

ACDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016

**(WITH SUMMARIZED COMPARATIVE
TOTALS FOR JUNE 30, 2015)**

ACDS, INC.

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
ACDS, Inc.
Plainview, New York

Report on the Financial Statements

We have audited the accompanying financial statements of ACDS, Inc., which comprise the statement of financial position at June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of ACDS, Inc. at June 30, 2016, and the changes in its net assets and its cash flows for the year then ended accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and our report dated October 22, 2015, expressed an unmodified audit opinion on those audited financial statements. The summarized comparative information presented herein at and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
October 20, 2016

ACDS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 271,365	\$ 1,102,526
Investments	1,280,716	924,410
Accounts receivable (net of allowance for doubtful accounts of \$86,000 in 2016 and \$99,000 in 2015)	1,997,385	1,923,844
Contributions receivable	72,925	100,957
Prepaid expenses and other assets	236,861	151,709
Assets limited as to use	376,849	301,745
Fixed assets, net	<u>3,895,295</u>	<u>3,960,047</u>
 TOTAL ASSETS	 <u>\$ 8,131,396</u>	 <u>\$ 8,465,238</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 720,574	\$ 881,209
Accrued vacation and sick payable	613,840	649,856
Line of credit	-	50,000
Due to government agencies	163,491	152,612
Deferred rent	94,348	-
Deferred revenue	18,995	50,395
Loans and mortgages payable	1,373,607	1,476,939
Capital leases payable	<u>1,120,000</u>	<u>1,380,000</u>
 TOTAL LIABILITIES	 <u>4,104,855</u>	 <u>4,641,011</u>
 COMMITMENTS AND CONTINGENCIES		
Net assets:		
Unrestricted		
Operating	2,709,948	2,485,546
Board designated	<u>1,250,000</u>	<u>1,250,000</u>
Total unrestricted	3,959,948	3,735,546
 Temporarily restricted	 <u>66,593</u>	 <u>88,681</u>
 TOTAL NET ASSETS	 <u>4,026,541</u>	 <u>3,824,227</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 8,131,396</u>	 <u>\$ 8,465,238</u>

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

ACDS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
REVENUES, GAINS, LOSSES AND OTHER SUPPORT:				
Program service fees	\$ 15,766,783	\$ -	\$ 15,766,783	\$ 15,507,346
Government grants and contracts	260,556	-	260,556	265,968
Contributions (included in-kind donations of \$12,756 in 2016)	241,924	97,755	339,679	458,377
Special events	402,564	-	402,564	421,549
Less: Cost of direct benefits of special events	(128,111)	-	(128,111)	(125,908)
Interest and dividend income	7,484	-	7,484	6,080
Unrealized (loss) gain on investments	(1,918)	-	(1,918)	3,071
Miscellaneous	3,988	-	3,988	42,375
Gain on sale of fixed assets	11,570	-	11,570	-
Net assets released from restrictions	119,843	(119,843)	-	-
Total Revenues, Gains, Losses and Other Support	16,684,683	(22,088)	16,662,595	16,578,858
EXPENSES:				
Program services				
Early intervention	2,475,876	-	2,475,876	2,511,785
Preschool	4,857,763	-	4,857,763	4,662,814
Residential and related services	6,593,591	-	6,593,591	6,530,684
Other	677,761	-	677,761	669,811
Total program services	14,604,991	-	14,604,991	14,375,094
Supporting services				
Management and general	1,508,506	-	1,508,506	1,416,892
Fundraising	346,784	-	346,784	369,069
Total Expenses	16,460,281	-	16,460,281	16,161,055
CHANGE IN NET ASSETS	224,402	(22,088)	202,314	417,803
NET ASSETS, BEGINNING OF YEAR	3,735,546	88,681	3,824,227	3,406,424
NET ASSETS, END OF YEAR	\$ 3,959,948	\$ 66,593	\$ 4,026,541	\$ 3,824,227

