

ABILITY360 AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**ABILITY360 AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ability360 and Subsidiary
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of Ability360 and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, 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, 2018 and 2017, 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, change in net assets, 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
November 8, 2018

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 16,427,682	\$ 10,374,806
Designated Cash	76,331	26,383
Accounts Receivable, Net	6,301,693	8,205,294
Prepaid Expenses and Other Assets	131,152	94,702
Total Current Assets	<u>22,936,858</u>	<u>18,701,185</u>
INVESTMENTS	2,315,320	1,750,603
PROPERTY AND EQUIPMENT	<u>31,218,035</u>	<u>32,124,419</u>
Total Assets	<u>\$ 56,470,213</u>	<u>\$ 52,576,207</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 269,623	\$ 229,968
Accrued Payroll and Related Expenses	1,011,097	945,353
Compensated Absences Payable	306,466	286,430
Deferred Revenue	226,375	197,932
Other Liabilities	28,039	12,978
Total Current Liabilities	<u>1,841,600</u>	<u>1,672,661</u>
NET ASSETS		
Unrestricted	54,359,358	50,856,148
Temporarily Restricted	269,255	47,398
Total Net Assets	<u>54,628,613</u>	<u>50,903,546</u>
Total Liabilities and Net Assets	<u>\$ 56,470,213</u>	<u>\$ 52,576,207</u>

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and Contracts	\$ 45,184,822	\$ -	\$ 45,184,822
Contributions and Donations	950,888	315,564	1,266,452
Program Income	423,983	-	423,983
Interest and Dividends	82,851	-	82,851
Unrealized Gains on Investments	22,724	-	22,724
Realized Gains on Investments	42,245	-	42,245
Rental Income	462,391	-	462,391
Other	130,090	-	130,090
Total Support and Revenue Before Net Assets Released from Restrictions	<u>47,299,994</u>	<u>315,564</u>	<u>47,615,558</u>
Net Assets Released from Restrictions	93,707	(93,707)	-
Total Support and Revenue	<u>47,393,701</u>	<u>221,857</u>	<u>47,615,558</u>
EXPENSES, GAINS, AND LOSSES			
Program Services:			
Personal Assistant Services	36,409,570	-	36,409,570
Community Integration	4,672,140	-	4,672,140
Support Services:			
Administration	2,808,781	-	2,808,781
Total Expenses, Gains, and Losses	<u>43,890,491</u>	<u>-</u>	<u>43,890,491</u>
CHANGES IN NET ASSETS	3,503,210	221,857	3,725,067
Net Assets - Beginning of Year	<u>50,856,148</u>	<u>47,398</u>	<u>50,903,546</u>
NET ASSETS - END OF YEAR	<u>\$ 54,359,358</u>	<u>\$ 269,255</u>	<u>\$ 54,628,613</u>

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and Contracts	\$ 43,512,340	\$ -	\$ 43,512,340
Contributions and Donations	748,056	-	748,056
Program Income	465,300	-	465,300
Interest and Dividends	70,356	-	70,356
Unrealized Losses on Investments	(14,586)	-	(14,586)
Realized Gains on Investments	90,264	-	90,264
Rental Income	489,771	-	489,771
Other	134,176	-	134,176
Total Support and Revenue Before Net Assets Released from Restrictions	45,495,677	-	45,495,677
Net Assets Released from Restrictions	151,463	(151,463)	-
Total Support and Revenue	45,647,140	(151,463)	45,495,677
EXPENSES, GAINS, AND LOSSES			
Program Services:			
Personal Assistant Services	35,551,948	-	35,551,948
Community Integration	4,536,153	-	4,536,153
Support Services:			
Administration	2,815,980	-	2,815,980
Total Expenses	42,904,081	-	42,904,081
Change in Value of Interest Rate Swap	(174,195)	-	(174,195)
Total Expenses, Gains, and Losses	42,729,886	-	42,729,886
CHANGES IN NET ASSETS	2,917,254	(151,463)	2,765,791
Net Assets - Beginning of Year	47,938,894	198,861	48,137,755
NET ASSETS - END OF YEAR	<u>\$ 50,856,148</u>	<u>\$ 47,398</u>	<u>\$ 50,903,546</u>

