatement:	
Lease asset	2,176,813
Lease liability	(2,176,813)
Restated Net Position July 1, 2020	\$28,926,064

The above adjustment decreased the net position \$11,012 at June 30, 2021.

#### **Note 3: CONCENTRATIONS OF CREDIT AND OTHER RISKS**

Financial instruments that potentially subject AbilityWorks to concentrations of credit risk consist of cash and cash equivalents, and accounts receivable. 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.

During June 30, 2022, AbilityWorks received significant receipts from Medicaid that comprised approximately 89% of its annual operating revenue. During 2021, Medicaid comprised approximately 87% of its annual operating revenue.

#### Note 4: INVESTMENTS – CERTIFICATE OF DEPOSIT

Investments at June 30, 2022 and 2021, consist of a non-negotiable certificate of deposit totaling \$172,083 and \$171,739, respectively, which matured in February 2022.

Fair Value — GASB Codification Section 3100: Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under the codification are described as follows:

- Level 1 (L1): Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AbilityWorks has the ability to access.
- Level 2 (L2): Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

#### Note 4: INVESTMENTS - CERTIFICATE OF DEPOSIT (Continued)

Level 3 (L3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The certificate of deposit is measured using level 1 inputs. Level 1 inputs are those considered to have a readily observable, transparent price in an active market. Interest received on the certificate of deposit was \$344 and \$1,051 for the years ending June 30, 2022 and 2021, respectively.

#### **Note 5: ACCOUNTS RECEIVABLE**

A summary of accounts receivable follows:

June 30,		2022	2021
Trade receivable	\$ 7	09,401	\$ 926,521
Accounts receivable, net	\$ 7	09,401	\$ 926,521

All receivable are deemed to be 100% collectible, therefore no allowance for doubtful accounts has been recorded as of years ended June 30, 2022 and 2021.

#### **Note 6: 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 \$2,204,566 and \$2,132,862 for the years ended June 30, 2022 and 2021, respectively.

#### **Note 7: 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:

June 30,	2022		2021	
Department of Rehabilitation Services				
Office of Special Disability Programs	\$	12,842,284	\$ 8,781,628	
Spinal Cord Trauma Brain Injury		5,373,099	5,855,021	
Office of Vocational Rehabilitation		211,539	157,841	
Rehabilitation Services		(1,100,000)	(1,100,000)	
Supportive Services		929	*	
	\$	17,327,851	\$ 13,694,490	

#### **Note 8: INVENTORIES**

A summary of inventories follows:

June 30,	 2022	2021
Finished goods	\$ 111,109	\$ 107,087
Raw materials and supplies	119,692	207,718
Total inventories	\$ 230,801	\$ 314,805

#### **Note 9: RIGHT-TO-USE LEASE ASSETS**

Abilityworks has recorded nine right-to-use lease assets as the lessee of buildings. The related leases are discussed in Note 11. The right-to-use lease assets are amortized on a straight-line basis over the terms of the related leases.

#### Note 9: RIGHT-TO-USE LEASE ASSETS (Continued)

The following is a summary of changes in right-to-use lease assets during the year ended June 30, 2022:

	16.	Restated Beginning Balance	Increases	Decreases	Ending Balance
Right-to-use lease assets: Buildings	<b>\$</b>	2,176,813	\$ 13,283	\$ (8,416) \$	2,181,680
Total right-to-use lease assets		2,176,813	13,283	(8,416)	2,181,680
Less accumulated amortization for: Buildings		(374,358)	(374,336)	8,416	(740,278)
Total accumulated amortization		(374,358)	(374,336)	8,416	(740,278)
Right-to-use lease assets, net	\$	1,802,455	\$ (361,053)	\$ - \$	1,441,402

The following is a summary of changes in right-to-use lease assets during the year ended June 30, 2021:

	Restated Beginning Balance	Increases	Decreases	Restated Ending Balance
Right-to-use lease assets: Buildings	\$ 2,176,813	\$ j+0 \$	- \$	2,176,813
Total right-to-use lease assets	2,176,813	(€):	£	2,176,813
Less accumulated amortization for: Buildings	240	(374,358)		(374,358)
Total accumulated amortization	100	(374,358)		(374,358)
Right-to-use lease assets, net	\$ 2,176,813	\$ (374,358) \$	- \$	1,802,455

<sup>\*</sup> June 30, 2020 balance is restated with the implementation of GASB 87

#### **Note 10: RELATED PARTY TRANSACTIONS**

Net transfers-in of \$5,648,860 and \$5,845,798 during the years ended June 30, 2022 and 2021 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:

Years ended June 30,	2022	2021
MDRS - general and administrative expenses	\$ 5,648,860	\$ 5,845,798
Total operating transfers	\$ 5,648,860	\$ 5,845,798

#### **Note 11: LEASE LIABILITIES**

AbilityWorks production facilities leases various buildings to provide community rehabilitation programs. The key provisions of AbilityWorks' lease agreements are summarized as follows:

		Payment	Annual Payment	Initial Total Lease	Balance	Balance
	Date	Terms	Amount	Liability	June 30, 2022	June 30, 2021
Corinth Building	11/1/2007	15 years \$	48,000 \$	121,706 \$	27,861 \$	75,058
Olive Branch Building	1/1/2010	20 years	3,600	32,676	26,324	29,503
Oxford Building	9/1/2009	20 years	6,000	52,726	42,089	47,415
Columbus Building	2/1/2017	10 years	6,000	37,637	26,560	32,116
Kosciusko Building	9/1/2018	3.25 years	6,000	8,416	570	2,491
Kosciusko Building	12/1/2021	2 years	6,000	13,283	9,870	*
Brookhaven Building	4/1/2018	15 years	81,367	961,685	824,622	893,063
Jackson Building	10/1/2004	20 years	201,400	876,955	493,873	686,298
Laurel Building	7/1/2012	10 years	38,400	85,012	9,576	47,523
					4.460.775 6	4 042 467
				\$	1,460,775 \$	1,813,467

#### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2022, was as follows:

	Restated Beginning Balance	lı	ncreases	ı	Decreases	Ending Balance	ĺ	Due Within One Year
Lease liabilities	\$ 1,813,467	\$	13,283	\$	(365,975)	\$ 1,460,775	\$	312,831
Long-term liabilities	\$ 1,813,467	\$	13,283	\$	(365,975)	\$ 1,460,775	\$	312,831

Note 11: LEASES (Continued)

#### Changes in Long-Term Liabilities (continued)

Long-term liability activity for the year ended June 30, 2021, was as follows:

<b>\$</b>	Restated Beginning Balance	Increases	S	C	ecreases	Ending Balance	Due Within One Year
Lease liabilities	\$ 2,176,813	\$	=	\$	(363,346)	\$ 1,813,467	\$ 362,562
Long-term liabilities	\$ 2,176,813	\$	×	\$	(363,346)	\$ 1,813,467	\$ 362,562

The following is a schedule of minimum future lease payments from lease agreements as of June 30, 2022:

For the year ending June 30,	Lease Liability	Interest Expense			Total
2023	\$ 312,831	\$	19,536	\$	332,367
2024	287,272		15,095		302,367
2025	186,557		11,110		197,667
2026	87,600		9,367		96,967
2027	86,416		8,051		94,467
2028 - 2032	409,814		21,422		431,236
2033	90,285		657		90,942
<del></del>					
Total	\$ 1,460,775	\$	85,238	\$	1,546,013



