

ABILITY360 AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015

**ABILITY360 AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ability360 and Subsidiary
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ability360 and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ability360 and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the schedules attached is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
October 25, 2016

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,600,792	\$ 6,074,753
Certificates of Deposit	6,465,486	4,083,966
Designated Cash	32,749	659,954
Accounts Receivable, Net	6,059,265	5,901,025
Pledges Receivable	-	100,000
Prepaid Expenses and Other Assets	107,002	97,176
Total Current Assets	<u>21,265,294</u>	<u>16,916,874</u>
CERTIFICATES OF DEPOSIT	-	2,403,415
INVESTMENTS	668,922	697,795
PROPERTY AND EQUIPMENT, NET	33,016,431	34,008,497
DEBT ISSUANCE COSTS	<u>-</u>	<u>5,696</u>
Total Assets	<u><u>\$ 54,950,647</u></u>	<u><u>\$ 54,032,277</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturity of Notes Payable	\$ 4,684,342	\$ 597,996
Accounts Payable	233,091	355,254
Accrued Payroll and Related Expenses	1,182,898	1,040,976
Compensated Absences Payable	293,706	262,832
Deferred Revenue	214,557	112,155
Other Liabilities	30,103	91,629
Interest Rate Swap Liability	174,195	224,764
Total Current Liabilities	<u>6,812,892</u>	<u>2,685,606</u>
LONG-TERM LIABILITIES		
Interest Rate Swap Liability	-	174,195
Notes Payable	-	4,684,342
Total Long-Term Liabilities	<u>-</u>	<u>4,858,537</u>
Total Liabilities	<u>6,812,892</u>	<u>7,544,143</u>
NET ASSETS		
Unrestricted	47,938,894	46,369,273
Temporarily Restricted	<u>198,861</u>	<u>118,861</u>
Total Net Assets	<u>48,137,755</u>	<u>46,488,134</u>
Total Liabilities and Net Assets	<u><u>\$ 54,950,647</u></u>	<u><u>\$ 54,032,277</u></u>

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and Contracts	\$ 41,551,852	\$ -	\$ 41,551,852
Contributions and Donations	236,686	180,000	416,686
Program Income	571,853	-	571,853
Interest and Dividends	61,785	-	61,785
Unrealized Losses on Investments	(59,379)	-	(59,379)
Realized Gains on Investments	27,546	-	27,546
Rental Income	479,087	-	479,087
Other	110,729	-	110,729
Total Support and Revenue Before Net Assets Released from Restrictions	42,980,159	180,000	43,160,159
Net Assets Released from Restrictions	100,000	(100,000)	-
Total Support and Revenue	43,080,159	80,000	43,160,159
EXPENSES, GAINS, AND LOSSES			
Program Services:			
Personal Assistant Services	34,685,683	-	34,685,683
Community Integration	4,147,046	-	4,147,046
Support Services:			
Administration	2,913,570	-	2,913,570
Total Expenses	41,746,299	-	41,746,299
Recovery of Bad Debts	(10,997)	-	(10,997)
Change in Value of Interest Rate Swap	(224,764)	-	(224,764)
Total Expenses, Gains, and Losses	41,510,538	-	41,510,538
CHANGES IN NET ASSETS	1,569,621	80,000	1,649,621
NET ASSETS - BEGINNING OF YEAR	46,369,273	118,861	46,488,134
NET ASSETS - END OF YEAR	\$ 47,938,894	\$ 198,861	\$ 48,137,755