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services			Support Services	Total Expenses
	Personal Assistant Services	Community Integration	Total Program Services	Administration	
Salaries and Related Payroll Expense	\$ 35,288,721	\$ 2,475,268	\$ 37,763,989	\$ 1,217,205	\$ 38,981,194
Home Modification Costs	-	852,527	852,527	-	852,527
Office Expenses and Postage	81,258	35,420	116,678	28,473	145,151
Training and Tuition	2,923	36,470	39,393	65,167	104,560
Public Relations/Information	-	33,370	33,370	82,099	115,469
Professional Services	18,542	24,038	42,580	10,114	52,694
Occupancy and Communications	358,014	318,056	676,070	108,543	784,613
Insurance	70,540	11,799	82,339	26,443	108,782
Equipment Rental and Repairs	153,754	131,009	284,763	109,124	393,887
Travel and Mileage	73,999	57,244	131,243	18,161	149,404
Printing and Publications	21,486	42,134	63,620	5,507	69,127
Interest and Bank Charges	-	73	73	85,807	85,880
Other Expenses	168,034	482,433	650,467	19,602	670,069
Building Expenses	-	-	-	263,433	263,433
Bad Debt Expense	-	-	-	69,465	69,465
Depreciation	172,299	172,299	344,598	699,638	1,044,236
Total Functional Expenses	<u>\$ 36,409,570</u>	<u>\$ 4,672,140</u>	<u>\$ 41,081,710</u>	<u>\$ 2,808,781</u>	<u>\$ 43,890,491</u>

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services			Support Services	Total Expenses
	Personal Assistant Services	Community Integration	Total Program Services	Administration	
Salaries and Related Payroll Expense	\$ 34,454,963	\$ 2,358,352	\$ 36,813,315	\$ 990,689	\$ 37,804,004
Home Modification Costs	-	680,460	680,460	-	680,460
Office Expenses and Postage	82,689	66,644	149,333	28,441	177,774
Training and Tuition	477	12,184	12,661	53,141	65,802
Public Relations/Information	-	26,943	26,943	100,866	127,809
Professional Services	21,052	56,044	77,096	15,960	93,056
Occupancy and Communications	375,801	480,843	856,644	117,145	973,789
Insurance	77,421	10,053	87,474	26,858	114,332
Equipment Rental and Repairs	182,674	107,559	290,233	98,949	389,182
Travel and Mileage	75,179	52,572	127,751	21,277	149,028
Printing and Publications	20,738	33,851	54,589	15,511	70,100
Interest and Bank Charges	-	-	-	276,145	276,145
Meetings and Conferences	-	15,253	15,253	10,818	26,071
Other Expenses	90,412	464,853	555,265	25,713	580,978
Building Expenses	-	-	-	265,871	265,871
Bad Debt Expense	-	-	-	76,094	76,094
Depreciation	170,542	170,542	341,084	692,502	1,033,586
Total Functional Expenses	\$ 35,551,948	\$ 4,536,153	\$ 40,088,101	\$ 2,815,980	\$ 42,904,081

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 3,725,067	\$ 2,765,791
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,044,236	1,033,586
Bad Debt Expense	69,465	76,094
(Gain) Loss on Disposal of Property and Equipment	(4,000)	8,530
Reinvested Investment Earnings	(30,032)	(1,517)
Net Realized and Unrealized Gains on Investments	(64,969)	(75,678)
Change in Value of Interest Rate Swap Liability	-	(174,195)
Increase (Decrease) in Cash Resulting from Changes in:		
Accounts Receivable	1,834,136	(2,222,123)
Prepaid and Other Assets	(36,450)	12,300
Accounts Payable	39,655	(3,123)
Accrued Payroll and Related Expenses	65,744	(237,545)
Compensated Absences Payable	20,036	(7,276)
Deferred Revenue	28,443	(16,625)
Other Liabilities	15,061	(17,125)
Net Cash Provided by Operating Activities	6,706,392	1,141,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of Certificates of Deposit	-	6,465,486
Proceeds from Sale of Investments	-	1,391
Purchases of Investments	(469,716)	(1,005,877)
(Increase) Decrease in Designated Cash for a Sports Complex	(49,948)	6,366
Proceeds from Sale of Property and Equipment	4,000	-
Purchases of Property and Equipment	(137,852)	(150,104)
Net Cash Provided (Used) by Investing Activities	(653,516)	5,317,262
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Note Payable	-	(4,684,342)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,052,876	1,774,014
Cash and Cash Equivalents - Beginning of Year	10,374,806	8,600,792
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 16,427,682	\$ 10,374,806
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ -	\$ 229,147

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018 AND 2017**

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, 2018 and 2017, 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, 2018 AND 2017

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. There are no pledges receivables as of June 30, 2018 and 2017.

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 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, 2018 and 2017.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 was 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 was recorded and reflected on the consolidated statements of financial position. The loan associated with the interest rate swap agreement was paid off during fiscal year ended 2017.