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

ACDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Program Services				Supporting Services				2016 Total	2015 Total	
	Early Intervention	Preschool	Residential and Related Services	Other	Total Program Services	Management and General	Fundraising	Direct Costs of Special Events			Total Supporting Services
Salaries	\$ 1,783,223	\$ 3,337,448	\$ 4,011,459	\$ 455,856	\$ 9,587,986	\$ 1,007,409	\$ 179,773	\$ -	\$ 1,187,182	\$ 10,775,168	\$ 10,595,135
Fringe benefits	271,660	517,621	607,409	71,235	1,467,925	166,877	25,248	-	192,125	1,660,050	1,584,907
	2,054,883	3,855,069	4,618,868	527,091	11,055,911	1,174,286	205,021	-	1,379,307	12,435,218	12,180,042
Contracted personnel services	195,071	61,514	-	-	256,585	-	-	-	-	256,585	293,884
Professional fees	6,211	19,398	20,884	3,769	50,262	71,265	515	-	71,780	122,042	153,317
Supplies	42,841	130,329	291,877	17,274	482,321	28,629	4,756	-	33,385	515,706	522,341
Telephone	6,044	20,812	34,582	4,956	66,394	9,125	2,802	-	11,927	78,321	77,877
Occupancy	116,559	565,265	306,665	88,436	1,076,925	87,696	9,581	-	97,277	1,174,202	1,012,396
Equipment rental and maintenance	10,575	33,466	86,323	3,962	134,326	9,281	207	-	9,488	143,814	104,352
Systems support	5,497	44,080	25,719	1,871	77,167	14,611	14,117	-	28,728	105,895	96,766
Staff travel	2,380	1,495	134,440	65	138,380	3,683	145	-	3,828	142,208	153,419
Interest	24	81	146,984	15	147,104	5,962	2	-	5,964	153,068	182,151
Depreciation and amortization	11,988	49,457	449,328	8,185	518,958	6,090	699	-	6,789	525,747	592,629
Client-related expenses	400	1,505	297,181	369	299,455	1,855	85	-	1,940	301,395	306,897
Insurance	9,734	30,680	138,812	5,760	184,986	23,186	725	-	23,911	208,897	215,754
Printing and postage	2,130	3,733	7,752	454	14,069	18,770	345	-	19,115	33,184	33,889
Food, facility and entertainment	-	-	-	-	-	-	-	128,111	128,111	128,111	125,908
Miscellaneous	11,539	40,879	34,176	15,554	102,148	54,067	107,784	-	161,851	263,999	235,341
Total expense	2,475,876	4,857,763	6,593,591	677,761	14,604,991	1,508,506	346,784	128,111	1,983,401	16,588,392	16,286,963
Cost of direct benefits of special events	-	-	-	-	-	-	-	(128,111)	(128,111)	(128,111)	(125,908)
Total expenses reported by function on the statement of activities	<u>\$ 2,475,876</u>	<u>\$ 4,857,763</u>	<u>\$ 6,593,591</u>	<u>\$ 677,761</u>	<u>\$ 14,604,991</u>	<u>\$ 1,508,506</u>	<u>\$ 346,784</u>	<u>\$ -</u>	<u>\$ 1,855,290</u>	<u>\$ 16,460,281</u>	<u>\$ 16,161,055</u>

