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

FINANCIAL STATEMENTS

June 30, 2023 and 2022



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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, 2023 and 2022, 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, 2023 and 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 Audits 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 and *Government 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 and *Government 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.

Required 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 is the responsibility of management and, 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

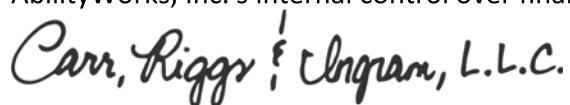
management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise AbilityWorks, Inc.'s (a component unit of the State of Mississippi) basic financial statements. The supplementary information included in the accompanying schedules of cost of production, general and administrative expenses, and statistical analysis of operations are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was 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 December 20, 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.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." with a stylized flourish at the end.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
December 20, 2023

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, 2023, 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 2023:

- Total net position for AbilityWorks at year end 2023 was reported at \$28,785,671, which was a decrease of \$619,857, or 2.11%, from the prior fiscal year.
- Operating revenues for fiscal year 2023 increased \$5,025,835, or 8.91%, from fiscal year 2022 due to an increase in Medicaid waiver income.
- Total expenditures increased 10.69%, or \$6,636,701, from 2022 to 2023 due to an increase in Medicaid waiver payroll of \$6,921,182, "Cost of production" decreasing \$1,285,805, and "general and administrative expenses" increasing \$1,001,324.
- Transfers-in increased \$1,001,324, or 18%.

Fiscal year 2022:

- Total net position, as restated, for AbilityWorks at year end 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%.

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

Table 1
Statements of Net Position

<i>June 30,</i>	2023	2022	Restated 2021
Current and other assets	\$ 32,904,039	\$ 33,347,885	\$ 32,237,115
Right-to-use lease assets	1,365,700	1,441,402	1,802,455
Total assets	34,269,739	34,789,287	34,039,570
Current liabilities	3,338,007	3,135,815	3,162,259
Noncurrent liabilities	2,146,061	2,247,944	1,450,905
Total liabilities	5,484,068	5,383,759	4,613,164
Net position			
Net investment in capital assets	(24,246)	(19,373)	(11,012)
Unrestricted	28,809,917	29,424,901	29,437,418
Total net position	\$ 28,785,671	\$ 29,405,528	\$ 29,426,406

Fiscal Year 2023:

- Total assets decreased \$519,548. Of this amount:
 - o Cash increased \$6,399,271.
 - o Investments - CD increased \$992.
 - o Accounts receivable, net decreased \$10,277.
 - o Unbilled receivables, which involved the Medicaid Waiver for payroll processing services, increased \$110,628 or 5%. The amount represents the payroll generated for those hours earned by personal care attendants prior to June 30th. 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 decreased by \$6,866,511 or 37%. 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. There was a conscious effort on timely billing for the Medicaid Waiver.
- o The Inventories account decreased \$29,977. This is due to less inventory on hand based on a decrease in the demand for products.
- o Prepaid expenses decreased \$47,972.
- Total liabilities increased \$100,309. Of this amount:
 - o The accounts payable account increased \$140,000.
 - o The accrued expenses account increased \$31,138.
 - o The current lease liabilities account increased \$31,054.
 - o The non-current lease liabilities account decreased \$101,883

Fiscal Year 2022:

- Total assets decreased \$350,283. Of this amount:
 - o Cash decreased \$3,334,973.
 - o Investments - CD increased \$344.
 - o Accounts receivable, 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 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.
 - 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.

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

Financial Analysis (Continued)

- 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.

Table 2
Statements of Revenue, Expenses and Changes in Net Position

<i>For the years ended June 30,</i>	2023	2022	Restated 2021
Revenues			
Operating revenues			
Revenue from production	\$ 4,177,581	\$ 5,340,572	\$ 6,828,245
Medicaid waiver income	56,272,421	50,254,445	50,105,285
Other	984,044	813,194	629,680
Nonoperating revenues (expenses)			
Investment income	27,695	20,000	22,898
Interest expense	(21,924)	(24,792)	(27,421)
Total revenues	61,439,817	56,403,419	57,558,687
Expenses			
Cost of production	5,630,290	6,916,095	7,440,503
Medicaid waiver expense	56,429,384	49,508,202	49,617,842
General and administrative	6,650,184	5,648,860	5,845,798
Total expenditures	68,709,858	62,073,157	62,904,143
Transfers			
Transfers-in	6,650,184	5,648,860	5,845,798
Total transfers (net)	6,650,184	5,648,860	5,845,798
Increase (decrease) in net position	(619,857)	(20,878)	500,342
Net position - beginning of year	29,405,528	29,426,406	28,926,064
Net position - ending	\$ 28,785,671	\$ 29,405,528	\$ 29,426,406