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.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	2018	2017
Cash on Hand	\$ 647	\$ 647
Checking Account Balances	15,927,035	7,114,175
Money Market Funds	500,000	3,259,984
Total Cash and Cash Equivalents	<u>\$ 16,427,682</u>	<u>\$ 10,374,806</u>

NOTE 3 ACCOUNTS RECEIVABLE

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

	2018	2017
Mercy Care	\$ 3,875,995	\$ 5,509,946
Bridgeway	-	1,263,839
Banner	643,231	-
Evercare Select/United Health Care	1,366,805	1,192,518
Other	628,586	444,027
Total	<u>6,514,617</u>	<u>8,410,330</u>
Less: Allowance for Doubtful Accounts	<u>(212,924)</u>	<u>(205,036)</u>
Accounts Receivable, Net	<u>\$ 6,301,693</u>	<u>\$ 8,205,294</u>

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 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.

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.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments (Continued)

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.

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.

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2018 and 2017:

	Level 1	Level 2	Level 3	Total
Fixed Income	\$ -	\$ 192,080	\$ -	\$ 192,080
Equity	776,563	-	-	776,563
Mutual Funds	248,633	-	-	248,633
Exchange-Traded Products	70,290	-	-	70,290
Cash and Cash Equivalents	-	-	-	31,862
Pooled Investments:				
Arizona Community Foundation	-	-	995,892	995,892
Total Investments	<u>\$ 1,095,486</u>	<u>\$ 192,080</u>	<u>\$ 995,892</u>	<u>\$ 2,315,320</u>
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ -	\$ 148,501	\$ -	\$ 148,501
Equity	568,466	-	-	568,466
Mutual Funds	250,997	-	-	250,997
Exchange-Traded Products	7,555	-	-	7,555
Cash and Cash Equivalents	-	-	-	20,378
Pooled Investments:				
Arizona Community Foundation	-	-	754,706	754,706
Total Investments	<u>\$ 827,018</u>	<u>\$ 148,501</u>	<u>\$ 754,706</u>	<u>\$ 1,750,603</u>

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments (Continued)

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:

	<u>2018</u>	<u>2017</u>
Balance - Beginning of Year	\$ 754,706	\$ 668,922
Realized and Unrealized Gains	41,186	85,784
Additions	200,000	-
Balance - End of Year	<u>\$ 995,892</u>	<u>\$ 754,706</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 366,662	\$ 366,662
Buildings	35,565,843	35,565,843
Swimming Pool	984,951	984,951
Furniture, Equipment, and Vehicles	1,907,022	1,862,086
Leasehold Improvements	2,935,817	3,203,675
Total	<u>41,760,295</u>	<u>41,983,217</u>
Less: Accumulated Depreciation and Amortization	<u>(10,542,260)</u>	<u>(9,858,798)</u>
Property and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 31,218,035</u>	<u>\$ 32,124,419</u>

Depreciation and amortization expense charged to operations was \$1,044,236 and \$1,033,586 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 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 \$462,391 and \$480,371 for the years ended June 30, 2018 and 2017, respectively.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 RENTALS UNDER OPERATING LEASES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 202,198
2020	61,224
2021	21,080
2022	18,875
2023	9,488
Total	<u>\$ 312,865</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 2018.

NOTE 7 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 \$180,817 and \$139,909 for the years ended June 30, 2018 and 2017, 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>
2019	\$ 96,561
2020	96,239
2021	68,472
2022	58,831
2023	3,320
Total	<u>\$ 323,423</u>

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2018	2017
Cash for Sports Complex	\$ -	\$ 28,537
Cash for Mast House Replacements	18,861	18,861
Cash for BHHS Legacy Foundation	46,172	-
Cash for Caleb Reese	49,788	-
Cash for Davignon Charitable Fund	3,000	-
Cash for Project Independence and Empowerment	54,700	-
Cash for Breaking Barriers Program	81,734	-
Cash for MaxInMotion Youth Adaptive Sports Clinics	15,000	-
Total Temporarily Restricted Net Assets	\$ 269,255	\$ 47,398

A summary of net assets released from restrictions is as follows at June 30:

	2018	2017
Sports Complex	\$ 28,537	\$ 100,000
Arizona Diamondbacks Foundation	-	51,463
BHHS Legacy Foundation	46,904	-
Breaking Barriers Program	18,266	-
Total	\$ 93,707	\$ 151,463

NOTE 9 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 because the accounting criteria for recognition of such volunteer efforts have not been satisfied.

NOTE 10 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, 2018 and 2017. Ability360's retirement plan expense was \$152,375 and \$148,351 for the years ended June 30, 2018 and 2017, respectively.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 CONCENTRATION RISK

Ability360 received 84% of their revenue from two government contracts during the year ended June 30, 2018. Ability360 received 92% of their revenue from three government contracts during the year ended June 30, 2017.

