

ABILITY360 AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
AND SINGLE AUDIT REPORTS
YEARS ENDED JUNE 30, 2023 AND 2022



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ability360 and Subsidiary
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Ability360 and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets 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 (GAAS) 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 Ability360 and Subsidiary 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 the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ability360 and Subsidiary's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS 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 consolidated 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 consolidated 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 Ability360 and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ability360 and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2024, on our consideration of Ability360 and Subsidiary'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 solely 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 the effectiveness of Ability360 and Subsidiary's 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 Ability360 and Subsidiary's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
March 26, 2024

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

ASSETS	2023	2022
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 17,514,693	\$ 25,653,603
Designated Cash	6,313	74,154
Certificates of Deposit	4,001,040	-
Accounts Receivable, Net	5,760,046	6,402,821
Contributions Receivable	140,678	490,332
Prepaid Expenses and Other Assets	271,935	274,106
Total Current Assets	27,694,705	32,895,016
INVESTMENTS	21,390,480	14,857,212
PROPERTY AND EQUIPMENT, Net	28,975,409	28,480,213
OPERATING LEASE RIGHT OF USE ASSET, Net	177,167	-
Total Assets	\$ 78,237,761	\$ 76,232,441
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 751,183	\$ 254,260
Accrued Payroll and Related Expenses	822,251	2,263,555
Compensated Absences Payable	331,751	305,598
Deferred Revenue	2,697,988	5,064,001
Operating Lease Liability	177,513	-
Other Liabilities	30,914	26,386
Total Current Liabilities	4,811,600	7,913,800
NET ASSETS		
Without Donor Restrictions	73,404,568	68,161,864
With Donor Restrictions	21,593	156,777
Total Net Assets	73,426,161	68,318,641
Total Liabilities and Net Assets	\$ 78,237,761	\$ 76,232,441

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Home Care Services	\$ 42,446,546	\$ -	\$ 42,446,546
Grants	1,657,224	-	1,657,224
Contributions and Donations	7,281,773	24,380	7,306,153
Program Income	409,813	-	409,813
Interest and Dividends	561,205	-	561,205
Unrealized Loss on Investments	1,533,186	-	1,533,186
Realized Loss on Investments	(364,033)	-	(364,033)
Rental Income	493,590	-	493,590
Other	129,069	-	129,069
Total Support and Revenue Before Net Assets Released from Restrictions	54,148,373	24,380	54,172,753
Net Assets Released from Restrictions	159,564	(159,564)	-
Total Support and Revenue	54,307,937	(135,184)	54,172,753
EXPENSES			
Program Services:			
Personal Assistant Services	40,278,431	-	40,278,431
Community Integration	5,328,174	-	5,328,174
Support Services:			
Administration	3,458,628	-	3,458,628
Total Expenses	49,065,233	-	49,065,233
CHANGES IN NET ASSETS	5,242,704	(135,184)	5,107,520
Net Assets - Beginning of Year	68,161,864	156,777	68,318,641
NET ASSETS - END OF YEAR	\$ 73,404,568	\$ 21,593	\$ 73,426,161

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Home Care Services	\$ 41,036,947	\$ -	\$ 41,036,947
Grants	2,184,442	-	2,184,442
Contributions and Donations	1,754,335	127,060	1,881,395
Program Income	242,209	-	242,209
Interest and Dividends	250,128	-	250,128
Unrealized Gain on Investments	(1,905,624)	-	(1,905,624)
Realized Gain on Investments	(103,876)	-	(103,876)
Rental Income	443,775	-	443,775
Other	267,690	-	267,690
Total Support and Revenue Before Net Assets Released from Restrictions	44,170,026	127,060	44,297,086
Net Assets Released from Restrictions	67,467	(67,467)	-
Total Support and Revenue	44,237,493	59,593	44,297,086
EXPENSES			
Program Services:			
Personal Assistant Services	34,583,643	-	34,583,643
Community Integration	4,675,415	-	4,675,415
Support Services:			
Administration	2,550,712	-	2,550,712
Total Expenses	41,809,770	-	41,809,770
CHANGES IN NET ASSETS	2,427,723	59,593	2,487,316
Net Assets - Beginning of Year	65,734,141	97,184	65,831,325
NET ASSETS - END OF YEAR	\$ 68,161,864	\$ 156,777	\$ 68,318,641