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

Financial Analysis (Continued)

Fiscal Year 2023:

- 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 53% of the production revenue recorded in 2023. These facilities are as follows: Starkville, Olive Branch, Greenwood, and Columbus.
- The increase reported in the Medicaid Waiver income account was \$6,017,976.
- The increase reported in general and administrative expenses was \$170,850 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 17.73% increase in the transfers-in account, which is related to transfer of salaries of program personnel by the parent agency.

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.

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.



FINANCIAL STATEMENTS



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

<i>June 30,</i>	2023	2022
Assets		
Current Assets		
Cash	\$ 17,302,113	\$ 10,902,842
Investment - certificate of deposit	173,075	172,083
Accounts receivable, net	699,124	709,401
Unbilled receivables	2,315,194	2,204,566
Interfund receivables	11,561,340	18,427,851
Inventories	200,824	230,801
Prepaid expenses and other	652,369	700,341
Total current assets	32,904,039	33,347,885
Noncurrent Assets		
Right-to-use lease assets, net	1,365,700	1,441,402
Total assets	\$ 34,269,739	\$ 34,789,287
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 406,814	\$ 266,814
Accrued expenses	2,587,308	2,556,170
Lease liabilities	343,885	312,831
Total current liabilities	3,338,007	3,135,815
Noncurrent Liabilities		
Interfund payable	1,100,000	1,100,000
Lease liabilities	1,046,061	1,147,944
Total noncurrent liabilities	2,146,061	2,247,944
Total liabilities	5,484,068	5,383,759
Net Position		
Net investment in capital assets	(24,246)	(19,373)
Unrestricted	28,809,917	29,424,901
Total net position	28,785,671	29,405,528
Total liabilities and net position	\$ 34,269,739	\$ 34,789,287

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

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

<i>For the years ended June 30,</i>	2023	2022
Operating revenue		
Revenue from production	\$ 4,177,581	\$ 5,340,572
Medicaid waiver income	56,272,421	50,254,445
Administrative services and other	984,044	813,194
Total operating revenues	61,434,046	56,408,211
Operating expenses		
Cost of production	5,630,290	6,916,095
Medicaid waiver expenses	56,429,384	49,508,202
General and administrative expenses	6,650,184	5,648,860
Total operating expenses	68,709,858	62,073,157
Operating loss	(7,275,812)	(5,664,946)
Nonoperating Revenues and Expense		
Interest income	27,695	20,000
Interest expense	(21,924)	(24,792)
Total nonoperating revenues and expenses	5,771	(4,792)
Loss before transfers	(7,270,041)	(5,669,738)
Transfers-in	6,650,184	5,648,860
Decrease in net position	(619,857)	(20,878)
Net position - beginning of year	29,405,528	29,426,406
Net position - end of year	\$ 28,785,671	\$ 29,405,528

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

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

<i>For the years ended June 30,</i>	2023	2022
Cash Flows From Operating Activities		
Receipts from customers	\$ 4,187,858	\$ 5,557,692
Receipts for payroll processing	63,028,304	46,549,380
Other receipts	984,044	813,194
Payment to suppliers	(3,429,821)	(3,741,905)
Payments to employees	(8,237,643)	(8,283,225)
Payments for payroll processing	(56,429,384)	(49,508,202)
Net cash provided by (used by) operating activities	103,358	(8,613,066)
Cash Flows From Noncapital Financing Activities		
Transfers-in	6,650,184	5,648,860
Net cash provided by (used by) non capital and related financing activities	6,650,184	5,648,860
Cash Flows From Capital and Related Financing Activities		
Principal payments on leased buildings	(360,042)	(365,975)
Interest paid on leased buildings	(21,924)	(24,792)
Net cash provided by (used by) capital and related financing activities	(381,966)	(390,767)
Cash Flows From Investing Activities		
Interest income	27,695	20,000
Net cash provided by (used by) investing activities	27,695	20,000
Net increase (decrease) in cash	6,399,271	(3,334,973)
Cash at beginning of year	10,902,842	14,237,815
Cash at end of year	\$ 17,302,113	\$ 10,902,842