Approximately 80% of the accounts receivable balance is due from two government contracts as of June 30, 2018. Approximately 94% of the accounts receivable balance is due from three government contracts as of June 30, 2017.

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, 2018 and 2017, a portion of cash balances at financial institutions exceeded the balance insured by the FDIC.

NOTE 12 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 13 SUBSEQUENT EVENTS

Management evaluated subsequent events through November 8, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to November 8, 2018, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the consolidated financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, 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, 2018.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 14 NEW ACCOUNTING STANDARDS

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is expected to impact the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Ability360 for the fiscal year ending June 30, 2019.

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Ability360 for the year ending June 30, 2020; however, early application is permitted.

The FASB issued Accounting Standards Update (ASU) No. 2018-08 on June 21, 2018. This update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, *Revenue from Contracts with Customers*, should be followed. To determine which guidance should be followed, grant documents have to be carefully analyzed. The standard will be effective for the Ability360 for the year ending June 30, 2020; however, early application is permitted.

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The standard will be effective for the Ability360 for the year ending June 30, 2021; however, early application is permitted.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018**

ASSETS	Ability360	ABIL Development, LLC	Eliminations	Total
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 16,417,222	\$ 10,460	\$ -	\$ 16,427,682
Designated Cash	76,331	-	-	76,331
Accounts Receivable, Net	6,301,693	-	-	6,301,693
Prepaid Expenses and Other Assets	131,152	-	-	131,152
Total Current Assets	<u>22,926,398</u>	<u>10,460</u>	<u>-</u>	<u>22,936,858</u>
INVESTMENTS	2,315,320	-	-	2,315,320
PROPERTY AND EQUIPMENT, NET	11,280,847	19,937,188	-	31,218,035
INVESTMENT IN ABIL DEVELOPMENT, LLC	28,923,032	-	(28,923,032)	-
Total Assets	<u>\$ 65,445,597</u>	<u>\$ 19,947,648</u>	<u>\$ (28,923,032)</u>	<u>\$ 56,470,213</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 268,599	\$ 1,024	\$ -	\$ 269,623
Accrued Payroll and Related Expenses	1,011,097	-	-	1,011,097
Compensated Absences Payable	306,466	-	-	306,466
Deferred Revenue	226,375	-	-	226,375
Other Liabilities	28,039	-	-	28,039
Total Current Liabilities	<u>1,840,576</u>	<u>1,024</u>	<u>-</u>	<u>1,841,600</u>
NET ASSETS				
Unrestricted	63,335,766	19,946,624	(28,923,032)	54,359,358
Temporarily Restricted	269,255	-	-	269,255
Total Net Assets	<u>63,605,021</u>	<u>19,946,624</u>	<u>(28,923,032)</u>	<u>54,628,613</u>
Total Liabilities and Net Assets	<u>\$ 65,445,597</u>	<u>\$ 19,947,648</u>	<u>\$ (28,923,032)</u>	<u>\$ 56,470,213</u>

**ABILITY360 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Ability360	ABIL Development, LLC	Eliminations	Total
SUPPORT AND REVENUE				
Grants and Contracts	\$ 45,184,822	\$ -	\$ -	\$ 45,184,822
Contributions and Donations	1,266,452	-	-	1,266,452
Program Income	423,983	-	-	423,983
Interest and Dividends	82,851	-	-	82,851
Unrealized Gains on Investments	22,724	-	-	22,724
Realized Gains on Investments	42,245	-	-	42,245
Rental Income	32,837	429,554	-	462,391
Other	130,090	-	-	130,090
Total Support and Revenue	<u>47,186,004</u>	<u>429,554</u>	<u>-</u>	<u>47,615,558</u>
EXPENSES, GAINS, AND LOSSES				
Personal Assistant Services	36,409,570	-	-	36,409,570
Community Integration	4,672,140	-	-	4,672,140
Support Services:				
Administration	<u>1,782,240</u>	<u>1,026,541</u>	<u>-</u>	<u>2,808,781</u>
Total Expenses	<u>42,863,950</u>	<u>1,026,541</u>	<u>-</u>	<u>43,890,491</u>
CHANGES IN NET ASSETS	4,322,054	(596,987)	-	3,725,067
CAPITAL CONTRIBUTIONS	-	(151,019)	151,019	-
Net Assets - Beginning of Year	<u>59,282,967</u>	<u>20,694,630</u>	<u>(29,074,051)</u>	<u>50,903,546</u>
NET ASSETS - END OF YEAR	<u>\$ 63,605,021</u>	<u>\$ 19,946,624</u>	<u>\$ (28,923,032)</u>	<u>\$ 54,628,613</u>



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