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Program Services			Support Services	Total Expenses
	Personal Assistant Services	Community Integration	Total Program Services	Administration	
Salaries and Related Payroll Expense	\$ 38,626,853	\$ 2,750,274	\$ 41,377,127	\$ 1,238,009	\$ 42,615,136
Home Modification Costs	-	778,632	778,632	-	778,632
Office Expenses and Postage	97,460	18,484	115,944	-	115,944
Training and Tuition	8,491	14,742	23,233	41,756	64,989
Public Relations/Information	9,864	114,750	124,614	76,254	200,868
Professional Services	31,724	9,038	40,762	37,810	78,572
Occupancy and Communications	415,850	412,014	827,864	135,769	963,633
Insurance	86,906	8,294	95,200	37,776	132,976
Equipment Rental and Repairs	528,094	134,971	663,065	191,399	854,464
Travel and Mileage	53,037	16,989	70,026	3,391	73,417
Printing and Publications	24,223	10,618	34,841	3,296	38,137
Interest and Bank Charges	-	-	-	184,440	184,440
Other Expenses	259,484	922,923	1,182,407	26,753	1,209,160
Building Expenses	-	-	-	660,860	660,860
Bad Debt Expense	-	-	-	267,066	267,066
Depreciation	136,445	136,445	272,890	554,049	826,939
Total Functional Expenses	<u>\$ 40,278,431</u>	<u>\$ 5,328,174</u>	<u>\$ 45,606,605</u>	<u>\$ 3,458,628</u>	<u>\$ 49,065,233</u>

See accompanying Notes to Consolidated Financial Statements.

ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services			Support Services	Total Expenses
	Personal Assistant Services	Community Integration	Total Program Services	Administration	
Salaries and Related Payroll Expense	\$ 33,228,304	\$ 2,423,369	\$ 35,651,673	\$ 1,032,701	\$ 36,684,374
Home Modification Costs	-	957,959	957,959	-	957,959
Office Expenses and Postage	64,647	23,271	87,918	15,695	103,613
Training and Tuition	1,983	7,378	9,361	22,041	31,402
Public Relations/Information	29,515	85,422	114,937	75,288	190,225
Professional Services	25,274	14,403	39,677	29,837	69,514
Occupancy and Communications	318,366	351,583	669,949	120,645	790,594
Insurance	81,994	11,767	93,761	31,180	124,941
Equipment Rental and Repairs	423,280	119,738	543,018	163,971	706,989
Travel and Mileage	25,652	6,564	32,216	(2,542)	29,674
Printing and Publications	18,788	15,533	34,321	2,091	36,412
Interest and Bank Charges	-	-	-	142,199	142,199
Other Expenses	230,988	523,576	754,564	6,695	761,259
Building Expenses	-	-	-	280,813	280,813
Bad Debt Expense	-	-	-	82,516	82,516
Depreciation	134,852	134,852	269,704	547,582	817,286
Total Functional Expenses	<u>\$ 34,583,643</u>	<u>\$ 4,675,415</u>	<u>\$ 39,259,058</u>	<u>\$ 2,550,712</u>	<u>\$ 41,809,770</u>

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 5,107,520	\$ 2,487,316
Adjustments to Reconcile Changes in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities:		
Depreciation	826,939	817,286
Bad Debt Expense	267,066	82,516
Gain on Disposal of Property and Equipment	-	(300)
Net Realized and Unrealized (Gain) Loss on Investments	(1,169,153)	2,009,500
Amortization of Operating Right of Use Lease Assets	126,662	-
Increase (Decrease) in Cash Resulting from Changes in:		
Accounts Receivable	375,709	1,876,542
Contributions Receivable	349,654	(280,927)
Interest Receivable	-	37,614
Prepaid Expenses and Other Assets	2,175	(77,533)
Accounts Payable	496,923	51,441
Accrued Payroll and Related Expenses	(1,441,304)	941,152
Compensated Absences Payable	26,153	(39,124)
Deferred Revenue	(2,366,013)	3,934,379
Operating Lease Liabilities	(126,316)	-
Other Liabilities	4,524	1,354
Net Cash Provided by Operating Activities	2,480,539	11,841,216
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Certificates of Deposit	(4,001,040)	-
Maturity of Certificates of Deposit	-	2,024,600
Purchases of Investments	(8,556,591)	(17,503,379)
Proceeds from Sale of Investments	3,192,476	7,344,469
Purchases of Property and Equipment	(1,322,135)	(99,128)
Net Cash Used by Investing Activities	(10,687,290)	(8,233,438)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,206,751)	3,607,778
Cash and Cash Equivalents - Beginning of Year	25,727,757	22,119,979
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 17,521,006	\$ 25,727,757
Cash and Cash Equivalents Consist of the Following:		
Cash and Cash Equivalents Consist of the Following	\$ 17,514,693	\$ 25,653,603
Designated Cash	6,313	74,154
Cash and Cash Equivalents - End of Year	\$ 17,521,006	\$ 25,727,757
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 303,829	\$ -