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and Contracts	\$ 39,846,093	\$ -	\$ 39,846,093
Contributions and Donations	456,848	100,000	556,848
Program Income	531,022	-	531,022
Interest and Dividends	61,360	-	61,360
Unrealized Losses on Investments	(1,386,638)	-	(1,386,638)
Realized Gains on Investments	1,529,440	-	1,529,440
Rental Income	438,684	-	438,684
Other	112,810	-	112,810
Total Support and Revenue Before Net Assets Released from Restrictions	41,589,619	100,000	41,689,619
Net Assets Released from Restrictions	188,793	(188,793)	-
Total Support and Revenue	41,778,412	(88,793)	41,689,619
EXPENSES, GAINS, AND LOSSES			
Program Services:			
Personal Assistant Services	33,281,894	-	33,281,894
Community Integration	4,023,541	-	4,023,541
Support Services:			
Administration	2,837,841	-	2,837,841
Total Expenses	40,143,276	-	40,143,276
Provision for Doubtful Accounts	55,442	-	55,442
Change in Value of Interest Rate Swap	(242,133)	-	(242,133)
Total Expenses, Gains, and Losses	39,956,585	-	39,956,585
CHANGES IN NET ASSETS	1,821,827	(88,793)	1,733,034
NET ASSETS - BEGINNING OF YEAR	44,547,446	207,654	44,755,100
NET ASSETS - END OF YEAR	\$ 46,369,273	\$ 118,861	\$ 46,488,134

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services			Support Services	
	Personal Assistant Services	Community Integration	Total Program Services	Administration	Total Expenses
Salaries and Related Payroll Expense	\$ 33,607,502	\$ 2,185,272	\$ 35,792,774	\$ 972,462	\$ 36,765,236
Home Modification Costs	-	710,442	710,442	-	710,442
Office Expenses and Postage	88,981	60,612	149,593	30,212	179,805
Training and Tuition	4,259	15,114	19,373	52,192	71,565
Public Relations/Information	-	18,772	18,772	124,022	142,794
Professional Services	20,843	102,952	123,795	7,687	131,482
Occupancy and Communications	368,278	253,788	622,066	135,564	757,630
Insurance	78,144	11,402	89,546	23,405	112,951
Equipment Rental and Repairs	155,039	108,062	263,101	110,922	374,023
Travel and Mileage	87,707	48,936	136,643	31,086	167,729
Printing and Publications	33,902	64,825	98,727	22,802	121,529
Interest and Bank Charges	-	-	-	379,170	379,170
Meetings and Conferences	-	20,978	20,978	28,269	49,247
Other Expenses	68,115	372,978	441,093	30,273	471,366
Building Expenses	-	-	-	263,377	263,377
Depreciation	172,913	172,913	345,826	702,127	1,047,953
Total Functional Expenses	<u>\$ 34,685,683</u>	<u>\$ 4,147,046</u>	<u>\$ 38,832,729</u>	<u>\$ 2,913,570</u>	<u>\$ 41,746,299</u>

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services			Support Services	
	Personal Assistant Services	Community Integration	Total Program Services	Administration	Total Expenses
Salaries and Related Payroll Expense	\$ 32,194,181	\$ 2,175,784	\$ 34,369,965	\$ 983,117	\$ 35,353,082
Home Modification Costs	-	676,947	676,947	-	676,947
Office Expenses and Postage	99,526	36,828	136,354	24,003	160,357
Training and Tuition	5,078	13,819	18,897	29,503	48,400
Public Relations/Information	-	32,297	32,297	91,358	123,655
Professional Services	22,047	65,640	87,687	8,627	96,314
Occupancy and Communications	363,790	255,965	619,755	80,968	700,723
Insurance	75,763	17,942	93,705	23,493	117,198
Equipment Rental and Repairs	136,584	91,111	227,695	88,674	316,369
Travel and Mileage	91,521	47,774	139,295	24,876	164,171
Printing and Publications	27,326	41,708	69,034	3,278	72,312
Interest and Bank Charges	-	-	-	429,078	429,078
Other Expenses	88,694	390,342	479,036	44,238	523,274
Building Expenses	-	-	-	286,342	286,342
Depreciation	177,384	177,384	354,768	720,286	1,075,054
Total Functional Expenses	<u>\$ 33,281,894</u>	<u>\$ 4,023,541</u>	<u>\$ 37,305,435</u>	<u>\$ 2,837,841</u>	<u>\$ 40,143,276</u>