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

ACDS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 202,314	\$ 417,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on sale of fixed assets	(11,570)	-
Unrealized loss (gain) on investments	1,918	(3,071)
Deferred rent	94,348	-
Depreciation and amortization	525,747	592,629
Decrease (increase) in assets:		
Accounts receivable	(73,541)	(53,569)
Contributions receivable	28,032	(31,598)
Prepaid expenses and other assets	(85,152)	(41,536)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(160,635)	49,356
Accrued vacation and sick payable	(36,016)	1,513
Due to government agencies	10,879	34,770
Deferred revenue	(31,400)	28,832
Net cash provided by operating activities	<u>464,924</u>	<u>995,129</u>
Cash flows from investing activities:		
Purchase of investments	(358,224)	(796,680)
Proceeds from the sale of investments	-	789,635
Proceeds from the sale of fixed assets	11,570	-
Purchase of fixed assets	(460,995)	(158,616)
Net cash used in investing activities	<u>(807,649)</u>	<u>(165,661)</u>
Cash flows from financing activities:		
Proceeds from line of credit	-	50,000
Repayments of line of credit	(50,000)	-
Repayments of loans and mortgage payable	(103,332)	(137,782)
Principal payments on capital leases	(260,000)	(330,000)
(Increase) decrease in assets limited as to use	(75,104)	87,203
Net cash used in financing activities	<u>(488,436)</u>	<u>(330,579)</u>
Net change in cash and cash equivalents	(831,161)	498,889
Cash and cash equivalents, beginning of year	<u>1,102,526</u>	<u>603,637</u>
Cash and cash equivalents, end of year	<u>\$ 271,365</u>	<u>\$ 1,102,526</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 153,068</u>	<u>\$ 182,151</u>

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

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Nature of Operations

ACDS, Inc. ("ACDS"), located in Plainview, New York, is a not-for-profit, non-sectarian organization, founded in 1966. ACDS is dedicated to providing lifetime resources of exceptional quality, innovation and inclusion for individuals with Down Syndrome, Autism, and other developmental disabilities, and their families.

ACDS provides a continuum of year-round programs and services that include diagnostic evaluations and treatment, early intervention, day care/nursery, preschool, including special education and clinical services for children from infancy to age five; individualized residential alternatives ("IRA") and day habilitation services for adults age 21 and over; and evening and weekend recreation and socialization services for individuals age five and over. ACDS also provides nursery/day care programs in an integrated setting, with typically developing children. IRA services were provided at eight group homes and one supportive apartment as of June 30, 2016. During September 2016, ACDS opened a new preschool located in Scarsdale, NY expanding services to the Westchester County community. ACDS's primary source of revenue is program service fees.

ACDS qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and as a not-for-profit corporation in New York State. Accordingly, no provision for federal or state income taxes is required.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with ACDS's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting ACDS's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2016, the fair value of ACDS's financial instruments including, cash and cash equivalents, accounts receivable, contributions receivable, assets limited as to use, accounts payable and accrued expenses, accrued vacation and sick payable, and due to government agencies, approximated book value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Investments

Investments are stated at the readily determinable fair value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Revenue and Accounts Receivable

Program service fee revenue and related accounts receivable generally are recorded using fee for service at estimated allowable rates, which are subject to audit and adjustment by governmental agencies. The effect of any rate adjustments is recorded when reasonably determinable and based upon preliminary notification by the governmental agencies. Differences between the amounts accrued and subsequent settlements are recorded in the year of settlement. Government grants and related receivables are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, ACDS establishes due to government funders. Interest income is not accrued or recorded on outstanding receivables.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 - Summary of Significant Accounting Policies (cont'd.)

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. Conditional promises to give are not included as support until the conditions are substantially met. At June 30, 2016, all of the contributions receivable are due in less than one year.

Allowance for Doubtful Accounts

ACDS determines whether an allowance for uncollectibles should be provided for receivables. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. ACDS established an allowance for doubtful accounts of approximately \$86,000 at June 30, 2016.

Assets Limited As to Use

Assets limited as to use are assets set aside under the terms of certain financing agreements, to be used for capital purposes or the paydown of the outstanding amounts.