See accompanying Notes to Consolidated Financial Statements.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND 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 interorganizational 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

Ability360's consolidated financial statements have been prepared in accordance with the Not-For-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance). Under the Guidance, Ability360 is required to provide consolidated financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

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.

Certificates of Deposit

Certificates of deposit, with maturities at date of purchase of more than three months, are reported at cost which approximates fair value.

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, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions 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. All contributions receivable are due within the next twelve months as of June 30, 2023.

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.

Leases

Ability360 determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating, and finance leases are included in right-of-use (ROU) assets – financing and lease liability – financing in the statements of financial position.

ROU assets represent the Ability360's right to use an underlying asset for the lease term and lease liabilities represent the Ability360's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Ability360 will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease terms. Ability360 has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, Ability360 has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

Ability360 has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

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, 2023 and 2022.

Contributions

Ability360 accounts for contributions and grants in accordance with the Guidance depending on the existence of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions.

Grants

Ability360 recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met. Federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at June 30, 2023 and 2022 conditional contributions approximating \$3.5 million and \$8.0 million, respectively, have not been recognized in the accompanying financial statements.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Home Care Services Revenue

Home care services revenue is reported at the amount that reflects the consideration to which Ability360 expects to be entitled in exchange for providing client care. These amounts are due from clients, third-party payors (including health insurers and government payors), and others. Generally, Ability360 bills the clients and third-party after the services are performed. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Ability360. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Ability360 believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Generally, performance obligations satisfied over time relate to clients receiving services in Ability360's behavioral health and medical/therapy programs, which includes a majority of the Organization's charges for services revenue.

Ability360 determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors or the established rates of the government entities. Ability360 determines its estimate of implicit price concessions based on its historical collection experience with clients.

Generally, clients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Ability360 estimates the transaction price for clients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to client service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended June 30, 2023 and 2022. Subsequent changes that are determined to be the result of an adverse change in the client's ability to pay are recorded as bad debt expense.

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicaid, managed care or other insurance, client) have different reimbursement/payment methodologies
- Length of the client's service of care
- Method of reimbursement (fee for service or capitation)
- Organization's line of business that provided the service

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND 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.

Directly identifiable expenses are charged to program and supporting services. Salary and other expenses related to more than one function are charged to program and supporting services on the basis of full-time equivalents and management's best estimate. Administration expenses include those expenses that are not directly identifiable to any other specific function but provide for the overall support and direction of Ability360.

Cash and Cash Equivalents

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

	2023	2022
Cash on Hand	\$ 647	\$ 647
Checking Account Balances	17,299,631	25,441,746
Money Market Funds	214,415	211,210
Total Cash and Cash Equivalents	\$ 17,514,693	\$ 25,653,603

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In February 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Ability360 adopted the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption.

Ability360 has elected to adopt the package of practical expedients available in the year of adoption. Ability360 has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Ability360's ROU assets.

Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

NOTE 2 LIQUIDITY AND AVAILABILITY

As part of Ability360's liquidity management plan, they invest cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds. Ability 360 has ample cash and investments to cover operating expenses.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 17,514,693	\$ 25,653,603
Certificates of Deposit	4,001,040	-
Accounts Receivable, Net	5,760,046	6,402,821
Contributions Receivable	140,678	490,332
Investments (Excluding ACF)	19,637,255	13,219,022
Less: Funds with Donor-Imposed Restrictions	(21,593)	(156,777)
Total	<u>\$ 47,032,119</u>	<u>\$ 45,609,001</u>

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 3 ACCOUNTS RECEIVABLE

Ability360 receives a substantial amount of revenue from Home Care Services Revenue. Ability360's accounts receivable associated with Home Care Services Revenue at June 30 consist of the following:

	<u>2023</u>	<u>2022</u>
Mercy Care	\$ 2,978,025	\$ 3,863,206
Banner University Family Care	344,671	460,764
United Healthcare Community Plan	1,029,122	1,577,611
Division of Developmental Disabilities	1,288,657	472,423
Other	<u>326,764</u>	<u>218,199</u>
Total	5,967,239	6,592,203
Less: Allowance for Doubtful Accounts	<u>(207,193)</u>	<u>(189,382)</u>
Accounts Receivable, Net	<u>\$ 5,760,046</u>	<u>\$ 6,402,821</u>

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 Accounting Standards Codification (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.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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, 2023 AND 2022

NOTE 4 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:

	2023			Total
	Level 1	Level 2	Level 3	
Fixed Income	\$ -	\$ 1,052,828	\$ -	\$ 1,052,828
Equity	4,903,950	-	-	4,903,950
Mutual Funds	11,563,188	-	-	11,563,188
Exchange-Traded Products	1,850,775	-	-	1,850,775
Pooled Investments:				
Arizona Community Foundation	-	-	1,753,225	1,753,225
Total Investments at Fair Value	<u>\$ 18,317,913</u>	<u>\$ 1,052,828</u>	<u>\$ 1,753,225</u>	21,123,966
Cash and Cash Equivalents				266,514
Total Investments				<u>\$ 21,390,480</u>
	2022			Total
	Level 1	Level 2	Level 3	
Fixed Income	\$ -	\$ 1,040,443	\$ -	\$ 1,040,443
Equity	4,198,742	-	-	4,198,742
Mutual Funds	7,267,993	-	-	7,267,993
Exchange-Traded Products	65,163	-	-	65,163
Pooled Investments:				
Arizona Community Foundation	-	-	1,638,190	1,638,190
Total Investments at Fair Value	<u>\$ 11,531,898</u>	<u>\$ 1,040,443</u>	<u>\$ 1,638,190</u>	14,210,531
Cash and Cash Equivalents				646,681
Total Investments				<u>\$ 14,857,212</u>

Purchases, sales, transfers in and transfers out of Level 3 investments consist of the following for the years ended June 30:

	2023	2022
Purchases	\$ 172,970	\$ 767,253
Sales	150,671	755,673
Transfers In	-	-
Transfer Out	-	-

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 942,662	\$ 349,662
Buildings	36,021,088	35,412,843
Swimming Pool	984,951	984,951
Furniture, Equipment, and Vehicles	2,421,656	2,305,768
Leasehold Improvements	2,935,817	2,935,817
Construction in Progress	5,000	-
Total	<u>43,311,174</u>	<u>41,989,041</u>
Less: Accumulated Depreciation and Amortization	<u>(14,335,765)</u>	<u>(13,508,828)</u>
Property and Equipment, Net	<u>\$ 28,975,409</u>	<u>\$ 28,480,213</u>

Depreciation and amortization expense charged to operations was \$826,939 and \$817,286 for the years ended June 30, 2023 and 2022, 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 \$493,590 and \$443,775 for the years ended June 30, 2023 and 2022, respectively.

Subsequent to year-end, a rental agreement was renewed and the revenue is included in the following table. The future minimum rental income under these operating leases is as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2024	\$ 188,842
2025	45,823
2026	27,340
2027	27,613
2028	1,151
Total	<u>\$ 290,769</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 2023.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 7 LEASES

Ability360 leases office space and office equipment under the provisions of noncancelable operating leases. The leases expire at various dates through fiscal year 2027.

The following tables provide quantitative information concerning Ability360's leases.

	2023
Lease Cost:	
Operating Lease Cost	\$ 126,316
Short-term Lease Cost	54,830
Total Lease Cost	\$ 181,146
Other Information:	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Operating Leases	\$ 126,316
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 303,829
Weighted Average Remaining Lease Term - Operating Leases	2.1 Years
Weighted-Average Discount Rate - Operating Leases	2.85%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

Year Ending August 31	Operating Leases
2024	\$ 75,252
2025	93,266
2026	14,097
2027	920
Total Lease Payments	183,535
Less: Imputed Interest	(6,022)
Present Value of Lease Liabilities	\$ 177,513

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were \$21,593 and \$156,777 as of June 30, 2023 and 2022, respectively. The restrictions are subject to expenditure for the purpose of Team 360 Sports and Fitness.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	2023	2022
Satisfaction of Purpose Restrictions:		
Youth Continuum of Services	\$ -	\$ 40,350
Advocacy	-	10,000
COVID-19 Relief Support	-	12,117
Team360 Sports and Fitness	159,564	5,000
Total	\$ 159,564	\$ 67,467