(Continued)

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

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

<i>For the years ended June 30,</i>	2023	2022
Reconciliation of Operating Loss to Net Cash Provided by (Used by) Operating Activities		
Operating loss	\$ (7,275,812)	\$ (5,664,946)
Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used by) Operating Activities		
Amortization expense	364,915	374,336
Net effect of changes in assets and liabilities:		
Accounts receivable	10,277	217,120
Unbilled receivables	(110,628)	(71,704)
Interfund receivables	6,866,511	(3,633,361)
Inventories	29,977	84,004
Prepaid expenses and other	46,980	58,198
Accounts payable	140,000	(34,780)
Accrued expenses	31,138	58,067
Net cash provided by (used by) operating activities	\$ 103,358	\$ (8,613,066)
Noncash Capital and Related Financing Activities:		
Right to use leased assets	\$ 289,213	\$ 13,283

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

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

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.

Reporting Entity

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.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents

Abilityworks' cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

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

Receivables and Payables

Unbilled receivables are for services rendered, but not yet billed as of the end of the fiscal year. The receivable is derived from the cycle billings generated subsequent to fiscal year end and prorated for usage at June 30, 2023.

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position (continued)

Receivables and Payables (continued)

Allowance for doubtful accounts – Accounts receivable have been reported net of the allowance for doubtful accounts. Accounts receivable in excess of 90 days are subject to being considered as uncollectible.

Inventories and Prepaid Items

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.

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Interfund/Intrafund Transactions

Interfund activity represents transactions with a fund outside of AbilityWorks, while intrafund activity 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.

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.

Leases

Lease contracts that provide Abilityworks with control of a non-financial asset, such as land, buildings or equipment, for a period of time in excess of twelve months are reported as a leased asset with a related lease liability. The lease liability is recorded at the present value of future lease payments, including fixed payments, variable payments based on an index or fixed rate and reasonably certain residual guarantees. The intangible leased asset is recorded for the same amount as the related lease liability plus any prepayments and initial direct costs to place the asset in service. Leased assets are amortized over the shorter of the useful life of the asset or the lease term. The lease liability is reduced for lease payments made, less the interest portion of the lease payment. The lease liabilities are recorded at the present value of future lease payments, discounted using AbilityWorks' incremental borrowing rate (the interest rates charged in the leases were not readily available).

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position (continued)

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.

Categories and Classification of Net Position

Net position flow assumption – Sometimes Abilityworks will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted, a flow assumption must be made about the order in which the resources are considered to be applied. It is Abilityworks' policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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, 2023 or 2022.

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

Revenue and Expenses

Program revenues – Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expenses (continued)

Operating and nonoperating revenues and expenses –Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Abilityworks' principal ongoing operations. The principal operating revenues 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to allowance for doubtful accounts and leases.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 20, 2023 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Issued and Implemented Accounting Pronouncements

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. There were no significant impacts of implementing this Statement.

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 were effective upon issuance.

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

- The requirements related to leases, PPPs, and SBITAs were effective for fiscal years beginning after June 15, 2022.
- 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.

There were no significant impacts of implementing this Statements.

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

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 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.

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 2: DEPOSITS

Custodial credit risk – Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificate of deposits are defined as public deposits.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the AbilityWorks' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits and are therefore fully insured. All of AbilityWorks deposits were collateralized and insured at June 30, 2023 and June 30, 2022.

Note 3: INVESTMENTS – CERTIFICATE OF DEPOSIT

Investments at June 30, 2023 and 2022, consist of a non-negotiable certificate of deposit totaling \$173,075 and \$172,083 respectively, which matures in February 2024.

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.
- 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 \$991 and \$344 for the years ending June 30, 2023 and 2022, respectively.