Fixed Assets

Fixed assets are stated at cost. Items in excess of \$3,000 and with useful lives of two years or greater are capitalized. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the respective leases. Closing costs are capitalized as part of building and improvements, and are amortized over the life of the underlying financing agreement. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	5 to 25 years
Leasehold improvements	5 to 15 years
Furniture, fixtures and equipment	10 years
Vehicles	4 years

Due to Government Agencies

These amounts represent actual and estimated liabilities due back to government funding sources based on current laws and regulations. Laws and regulations governing education and health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid programs.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Deferred Revenue

Deferred revenue consists of amounts received from third-party funding sources in advance of service provision.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Board designated funds represent funds designated by the board of directors as a special allocation for any board designated areas or items. Temporarily restricted net assets are those net assets that are restricted by the donors for specific purposes.

Contributions

Contributions, including unconditional promises to give, are recorded as pledged. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. ACDS records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. It is ACDS's policy to reflect rent expense on the straight-line basis. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Functional Allocation of Expenses

The costs of providing ACDS's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting for Uncertainty in Income Taxes

ACDS has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. ACDS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. ACDS believes it is no longer subject to income tax examinations prior to 2013.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements

ASU No. 2016-14

In August 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-14, *Non-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Non-for-Profit Entities*. This ASU is a result of the recommendations developed by FASB’s Not-for-Profit Advisory Committee and FASB’s ongoing review of Generally Accepted Accounting Principles (GAAP) standards to improve existing standards to meet the evolving needs of a dynamic financial reporting environment.

The ASU provides for changes in financial statement presentation that effect classification of net assets, presentation of expenses, investment returns and presentation of operating cash flows. It also calls for enhanced disclosures of board designated funds, underwater endowment funds, methods used to allocate costs among functions, and liquidity and availability of resources. The ASU affects all not-for-profit organizations including charities, foundations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

The amendments of ASU No. 2016-14 are effective for annual financial statements issued for periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board (“IASB”) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards (“IFRS”). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application is permitted for all entities.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements (cont'd.)

ASU No. 2014-09

In May 2014, the FASB issued the ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will apply to all companies that report financial statements in accordance with U.S. GAAP and will supersede the current general revenue recognition guidance and most industry-specific guidance. The issuance of this standard will result in a significant change that creates a common revenue recognition model for all companies that generate revenue from contracts with customers to transfer goods or services. This accounting framework expects to provide more useful information to users of the financial statements about how revenue is recognized and offers a more consistent approach across all industries.

For nonpublic companies, the standard will be effective for fiscal years beginning after December 15, 2018.

ACDS has not yet determined if these ASUs will have a material effect on its financial statements.

Note 3 - Concentrations of Credit Risk

ACDS maintains cash balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per institution. From time to time, ACDS's balances may exceed these limits.

Note 4 - Assets Limited As to Use

At June 30, 2016, assets held for specific purposes are maintained in the following restricted funds:

Debt service reserve funds (a)	\$ 210,237
Bond funds (b)	66,500
Restricted cash (c)	<u>100,112</u>
	<u>\$ 376,849</u>

(a) Debt Service Reserve Funds - The debt service reserve funds consist of investments in U.S. Treasury Notes, with interest rates ranging from 3.5% to 4.4%. The investments are carried at fair value. At June 30, 2016, the debt service reserve funds represent the debt service reserves required under the Nassau County Industrial Developmental Agency ("IDA") bond financing agreements.

(b) Bond Funds - The bond funds consist of investments in money market funds for future scheduled IDA bond payments.

(c) Restricted Cash - The restricted cash represents a letter of credit on a lease agreement which acts as a security deposit.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 5 - Fair Value Measurements

ACDS measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect ACDS's own assumptions of market participant valuation (unobservable inputs).