NOTE 9 PROGRAM SERVICE REVENUE, RECEIVABLE, AND DEFERRED REVENUE

The following table provides information about significant changes in the accounts receivables for the year ended June 30:

	2023	2022
Accounts Receivable - Beginning	\$ 6,592,203	\$ 8,568,425
Increases (Decreases) In Accounts Receivables Due to Services Performed but Uncollected	(780,340)	(1,976,222)
Accounts Receivable - Ending	\$ 5,811,863	\$ 6,592,203

The following table provides information about significant changes in the accounts receivables for the year ended June 30:

	2023	2022
Deferred Revenue - Beginning	\$ 5,064,001	\$ 1,129,622
Net Increases (Decreases) in Deferred Revenue Due to Funds Collected (Used) for Services to be Performed	(2,366,013)	3,934,379
Deferred Revenue - Ending	\$ 2,697,988	\$ 5,064,001

NOTE 10 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.

**ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 11 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, 2023 and 2022. Ability360's retirement plan expense was \$133,026 and \$103,090 for the years ended June 30, 2023 and 2022, respectively.

NOTE 12 CONCENTRATION RISK

Ability360 received 82% of their revenue from two government contracts for both the year ended June 30, 2023 and 2022.

Approximately 89% of the accounts receivable balance is due from three government contracts as of June 30, 2023. Approximately 77% of the accounts receivable balance is due from two government contracts as of June 30, 2022.

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, 2023 and 2022, a portion of cash balances at financial institutions exceeded the balance insured by the FDIC.

NOTE 13 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.

During the year ended June 30, 2023, Ability360 entered a contract for construction services to replace an underground retention tank and repair damages to the surrounding pathways, landscape, and lighting. The non-cancellable commitments for this contract amounted to approximately \$338,000. As of June 30, 2023, the project had not commenced and no amounts were paid.

ABILITY360 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 14 ACQUISITION OF DARING ADVENTURES

In October 2021, Ability360 entered into an agreement for the acquisition of River of Dreams, doing business as Daring Adventures, an Arizona nonprofit corporation. Daring Adventures and Ability360 have similar missions of empowering people with disabilities and significant life challenges and improving their quality of life. Both organization's boards of directors approved the acquisition to be effective as of December 31, 2021, with Ability360 to be the surviving entity. The results of operations of the program are included in the consolidated statement of activities from the date of acquisition. During the year ended June 30, 2022, there was no consideration given in the transaction.

Ability360 recorded its acquisition of Daring Adventures as follows:

Cash and Cash Equivalents	\$ 62,000
Property and Equipment	8,988
Total Assets	<u>\$ 70,988</u>
Deferred Revenue	\$ 62,000
Total Liabilities	<u>\$ 62,000</u>
Excess of Assets Acquired Over Liabilities Assumed	<u>\$ 8,988</u>

NOTE 15 SUBSEQUENT EVENTS

We have evaluated subsequent events through March 26, 2024, the date the consolidated financial statements were available to be issued.

Subsequent to June 30, 2023, Ability360 entered into a noninterest bearing note receivable totaling \$170,000, with an unrelated center for independent living organization. The note is due on demand.

In July 2023, Ability360 entered a contract for construction services for a new elevator addition. The noncancellable commitments for this contract amounted to approximately \$375,000.