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 4: ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

<i>June 30,</i>	2023	2022
Trade receivable	\$ 699,124	\$ 709,401
Accounts receivable, net	\$ 699,124	\$ 709,401

All receivables are deemed to be 100% collectible, therefore no allowance for doubtful accounts has been recorded as of years ended June 30, 2023 and 2022.

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 \$2,315,194 and \$2,204,566 for the years ended June 30, 2023 and 2022, 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:

<i>June 30,</i>	2023	2022
Department of Rehabilitation Services		
Office of Special Disability Programs	\$ 7,933,724	\$ 12,842,284
Spinal Cord Trauma Brain Injury	3,099,953	5,373,099
Office of Vocational Rehabilitation	311,646	211,539
Rehabilitation Services	215,916	-
Supportive Services	100	929
	\$ 11,561,340	\$ 18,427,851

Note 7: INVENTORIES

A summary of inventories follows:

<i>June 30,</i>	2023	2022
Finished goods	\$ 95,291	\$ 111,109
Raw materials and supplies	105,533	119,692
Total inventories	\$ 200,824	\$ 230,801

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 8: 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 10. The right-to-use lease assets are amortized on a straight-line basis over the terms of the related leases.

The following is a summary of changes in right-to-use lease assets during the year ended June 30, 2023:

	Beginning Balance	Increases	Decreases	Ending Balance
Right-to-use lease assets:				
Buildings	\$ 2,181,680	\$ 289,213	\$ (206,718)	\$ 2,264,175
Total right-to-use lease assets	2,181,680	289,213	(206,718)	2,264,175
Less accumulated amortization for:				
Buildings	(740,278)	(364,915)	206,718	(898,475)
Total accumulated amortization	(740,278)	(364,915)	206,718	(898,475)
Right-to-use lease assets, net	\$ 1,441,402	\$ (75,702)	\$ -	\$ 1,365,700

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

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Right-to-use lease assets:				
Buildings	\$ 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

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 9: RELATED PARTY TRANSACTIONS

Net transfers-in of \$6,650,184 and \$5,648,860 during the years ended June 30, 2023 and 2022 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:

<i>For the years ended June 30,</i>	2023	2022
MDRS - general and administrative expenses	\$ 6,650,184	\$ 5,648,860
Total operating transfers	\$ 6,650,184	\$ 5,648,860

Note 10: LEASE LIABILITIES

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

	Date	Payment Terms	Annual Payment Amount	Initial Total Lease Liability	Balance June 30, 2023	Balance June 30, 2022
Brookhaven Building	4/1/2018	15.25	\$ 81,367	\$ 961,685	\$ 755,148	\$ 824,622
Columbus Building	2/1/2017	10	6,000	37,637	20,920	26,560
Corinth Building	11/1/2007	15.25	48,000	121,706	-	27,861
Corinth Building	11/1/2022	5	60,000	279,918	251,578	-
Jackson Building	10/1/2004	20.25	201,400	876,955	298,542	493,873
Kosciusko Building	12/1/2021	2.25	6,000	13,283	3,978	9,870
Oxford Building	9/1/2009	20.25	6,000	52,726	36,683	42,089
Olive Branch Building	1/1/2010	20.25	3,600	32,676	23,097	26,324
Laurel Building	7/1/2012	10 years	38,400	85,012	-	9,576
					\$ 1,389,946	\$ 1,460,775

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Lease liabilities	\$ 1,460,775	\$ 289,213	\$ (360,042)	\$ 1,389,946	\$ 343,885
Long-term liabilities	\$ 1,460,775	\$ 289,213	\$ (360,042)	\$ 1,389,946	\$ 343,885

AbilityWorks, Inc.
(A Component Unit of the State of Mississippi)
Notes to Financial Statements

Note 10: LEASES (Continued)

Changes in Long-Term Liabilities (continued)

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

	Restated Beginning Balance	Increases	Decreases	Ending Balance	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

The following is a schedule of minimum future lease payments from lease agreements as of June 30, 2023:

<i>For the year ending June 30,</i>	Lease Liability	Interest Expense	Total
2024	\$ 343,885	\$ 18,481	\$ 362,366
2025	244,027	13,640	257,667
2026	145,937	11,030	156,967
2027	145,635	8,832	154,467
2028	104,124	6,843	110,967
2029 - 2033	406,338	15,298	421,636
Total	\$ 1,389,946	\$ 74,124	\$ 1,464,070

Note 11: COMMITMENTS AND CONTINGENCIES

During the ordinary course of its operation, the AbilityWorks is party to various claims, legal actions, and complaints. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for the AbilityWorks, the liabilities which may arise from such actions would not result in losses which would exceed the liability insurance limits in effect at the time the claim arose or otherwise materially affect the financial condition of the AbilityWorks or results of activities.