Items Measured at Fair Value on a Recurring Basis

The following table presents ACDS's assets that are measured at fair value on a recurring basis at June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 2,217	\$ 2,217	\$ -	\$ -
Mutual funds	150,628	150,628	-	-
Certificates of deposit	1,103,212	-	1,103,212	-
Equities - domestic	24,659	24,659	-	-
 Total Investments	 <u>1,280,716</u>	 <u>177,504</u>	 <u>1,103,212</u>	 <u>-</u>
 U.S. Treasury notes	 210,237	 210,237	 -	 -
Money market funds	166,612	166,612	-	-
 Total Assets Limited As to Use	 <u>376,849</u>	 <u>376,849</u>	 <u>-</u>	 <u>-</u>
 Total Assets Measured at Fair Value	 <u>\$ 1,657,565</u>	 <u>\$ 554,353</u>	 <u>\$ 1,103,212</u>	 <u>\$ -</u>

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 6 - Fixed Assets

Fixed assets, net are summarized as follows at June 30, 2016:

Land	\$ 1,370,000
Building and improvements	4,997,049
Leasehold improvements	950,647
Furniture, fixtures and equipment	986,379
Vehicles	963,003
	<hr/>
	9,267,078
Less: Accumulated depreciation and amortization	5,371,783
	<hr/>
	\$ 3,895,295
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Depreciation and amortization expense related to fixed assets amounted to \$525,747 for the year ended June 30, 2016.

Note 7- Line of Credit

At June 30, 2016, ACDS has no outstanding balance on an available line of credit of \$3,000,000 from a financial institution with interest payable at the bank's base rate plus 1%, which was 4.5% at June 30, 2016. The line is secured by a security interest in all of ACDS's assets and is due on demand. The line of credit has no expiration date and is subject to periodic review by the financial institution on an as-requested basis. As an uncommitted line of credit, it can be withdrawn at the lender's option. Interest expense for the year ended June 30, 2016 on such borrowings was \$5,952.

Note 8 - Related Party Transactions

A member of the Board is a member of a law firm engaged by ACDS. No fees have been paid to the law firm for legal services. A member of the Board is employed by the investment firm engaged by ACDS to hold board designated funds and donated securities. No fees have been paid to the investment firm for investment management or custodial services.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 9 - Loans and Mortgages Payable

Loans and mortgages payable at June 30, 2016 consist of the following:

Various loans payable - in equal monthly installments ranging from \$327 to \$741 including interest ranging from 0% to 4.9% per annum, with final maturities through June 2019. These loans are secured by transportation equipment with a net book value of \$260,976.	\$ 331,963
Mortgage loan with a fixed interest rate of 6% and monthly payments of principal and interest of \$8,439, which is due May 2025. It is secured by property located in Merrick, New York with a net book value of \$748,325.	688,592
Mortgage loan with a fixed interest rate of 6.37% and monthly payments of principal and interest of \$2,160, which is due August 2025. It is secured by property located in Levittown, New York with a net book value of \$359,291.	180,959
Mortgage loan with a fixed interest rate of 6.25% and monthly payments of principal and interest of \$1,941, which is due June 2026. It is secured by property located in Freeport, New York with a net book value of \$137,279.	172,093
	\$ 1,373,607

Aggregate maturities of long-term debt are as follows:

<u>Years Ending June 30:</u>	
2017	\$ 211,327
2018	198,182
2019	160,839
2020	134,383
2021	125,197
Thereafter	543,679
	\$ 1,373,607

Interest expense for the year ended June 30, 2016 was \$72,887.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 10 - Capital Leases Payable

Bonds outstanding consist of the following:

Series 2001 A-A Tax Exempt Civic Facility Revenue Bonds with annual principal payments ranging from \$25,000 to \$65,000 plus quarterly interest payments at 7%, maturing on November 1, 2016.	\$ 65,000
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Series 2003 A-A Tax Exempt Civic Facility Revenue Bonds with annual principal payments ranging from \$25,000 to \$65,000 plus quarterly interest payments at 6.125%, maturing on September 1, 2018.	185,000
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Series 2004 A-A Tax Exempt Civic Facility Revenue Bonds with annual principal payments ranging from \$35,000 to \$65,000 plus quarterly interest payments at 6%, maturing on December 1, 2019.	245,000
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Series 2007 A-A Tax Exempt Civic Facility Revenue Bonds with semi-annual principal payments ranging from \$20,000 to \$60,000 plus quarterly interest payments at 5.95%, maturing on November 1, 2022.	625,000
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Total Bonds Outstanding	<u>\$ 1,120,000</u>
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The bonds were issued by the IDA to purchase and renovate group homes (see Note 4). Under the agreements with the IDA, ACDS has leased the group homes to the IDA, which subleased such facilities back to ACDS for a term that is concurrent with the bond repayment schedules. Titles to the group homes remain with ACDS pursuant to all existing lease agreements. During the terms of the leases, ACDS is responsible for maintenance of the facilities. These bonds are secured by mortgage and security agreements. Future payments are as follows:

Years Ending June 30:

2017	\$ 322,716
2018	258,743
2019	255,386
2020	184,971
2021	262,197

1,284,013

Less: Amount representing interest	<u>164,013</u>
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Present value of net minimum payments	<u>\$ 1,120,000</u>
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Interest expense for the year ended June 30, 2016 was \$74,229.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 - Temporarily Restricted Net Assets

At June 30, 2016, temporarily restricted net assets are available for special needs purposes in the amount of \$66,593.

Temporarily restricted net assets of \$119,843 were released from restrictions for special needs by satisfying the donor imposed restrictions during the year ended June 30, 2016.

Note 12 - Commitments and Contingencies

(a) ACDS receives its funding through contracts with local school districts; Nassau and Suffolk Counties, New York City and the State of New York. The fiscal viability of ACDS is dependent on the continuation of such funding from governmental budgetary allocations. Further, reimbursements under contracts to ACDS are subject to audit by various funding agencies. Liabilities, if any, which may result from such audits are not presently determinable.

(b) ACDS leases its school and administrative facility from an unrelated third party, located in Plainview, New York under a noncancellable operating lease agreement that expires on August 31, 2019. Either party may terminate the lease with 24 months' notice.

(c) ACDS entered into a five-year lease agreement with an unrelated third party for use of residential property located in Albertson, NY, commencing October 1, 2013 and expiring on September 30, 2018. This facility is to be used only as an Office for People With Developmental Disabilities ("OPWDD") - certified residential housing site. ACDS has the option to renew for an additional five-year term through written notice of intent to renew not less than six months prior to the end of the initial term. In the event of termination of program funding, ACDS shall have the right to terminate within 60 days through a written agreement.

(d) ACDS entered into a five-year lease agreement for use of property with an unrelated third party in Plainview, NY, commencing April 26, 2014 and expiring on April 30, 2019. This location is to be used for program services to OPWDD clients. In the event of termination of program funding, ACDS shall have the right to terminate within 30 days through a written notice.

(e) ACDS leases certain office equipment and one vehicle under noncancellable operating lease agreements with expiration dates through June 2020.

(f) ACDS entered into a five-year lease agreement with an unrelated third party for use of property located in Scarsdale, NY, commencing February 1, 2016 and expiring on January 31, 2021. This location is to be used for educational program services and related administrative offices. ACDS has a letter of credit outstanding in the amount of \$100,000 as a form of a security deposit relating to this lease. ACDS has the option to renew the lease at any time with a 3% annual increase.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 12 - Commitments and Contingencies (cont'd.)

Future minimum lease commitments under operating leases for space, office equipment, and vehicles are approximately as follows:

<u>Years Ending June 30:</u>	
2017	\$ 880,937
2018	1,082,382
2019	1,036,729
2020	516,340
2021	<u>210,413</u>
	<u>\$ 3,726,801</u>

Rent expense for the year ended June 30, 2016 amounted to \$776,299. Cash paid for rent for the year ended June 30, 2016 amounted to \$681,951.

Note 13 - Subsequent Events

ACDS has evaluated all events or transactions that occurred after June 30, 2016 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.