### **SUPPLEMENTARY INFORMATION**

# AbilityWorks, Inc. Schedules of Cost of Production Year Ended June 30, 2022

		Restated
Years ended June 30,	2022	2021
	40.455	44.500
Bank charges	\$ 12,175	\$ 11,639
Commissions	56,610	131,890
Employee benefits	479,708	780,270
Equipment repair and maintenance	145,801	215,535
Facility repair and maintenance	308,587	163,066
General shop and tools	45,657	52,473
Marketing	10,559	13,820
Miscellaneous	388,671	427,221
Opportunity wages production	1,150,246	958,012
Other administrative expenses	294,180	270,225
Professional fees	256,663	184,592
Amortization expense	374,336	374,358
Salaries, non-client employees	2,138,425	2,545,089
Supplies	987,526	1,140,094
Uniforms	43,840	66,785
Vehicle expense	223,111	105,434
Total cost of production	\$ 6,916,095	\$ 7,440,503

# AbilityWorks, Inc. Schedules of General and Administrative Expenses Year Ended June 30, 2022

Years ended June 30,	2022	2021
Client transportation	\$ 374,146	\$ 211,632
Commodities	54,724	36,853
Community based	46,914	82,560
Contractual services	554,493	466,634
Equipment related expenses	45,331	7,327
Salaries and related expenses	4,572,913	5,040,749
Travel	338	43
Total general and administrative expenses	\$ 5,648,860	\$ 5,845,798

# AbilityWorks, Inc. Schedule of Statistical Analysis of Operations Year Ended June 30, 2022

Year ended June 30, 2022

rear enaea June 30, 2022					
	Total per the				
	Statement of	To	otal Cost o	f Ope	rations
	Revenues,	f	or Year in	Relat	ion to
	Expenses,				
	and Changes		Clients		Client
	in Net Assets		Served		Days
Cost of production	\$ 6,916,095	ć	5,019	ć	202
General and administrative expenses	5,648,860	Ą	4,099	Y	165
General and administrative expenses	3,046,600		4,033		103
Total operating cost	12,564,955		9,118		367
Less operating revenue - excluding Medicaid			-,		
waiver income and expenses	6,153,766		4,466		180
	3,233,133		.,		
Total operating cost, net of revenue					
and other operating revenue	6,411,189		4,653		188
Nonoperating (revenue) expense	4,792		3		¥
Net operating cost after					
nonoperating (revenue) expense	\$ 6,415,981	ć	4,656	ć	188
Tionoperating (revenue) expense	3 0,413,981	<b>3</b>	4,030	<del>-</del>	100
Net for the year ended June 30, 2022:					
Average daily attendance	141				
Clients served	1,378				
Client days	34,191				
Average length of stay	Client days		35		
per client in days	Clients served		25		

<sup>\*</sup> 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 employee data and are appropriately not included in the above analysis.

# AbilityWorks, Inc. Schedule of Statistical Analysis of Operations Year Ended June 30, 2021

Year ended June 30, 2021

		Total per the Statement of Revenues, _		Total Cost of for Year in	•	
		Expenses, and Changes in Net Assets		Clients Served		Client Days
Cost of production	\$	7,440,503	\$	7,196	\$	254
General and administrative expenses		5,845,798		5,654		199
Total operating cost Less operating revenue - excluding Medicaid		13,286,301		12,849		453
waiver income and expenses		7,457,925		7,213		254
Total operating cost, net of revenue						
and other operating revenue  Nonoperating (revenue) expense		5,828,376 4,523		5,637 4		199
Net operating cost after	<b>^</b>	F 022 000		F C 44		100
nonoperating (revenue) expense	\$	5,832,899	\$	5,641	\$	199
Net for the year ended June 30, 2021:						
Average daily attendance		123				
Clients served		1,034				
Client days		29,345	ž.			
Average length of stay per client in days		ent days ents served	ij	28		

<sup>\*</sup> 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 employee 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 AbilityWorks, Inc., a component unit of the State of Mississippi as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise AbilityWorks basic financial statements, and have issued our report thereon dated January 19, 2023.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered AbilityWorks, Inc. internal control over financial reporting (internal control) as a basis for designing 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. 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 AbilityWorks'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 AbilityWorks, Inc. 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 financial statements. 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 the entity's 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.

CARR, RIGGS & INGRAM, LLC

Can, Riggs & Ungran, L.L.C.

Ridgeland, Mississippi January 19, 2023