Note 12: CONCENTRATIONS OF 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.

During June 30, 2023, AbilityWorks received significant receipts from Medicaid that comprised approximately 92% of its annual operating revenue. During 2022, Medicaid comprised approximately 89% of its annual operating revenue.



SUPPLEMENTARY INFORMATION



AbilityWorks, Inc.
Schedules of Cost of Production

<i>For the years ended June 30,</i>	2023	2022
Bank charges	\$ (8,731)	\$ 12,175
Commissions	34,681	56,610
Employee benefits	251,150	479,708
Equipment repair and maintenance	159,467	145,801
Facility expense	288,837	308,587
General shop and tools	23,770	45,657
Marketing	18,659	10,559
Miscellaneous	387,953	388,671
Opportunity wages production	1,292,307	1,150,246
Other administrative expenses	165,321	294,180
Professional fees	305,965	256,663
Amortization expense	364,915	374,336
Salaries, non-client employees	1,558,529	2,138,425
Supplies	653,204	987,526
Uniforms	12,959	43,840
Vehicle expense	121,304	223,111
Total cost of production	\$ 5,630,290	\$ 6,916,095

AbilityWorks, Inc.
Schedules of General and Administrative Expenses

<i>For the years ended June 30,</i>	2023	2022
Client transportation	\$ 420,596	\$ 374,146
Commodities	80,261	54,724
Community based	56,935	46,914
Contractual services	901,594	554,493
Equipment related expenses	22,619	45,331
Salaries and related expenses	5,166,795	4,572,913
Travel	1,384	338
Total general and administrative expenses	\$ 6,650,184	\$ 5,648,860

AbilityWorks, Inc.
Schedule of Statistical Analysis of Operations
Year Ended June 30, 2023

	Total per the Statement of Revenues, Expenses, and Changes in Net Assets	Total Cost of Operations for Year in Relation to	Clients Served	Client Days
Cost of production	\$ 5,630,290	\$ 3,308	\$ 160	
General and administrative expenses	6,650,184	3,907	189	
Total operating cost	12,280,474	7,215	349	
Less operating revenue - excluding Medicaid waiver income and expenses	5,161,625	3,033	147	
Total operating cost, net of revenue and other operating revenue	7,118,849	4,183	203	
Nonoperating (revenue) expense	(5,771)	(3)	-	
Net operating cost after nonoperating (revenue) expense	\$ 7,113,078	\$ 4,179	\$ 203	

Net for the year ended June 30, 2023:

Average daily attendance 146

Clients served 1,702

Client days 35,139

Average length of stay Client days
per client in days Clients served **21**

* 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, 2022

	Total per the Statement of Revenues, Expenses, and Changes in Net Assets	Total Cost of Operations for Year in Relation to	Clients Served	Client Days
Cost of production	\$ 6,916,095	\$ 5,019	\$ 202	
General and administrative expenses	5,648,860	4,099	165	
Total operating cost	12,564,955	9,118	367	
Less operating revenue - excluding Medicaid waiver income and expenses	6,153,766	4,466	180	
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	\$ 4,656	\$ 188	

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	
per client in days	Clients served	25

* 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, 2023, and the related notes to the financial statements, which collectively comprise AbilityWorks basic financial statements, and have issued our report thereon dated December 20, 2023.

Internal Control Over Financial Reporting

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

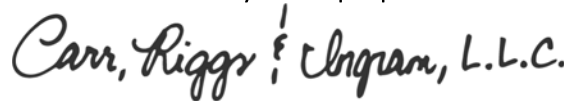
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the AbilityWorks' 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.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." with a stylized flourish above the ampersand.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
December 20, 2023