ABILITY360 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	Ability360	ABIL Development, LLC	Eliminations	Total
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 17,507,227	\$ 7,466	\$ -	\$ 17,514,693
Designated Cash	6,313	-	-	6,313
Certificates of Deposit	4,001,040	-	-	4,001,040
Accounts Receivable, Net	5,760,046	-	-	5,760,046
Contributions Receivable	140,678	-	-	140,678
Prepaid Expenses and Other Assets	271,935	-	-	271,935
Total Current Assets	<u>27,687,239</u>	<u>7,466</u>	<u>-</u>	<u>27,694,705</u>
INVESTMENTS	21,390,480	-	-	21,390,480
PROPERTY AND EQUIPMENT, Net	11,316,310	17,659,099	-	28,975,409
RIGHT OF USE ASSET, Net	177,167	-	-	177,167
INVESTMENT IN ABIL DEVELOPMENT, LLC	17,665,486	-	(17,665,486)	-
Total Assets	<u>\$ 78,236,682</u>	<u>\$ 17,666,565</u>	<u>\$ (17,665,486)</u>	<u>\$ 78,237,761</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 750,104	\$ 1,079	\$ -	\$ 751,183
Accrued Payroll and Related Expenses	822,251	-	-	822,251
Compensated Absences Payable	331,751	-	-	331,751
Deferred Revenue	2,697,988	-	-	2,697,988
Lease Liability	177,513	-	-	177,513
Other Liabilities	30,914	-	-	30,914
Total Current Liabilities	<u>4,810,521</u>	<u>1,079</u>	<u>-</u>	<u>4,811,600</u>
NET ASSETS				
With Donor Restrictions	73,404,568	17,665,486	(17,665,486)	73,404,568
Without Donor Restrictions	21,593	-	-	21,593
Total Net Assets	<u>73,426,161</u>	<u>17,665,486</u>	<u>(17,665,486)</u>	<u>73,426,161</u>
Total Liabilities and Net Assets	<u>\$ 78,236,682</u>	<u>\$ 17,666,565</u>	<u>\$ (17,665,486)</u>	<u>\$ 78,237,761</u>

**ABILITY360 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)**

	Ability360	ABIL Development, LLC	Eliminations	Total
SUPPORT AND REVENUE				
Home Care Services	\$ 42,446,546	\$ -	\$ -	\$ 42,446,546
Grants	1,657,224	-	-	1,657,224
Contributions and Donations	7,306,153	-	-	7,306,153
Program Income	409,813	-	-	409,813
Interest and Dividends	561,205	-	-	561,205
Unrealized Loss on Investments	1,533,186	-	-	1,533,186
Realized Loss on Investments	(364,033)	-	-	(364,033)
Loss on Investment in Subsidiary	(350,443)	-	350,443	-
Rental Income	71,140	422,450	-	493,590
Other	129,069	-	-	129,069
Total Support and Revenue	<u>53,399,860</u>	<u>422,450</u>	<u>350,443</u>	<u>54,172,753</u>
EXPENSES, GAINS, AND LOSSES				
Personal Assistant Services	40,278,431	-	-	40,278,431
Community Integration	5,328,174	-	-	5,328,174
Support Services:				
Administration	2,685,735	772,893	-	3,458,628
Total Expenses	<u>48,292,340</u>	<u>772,893</u>	<u>-</u>	<u>49,065,233</u>
CHANGES IN NET ASSETS	5,107,520	(350,443)	350,443	5,107,520
CAPITAL CONTRIBUTIONS	-	(81,009)	81,009	-
Net Assets - Beginning of Year	<u>68,318,641</u>	<u>18,096,938</u>	<u>(18,096,938)</u>	<u>68,318,641</u>
NET ASSETS - END OF YEAR	<u>\$ 73,426,161</u>	<u>\$ 17,665,486</u>	<u>\$ (17,665,486)</u>	<u>\$ 73,426,161</u>



**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***

Board of Directors
Ability360 and Subsidiary
Phoenix, Arizona

We have audited, in accordance with the 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, the consolidated financial statements of Ability360 and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Ability360 and Subsidiary'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ability360 and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Ability360 and Subsidiary'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

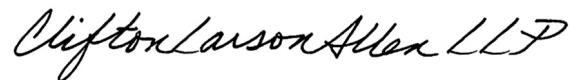
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ability360 and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Phoenix, Arizona
March 26, 2024



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER
COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Ability360 and Subsidiary
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Ability360 and Subsidiary's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Ability360 and Subsidiary's major federal program for the year ended June 30, 2023. Ability360 and Subsidiary's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Ability360 and Subsidiary complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Ability360 and Subsidiary and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Ability360 and Subsidiary's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Ability360 and Subsidiary's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Ability360 and Subsidiary's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Ability360 and Subsidiary's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Ability360 and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Ability360 and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Ability360 and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the consolidated financial statements of Ability360 and Subsidiary as of and for the year ended June 30, 2023, and have issued our report thereon dated March 26, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was 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 audit 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Phoenix, Arizona
March 26, 2024