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 1,649,621	\$ 1,733,034
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,047,953	1,075,054
Change in Provision for Doubtful Accounts	(64,845)	53,500
Discount on Pledges Receivable	-	(11,206)
Amortization of Debt Issuance Costs	5,696	22,784
Net Unrealized Gains (Losses) on Investments	28,873	(136,562)
Change in Value of Interest Rate Swap Liability	(224,764)	(242,133)
Increase (Decrease) in Cash Resulting from Changes in:		
Accounts Receivable	(93,395)	623,354
Pledges Receivable	100,000	100,000
Prepaid Expenses and Other Assets	(9,826)	(9,907)
Accounts Payable	(122,163)	74,741
Accrued Payroll and Related Expenses	141,922	211,862
Compensated Absences Payable	30,874	(3,376)
Deferred Revenue	102,402	6,706
Other Liabilities	(61,526)	27,556
Net Cash Provided by Operating Activities	<u>2,530,822</u>	<u>3,525,407</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities (Purchases) of Certificates of Deposit, Net	21,895	(3,695,403)
Sale of Investments	-	2,923,508
(Increase) Decrease in Designated Cash for a Sports Complex	627,205	(433,367)
Purchases of Investments	-	(14,595)
Purchases of Property and Equipment	(55,887)	-
Net Cash Provided (Used) by Investing Activities	<u>593,213</u>	<u>(1,219,857)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of Notes Payable	(597,996)	(597,996)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,526,039	1,707,554
Cash and Cash Equivalents - Beginning of Year	<u>6,074,753</u>	<u>4,367,199</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 8,600,792</u></u>	<u><u>\$ 6,074,753</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u><u>\$ 313,666</u></u>	<u><u>\$ 350,175</u></u>

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ability360 was organized as a nonprofit corporation in May 1984 under the laws of the state of Arizona. Ability360 offers a full range of empowering programs for individuals with disabilities and family members with disability concerns. Ability360's programs include independent living skills instruction, peer support, information and referral, advocacy, home modifications, social and recreational programs, early intervention and outreach to rehabilitation hospitals, community reintegration from nursing homes, youth transition, personal assistance services, social security work incentives and benefits counseling, and employment services for SSDI and SSI beneficiaries.

ABIL Development, LLC was incorporated in the state of Arizona on February 1, 2007, as a limited liability company. Ability360 is the sole member of ABIL Development, LLC and Ability360 has an economic interest in and exercises control over ABIL Development, LLC. The purpose of ABIL Development, LLC is to carry out the programs that complement the activities of Ability360.

Consolidated Financial Statements

The consolidated financial statements include both the accounts of Ability360 and ABIL Development, LLC (collectively referred to as Ability360). All of the financial activities and balances of these organizations are included in these consolidated financial statements. All significant interorganization accounts and transactions have been eliminated in consolidation.

The consolidated financial statements of Ability360 and Subsidiary have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

Basis of Presentation

The Organization's financial statements are presented in accordance with the American Institute of Certified Public Accountants (AICPA) Not-for-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance). Under the Guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations and are those currently available at the discretion of the board of directors for use in Ability360's operations, in accordance with its bylaws. Temporarily restricted contributions received and expended in the same year are classified as unrestricted.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which are subject to donor-imposed stipulations that will be met by Ability360 and/or the passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the endowment agreements. At June 30, 2016 and 2015, Ability360 had no permanently restricted net assets.

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash; and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less, when purchased, meet this definition.

Accounts Receivable

Accounts receivable consist primarily of amounts due from various agencies and are unsecured. Accounts receivable are stated at the amount management expects to collect. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management provides for probable, uncollectible amounts through a charge to operations and an increase to a valuation allowance based on the assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a decrease to accounts receivable.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The pledges receivable at June 30, 2015, are considered to be fully collectible by management and, accordingly, an allowance for doubtful accounts is not deemed necessary. There are no pledges receivables as of June 30, 2016.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Investment income (including interest and dividends) and realized and unrealized gains and losses are reported in the consolidated statements of activities and changes in net assets under support and revenue.

Property and Equipment

Purchased property and equipment are initially recorded at cost, and donated property and equipment are recorded at fair value at the date of gift to Ability360. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$2,500 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization is provided using the straight-line method over the respective useful lives of the assets, which range from 3 to 50 years. Leasehold improvements are amortized over the shorter of the useful lives of the improvements or the lease terms.