**ABILITY360 AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

Federal Agency/Pass-Through Entity/ Federal Assistance Program	Contract Number	Federal Assistance Listing Number	Federal Award Expenditures
U.S. Department of Housing and Urban Development			
Passed through:			
Town of Gilbert, Community Development Block Grant	321000335	14.218	\$ 20,257
City of Peoria, Community Development Block Grant	ACON36522	14.218	21,117
City of Peoria, Community Development Block Grant	ACON37320A	14.218	12,507
Total Community Development Block Grant Cluster			53,881
Passed through Direct Advocacy & Resource Center, Lead Hazard Control and Healthy Home	AZHMR0008-21	14.921	69,416
Total U.S. Department of Housing and Urban Development			123,297
U.S. Department of Health and Human Services			
Centers for Independent Living	2102AZILCL-00	93.432	104,707
Centers for Independent Living	2202AZILCL-00	93.432	337,904
Centers for Independent Living – FY22 Public Health Workforce Funding for Part C CILs	2202AZILPH-00	93.432	63,936
Total Centers for Independent Living			506,547 *
Passed Through American Association of Health and Disability All of Us Program	#202201	93.310	10,000
Passed through Public Health Institute:			
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	03636-AR08220	93.433	2,500
	03636-AR59159	93.433	12,500
Total Public Health Institute			15,000
Passed through Arizona Department of Economic Security:			
Social Services Block Grant	CTR048311-1	93.667	97,211
Total Passed through Grants			122,211
Total U.S. Department of Health and Human Services			628,758
Social Security Administration			
Passed through Arizona Social Security Administration Outreach Program:			
Social Security - Work Incentives Planning and Assistance Program	5 WIP21050495-02-00	96.008	268,678
Total U.S. Department of Social Security Administration			268,678
Total Expenditures			\$ 1,020,733

* Indicates a major program for the fiscal year ended June 30, 2023.

See accompanying Notes to Schedule of Expenditures of Federal Awards.

ABILITY360 AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Ability360 and Subsidiary under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Ability360 and Subsidiary, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Ability360 and Subsidiary.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Ability360 and Subsidiary has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 FEDERAL ASSISTANCE LISTING NUMBERS

The program titles and federal assistance listing numbers were obtained from the *2023 Catalog of Federal Domestic Assistance*.

NOTE 4 SUBRECIPIENTS

There were no subrecipient payments during the year.

**ABILITY360 AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Programs

Federal Assistance Listing Number(s)	Name of Federal Program or Cluster
93.432	Centers for Independent Living
Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u> 750,000 </u>
Auditee qualified as low-risk auditee?	_____ <u> x </u> yes _____ no

**ABILITY360 AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

ABILITY360 AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2023



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2023

Ability360, Inc. respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2022

Audit period: July 1, 2021 to June 30, 2022

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

2022 – 001

Type of Finding – Material Weakness

Condition/Context - The financial reporting system contained material misstatements for the year ended June 30, 2022 as follows:

- A) An ARPA Caregiver Bonus accrual was not recorded in the correct accounting period. The bonus accrual was expensed when paid in fiscal year 2023 instead of when the eligible hours were incurred. This resulted in an understatement of expense and accrued liabilities by \$924,216. Additionally, by recording additional eligible expenses during fiscal year 2022 resulting from the bonus accrual, additional revenue was earned because conditions of the specified grants were met resulting in a corresponding understatement of revenue and an overstatement of deferred revenue by \$924,216.
- B) Conditional grants were incorrectly recognized as accounts receivable and deferred revenue prior to the conditions being met. The accounts receivable and deferred revenue accounts were both overstated by \$177,459. Ability360 and Subsidiary received notice of the conditional grant during fiscal year 2022, however, the amounts reported in deferred revenue were not collected and the grant conditions were not met as of June 30, 2022.
- C) An unconditional contribution was not recorded in the correct accounting period. The contribution of \$400,000 was recorded as revenue in fiscal year 2023 when the payments were received. The unconditional contribution should have been recorded in fiscal year 2022, when notice of the donation was received resulting in an understatement of revenue and accounts receivable as of June 30, 2022.

The financial reporting system was adjusted to correct for the above misstatements as of and for the year ended June 30, 2022.

Corrected Action:

- A) Management is in agreement with the recommendation above and an enhanced process of review and approval has been corrected.
- B) Management is in agreement with the recommendation above and has implemented the process of consulting with our auditor before the audit process to ensure the funds received on the following fiscal year are categorized appropriately.
- C) Management is in agreement with the recommendation above and has implemented the process of consulting with our auditor before the audit process to

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**ABILITY360 AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2023**



D) ensure whether unconditional contributions should be accrued at the audit year end.

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

There were no federal award program audit findings in the prior year.

Contact Person- Feng Chiou, VP of Finance at 602-296-0520



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