Impairment of Long-Lived Assets

Ability360 reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe that there were any impairments as of June 30, 2016 and 2015.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs

During 2008, Ability360 incurred \$159,489 of costs in connection with the long-term debt disclosed in Note 10. These costs were deferred and are being amortized over the term of the loan using the straight-line method (which approximates the interest method). Accumulated amortization of these debt issuance costs were \$159,489 and \$153,793 at June 30, 2016 and 2015, respectively.

Contributions

Ability360 accounts for contributions and grants in accordance with the Audit Guide and they are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Ability360 reports the support as unrestricted.

Grants and Contracts

Grants and contracts consist of governmental reimbursements at contracted rates. These revenues are recognized when the related services are performed.

Derivative Financial Instruments

Ability360 is a party to an interest rate swap agreement to hedge the cash flow effects of fluctuations in interest rate related to its long-term debt instrument. The net amount receivable or payable associated with the interest rate swap agreement is recorded and reflected on the consolidated statements of financial position.

Fair Value of Financial Instruments

At June 30, 2016 and 2015, Ability360 has the following financial instruments: cash, accounts receivable, accounts payable, notes payable, and interest rate swap liability. The carrying values of current assets and current liabilities approximate their fair values based on the liquidity of these financial instruments or based on their short-term nature. The carrying values of the other financial instruments approximate their fair values based on the market interest rates available to Ability360 for debt of similar risk and maturities.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Ability360 qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for federal or state corporate income taxes. In addition, Ability360 has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

ABIL Development, LLC is a limited liability company incorporated in the state of Arizona which is a pass-through entity. All income or loss of this entity is reported at the Ability360 level.

Both Organizations remain subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expense. Accordingly, certain costs have been allocated among the programs and support services benefited. The allocation methods used are subject to a degree of estimation by management. Ability360 directly allocates certain expenses to the various functions to which they apply.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30 consist of the following:

	2016	2015
Cash on Hand	\$ 647	\$ 647
Checking Account Balances	7,850,763	5,392,185
Money Market Funds	749,382	681,921
Total Cash and Cash Equivalents	<u>\$ 8,600,792</u>	<u>\$ 6,074,753</u>

NOTE 3 INVESTMENTS IN CERTIFICATES OF DEPOSIT

At June 30, 2016, Ability360 had \$6,465,486 in certificates of deposit, which are recorded at cost includes accrued interest which approximates fair value. These certificates of deposit mature in fiscal year 2017, earning interest from 0.60% to 1.150%.

At June 30, 2015, Ability360 had \$6,487,381 in certificates of deposit which are recorded at cost includes accrued interest which approximates fair value. These certificates of deposit mature in fiscal years 2016 and 2017, earning interest from 0.35% to 1.150%.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 ACCOUNTS RECEIVABLE

Ability360 receives a substantial amount of revenue from grants and contracts. Ability360's accounts receivable at June 30 consist of the following:

	2016	2015
Mercy Care	\$ 3,827,555	\$ 3,629,102
Bridgeway	924,752	1,063,857
Evercare Select/United Health Care	959,263	777,993
Other	538,743	685,966
Total	6,250,313	6,156,918
Less: Allowance for Doubtful Accounts	(191,048)	(255,893)
Accounts Receivable, Net	<u>\$ 6,059,265</u>	<u>\$ 5,901,025</u>

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable at June 30 consist of the following:

	2016	2015
Pledges Receivable Before Unamortized Discount	\$ -	\$ 100,000
Less: Unamortized Discount	-	-
Pledges Receivable, Net	<u>\$ -</u>	<u>\$ 100,000</u>
Amounts Due in:		
Less than One Year	\$ -	\$ 100,000
One to Five Years	-	-
Total	<u>\$ -</u>	<u>\$ 100,000</u>

The discount rate used to determine the present value of the pledges receivable balance is a management determined discount rate which was approximately 2.0% as of June 30, 2016 and 2015. Management believes all pledges are fully collectible and therefore, an allowance for doubtful pledges receivable is not deemed necessary as of June 30, 2015.

Approximately 100% of the gross pledges receivable are due from one donor at June 30, 2015.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 INVESTMENTS

Investments at June 30 consist of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Pooled Investments:				
Arizona Community				
Foundation	\$ 506,377	\$ 668,922	\$ 506,377	\$ 697,795
Total Investments	<u>\$ 506,377</u>	<u>\$ 668,922</u>	<u>\$ 506,377</u>	<u>\$ 697,795</u>

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, Ability360 uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value 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 FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Ability360 has the ability to access.

Level 2 – 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.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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.

A description of the valuation methodologies used for financial instruments follows:

Investments

Equity securities, corporate bonds, government issued securities, money market funds, and other funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Debt securities consisting of government agency debt obligations are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality and type. There are no directly held debt securities in the investment portfolio. Debt securities are generally classified within Level 2 of the valuation hierarchy.

Hedge funds, private equity, venture capital, and other investments for which there is not an active market are valued at the quoted market price for underlying marketable securities or an estimate of underlying asset fair values as determined in good faith by the general partner. These alternative investments are classified within Level 3 of the valuation hierarchy.

Ability360 also invests in the Arizona Community Foundation, Inc. (ACF) pool. The fair value of these investments is based on its investment percentage in the investment pool. The ACF pool is invested in cash, equity securities, bonds and other investments. This investment is classified within Level 3 of the valuation hierarchy.

Interest Rate Swap Agreement

The fair value of interest rate swaps is estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties. Such securities are classified within Level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Ability360 believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Pooled Investments:				
Arizona Community Foundation	\$ -	\$ -	\$ 668,922	\$ 668,922
Total Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,922</u>	<u>\$ 668,922</u>
Interest Rate Swap Liability (Note 11)	\$ -	\$ (174,195)	\$ -	\$ (174,195)

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Pooled Investments:				
Arizona Community Foundation	\$ -	\$ -	\$ 697,795	\$ 697,795
Total Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,795</u>	<u>\$ 697,795</u>
Interest Rate Swap Liability (Note 11)	\$ -	\$ (398,959)	\$ -	\$ (398,959)

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30:

	2016	2015
Balance - Beginning of Year	\$ 697,795	\$ 679,107
Realized and Unrealized Gains (Losses)	(28,873)	18,688
Balance - End of Year	<u>\$ 668,922</u>	<u>\$ 697,795</u>

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	2016	2015
Land	\$ 367,671	\$ 367,671
Buildings	35,565,843	35,565,843
Swimming Pool	941,773	941,773
Furniture, Equipment, and Vehicles	2,292,399	2,236,512
Leasehold Improvements	3,226,822	3,226,822
Total	42,394,508	42,338,621
Less: Accumulated Depreciation and Amortization	(9,378,077)	(8,330,124)
Property and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 33,016,431</u>	<u>\$ 34,008,497</u>

Depreciation and amortization expense charged to operations was \$1,047,953 and \$1,075,054 for the years ended June 30, 2016 and 2015, respectively.

NOTE 9 RENTALS UNDER OPERATING LEASES

Ability360 leases office space to unrelated parties. Certain of these leases contain options to renew. Rental revenue recognized by Ability360 was \$479,087 and \$438,684 for the years ended June 30, 2016 and 2015, respectively.

The future minimum rental income under these operating leases is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 390,530
2018	392,030
2019	202,283
2020	45,249
2021	3,605
Total	<u>\$ 1,033,697</u>

Management believes that leases that expire will be renewed; thus, it is anticipated that future rental revenue will approximate the amount recognized in fiscal 2016.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 NOTES PAYABLE

Notes payable at June 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Note payable to US Bank, NA; amount not to exceed \$12,375,000, including interest at 1.15% in excess of one-month LIBOR (.47% and .19% at June 30, 2016 and 2015, respectively) through March 28, 2014, 1.00% in excess of one-month LIBOR through March 28, 2017; payable on March 28, 2014, a payment in an amount equal to the greater of \$1,548,600 or the amount necessary to reduce the outstanding principal balance such that the outstanding principal balance after the payment of such amount is equal to 65% of the then current appraised value of the Project. Ability360 paid down \$6,395,000 of principal on April 1, 2014. Due in monthly payments of \$49,833 with the entire outstanding principal balance of \$4,186,012 due and payable at the maturity date of April 1, 2017; secured by deed of trust.	\$ 4,684,342	\$ 5,282,338
Total	4,684,342	5,282,338
Less: Current Maturities	4,684,342	597,996
Long-Term Maturities of Notes Payable	<u>\$ -</u>	<u>\$ 4,684,342</u>

Future maturities of the note payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	<u>\$ 4,684,342</u>

Under the terms of the debt agreements, Ability360 is required to satisfy certain restrictive debt covenants. Management believes Ability360 was in compliance with all covenants as of June 30, 2016 and 2015.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 11 INTEREST RATE SWAP AGREEMENT

In March 2007, ABIL Development, LLC entered into an interest rate swap agreement, a fair value hedge, with a financial institution. ABIL Development, LLC pays a fixed rate of interest of 5.16% on a notional amount of \$12,375,000 for a period of 18 years. The financial institution pays ABIL Development, LLC interest based on LIBOR. The purpose of this derivative financial instrument is to hedge the risk of higher interest rates in the future. The swap agreement was restructured effective April 1, 2014 with a \$837,250 prepayment, the due date shortened to March 28, 2017, and the notional amount reduced to \$5,980,000. The fair value of the interest rate swap agreement was a liability of \$174,195 and \$398,959 as of June 30, 2016 and 2015, respectively.

NOTE 12 CHARITABLE GIFT ANNUITIES

Ability360 administers a charitable gift annuity. The assets contributed under the charitable gift annuity are carried at fair value and are included with investments. Contribution support, if any, is recognized at the date the annuity is established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits, if necessary. The present value of the estimated annuity payments associated with the gift annuity is as follows:

	2016	2015
Current Portion of Charitable Gift Annuity	\$ -	\$ 5,609
Long-Term Portion of Charitable Gift Annuity	-	-
Total	<u>\$ -</u>	<u>\$ 5,609</u>

NOTE 13 OPERATING LEASES

Ability360 leases office space and office equipment under the provisions of noncancelable operating leases. Rental expense under the terms of the operating leases was \$139,909 and \$122,317 for the years ended June 30, 2016 and 2015, respectively. Certain operating leases provide for renewal options.

The future minimum rental payments under these operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 53,509
2018	68,130
2019	14,177
2020	6,871
Thereafter	1,718
Total	<u>\$ 144,405</u>

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Cash for Sports Complex	\$ 180,000	\$ -
Cash for Mast House Replacements	18,861	18,861
Time Restriction	<u>-</u>	<u>100,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 198,861</u>	<u>\$ 118,861</u>

A summary of net assets released from restrictions is as follows:

	2016	2015
Sports Complex	\$ 100,000	\$ 188,793
Total	<u>\$ 100,000</u>	<u>\$ 188,793</u>

NOTE 15 DONATED GOODS AND SERVICES

Ability360 receives donated services from a variety of unpaid volunteers assisting in various programs. No amounts have been recognized in the accompanying consolidated statements of activities and changes in net assets because the accounting criteria for recognition of such volunteer efforts have not been satisfied.

NOTE 16 RETIREMENT PLAN

Ability360 maintains a 403(b) thrift plan which is available to all full-time employees. Under the plan, employees can elect to have their salary reduced on a pre-tax basis, based on a percentage of compensation. Ability360 has a matching contribution requirement up to 4% for the years ended June 30, 2016 and 2015. Ability360's retirement plan expense was \$143,743 and \$132,257 for the years ended June 30, 2016 and 2015, respectively.

NOTE 17 CONCENTRATION RISK

Ability360 received approximately 81% and 82% of their revenue from three government contracts during the years ended June 30, 2016 and 2015, respectively. Approximately 91% and 89% of the accounts receivable balance is due from three government contracts as of June 30, 2016 and 2015, respectively.

Ability360 maintains all of its cash with banks located in Arizona. Balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. As of June 30, 2016 and 2015, a portion of cash balances at financial institutions exceeded the balance insured by the FDIC.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 18 COMMITMENTS AND CONTINGENCIES

Ability360 participates in a number of federal and state assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, Ability360's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although Ability360's management expects such amounts, if any, to be immaterial.

Ability360 is contingently liable in respect to claims incidental to the ordinary course of its operations. In the opinion of management, such matters will not have a material adverse effect on Ability360's financial position, operations, or liquidity. Therefore, no provision has been made in the accompanying consolidated financial statements for losses, if any, that might result from the ultimate outcome of these matters.

NOTE 19 SUBSEQUENT EVENT

Management evaluated subsequent events through October 25, 2016, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to October 25, 2016, that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the consolidated financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2016.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

	Ability360	ABIL Development, LLC	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 8,496,145	\$ 104,647	\$ -	\$ 8,600,792
Certificates of Deposit	6,465,486	-	-	6,465,486
Designated Cash	32,749	-	-	32,749
Accounts Receivable, Net	6,059,265	-	-	6,059,265
Prepaid Expenses and Other Assets	107,002	-	-	107,002
Total Current Assets	21,160,647	104,647	-	21,265,294
INVESTMENTS	668,922	-	-	668,922
PROPERTY AND EQUIPMENT, NET	11,580,680	21,435,751	-	33,016,431
INVESTMENT IN ABIL DEVELOPMENT, LLC	24,442,896	-	(24,442,896)	-
Total Assets	<u>\$ 57,853,145</u>	<u>\$ 21,540,398</u>	<u>\$ (24,442,896)</u>	<u>\$ 54,950,647</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 207,970	\$ 25,121	\$ -	\$ 233,091
Accrued Payroll and Related Expenses	1,182,898	-	-	1,182,898
Compensated Absences Payable	293,706	-	-	293,706
Deferred Revenue	214,557	-	-	214,557
Other Liabilities	30,103	-	-	30,103
Notes Payable, Current Maturities	-	4,684,342	-	4,684,342
Interest Rate Swap Liability	-	174,195	-	174,195
Total Current Liabilities	1,929,234	4,883,658	-	6,812,892
NET ASSETS				
Unrestricted	55,725,050	16,656,740	(24,442,896)	47,938,894
Temporarily Restricted	198,861	-	-	198,861
Total Net Assets	55,923,911	16,656,740	(24,442,896)	48,137,755
Total Liabilities and Net Assets	<u>\$ 57,853,145</u>	<u>\$ 21,540,398</u>	<u>\$ (24,442,896)</u>	<u>\$ 54,950,647</u>

ABILITY360 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	Ability360	ABIL Development, LLC	Eliminations	Total
SUPPORT AND REVENUE				
Grants and Contracts	\$ 41,551,852	\$ -	\$ -	\$ 41,551,852
Contributions and Donations	416,686	-	-	416,686
Program Income	571,853	-	-	571,853
Interest and Dividends	61,785	-	-	61,785
Unrealized Losses on Investments	(59,379)	-	-	(59,379)
Realized Gains on Investments	27,546	-	-	27,546
Rental Income	40,656	438,431	-	479,087
Other	110,729	-	-	110,729
Total Support and Revenue	<u>42,721,728</u>	<u>438,431</u>	<u>-</u>	<u>43,160,159</u>
EXPENSES, GAINS, AND LOSSES				
Program Services:				
Personal Assistant Services	34,685,683	-	-	34,685,683
Community Integration	4,147,046	-	-	4,147,046
Support Services:				
Administration	1,585,600	1,327,970	-	2,913,570
Total Expenses	<u>40,418,329</u>	<u>1,327,970</u>	<u>-</u>	<u>41,746,299</u>
Recovery of Bad Debts	(10,997)	-	-	(10,997)
Change in Value of Interest Rate Swap	-	(224,764)	-	(224,764)
Total Expenses, Gains, and Losses	<u>40,407,332</u>	<u>1,103,206</u>	<u>-</u>	<u>41,510,538</u>
CHANGES IN NET ASSETS	2,314,396	(664,775)	-	1,649,621
CAPITAL CONTRIBUTIONS	-	741,643	(741,643)	-
NET ASSETS - BEGINNING OF YEAR	<u>53,609,515</u>	<u>16,579,872</u>	<u>(23,701,253)</u>	<u>46,488,134</u>
NET ASSETS - END OF YEAR	<u>\$ 55,923,911</u>	<u>\$ 16,656,740</u>	<u>\$ (24,442,896)</u>	<u>\$ 48,137,755</u>