

ACDS, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2014

ACDS, INC.

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Independent Auditor's Report

**Board of Directors
ACDS, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of ACDS, Inc., which comprise the balance sheet as of June 30, 2014, 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.

Auditor's 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. as of June 30, 2014, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ACDS, Inc.'s June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 22, 2014

ACDS, INC.

BALANCE SHEET

JUNE 30, 2014

(With Summarized Financial Information as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 603,637	\$ 728,020
Certificates of deposit	794,849	600,000
Investments (Note 2)	119,445	5,602
Accounts receivable (net of allowance for doubtful accounts \$99,000 in 2014 and \$50,000 in 2013)	1,870,275	1,899,253
Contributions receivable - current	69,359	51,428
Prepaid expenses and other current assets	110,173	98,117
Assets limited as to use (Notes 3 and 8)	388,948	387,801
Fixed assets - net (Note 4)	<u>4,394,060</u>	<u>4,476,997</u>
Total assets	<u>\$ 8,350,746</u>	<u>\$ 8,247,218</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 831,853	\$ 774,791
Accrued vacation and sick payable	648,343	567,576
Line of credit (Note 5)		250,000
Due to government agencies (Note 2)	117,842	64,607
Deferred revenue	21,563	68,052
Loans and mortgage payable (Note 7)	1,614,721	1,529,458
Capital leases payable (Note 8)	<u>1,710,000</u>	<u>2,020,000</u>
Total liabilities	<u>4,944,322</u>	<u>5,274,484</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	2,446,717	2,352,154
Board designated	<u>900,000</u>	<u>600,000</u>
Total unrestricted	3,346,717	2,952,154
Temporarily restricted (Note 9)	<u>59,707</u>	<u>20,580</u>
Total net assets	<u>3,406,424</u>	<u>2,972,734</u>
Total liabilities and net assets	<u>\$ 8,350,746</u>	<u>\$ 8,247,218</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACDS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Total	
			2014	2013
Revenues and other support				
Program service fees	\$ 15,140,118		\$ 15,140,118	\$ 14,366,735
Government grants and contracts	262,072		262,072	269,772
United Way	20,850		20,850	27,180
Contributions (included in-kind donations of \$6,589 in 2014 and \$3,840 in 2013)	267,503	\$ 120,450	387,953	401,736
Special events	437,921		437,921	417,838
Less cost of direct benefits of special events	(138,974)		(138,974)	(136,334)
Interest and dividend income	4,743		4,743	5,980
Unrealized gain on investments	2,601		2,601	
Miscellaneous	7,822		7,822	5,082
Gain on sale of assets	9,599		9,599	
Net assets released from restrictions (Note 9)	81,323	(81,323)		
Total revenues and other support	16,095,578	39,127	16,134,705	15,357,989
Expenses (Exhibit C)				
Program services				
Early intervention	2,409,632		2,409,632	2,052,596
Preschool	4,958,883		4,958,883	4,909,653
Residential and related services - Office for People with Developmental Disabilities (OPWDD)	5,899,292		5,899,292	5,533,800
Other	760,887		760,887	800,728
Total program services	14,028,694		14,028,694	13,296,777
Supporting services				
Management and general	1,339,257		1,339,257	1,242,415
Fund raising	333,064		333,064	347,977
Total supporting services	1,672,321		1,672,321	1,590,392
Total expenses	15,701,015		15,701,015	14,887,169
Change in net assets (Exhibit D)	394,563	39,127	433,690	470,820
Net assets - beginning of year	2,952,154	20,580	2,972,734	2,501,914
Net assets - end of year (Exhibit A)	\$ 3,346,717	\$ 59,707	\$ 3,406,424	\$ 2,972,734

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	Program Services				Supporting Services				Total	
	Early Intervention	Preschool	Residential and Related Services - OPWDD	Other	Management and General	Fund Raising	Direct Costs of Special Events	2014	2013	
Salaries	\$ 1,643,150	\$ 3,558,740	\$ 3,581,283	\$ 496,998	\$ 859,248	\$ 207,678		\$ 10,347,097	\$ 9,808,051	
Payroll taxes and employee benefits	246,371	533,653	401,549	74,633	143,449	28,033		1,427,688	1,418,195	
	1,889,521	4,092,393	3,982,832	571,631	1,002,697	235,711		11,774,785	11,226,246	
Contracted personnel services	249,077	46,919			146,349	441		295,996	283,073	
Professional fees	5,463	16,640	17,457	2,973				189,323	170,609	
Supplies	31,640	152,630	235,583	29,112	20,215	3,386		472,566	478,395	
Telephone	6,430	25,713	31,402	5,643	3,507	1,770		74,465	59,865	
Occupancy (Note 10)	103,838	429,443	248,824	95,463	44,985	12,861		935,414	826,831	
Equipment rental and maintenance	5,779	24,055	58,375	3,974	7,957	1,688		101,778	90,749	
Systems support	11,181	33,156	825	6,871	11,849	10,375		74,257	81,186	
Staff travel	4,255	2,331	139,642	11	10,353	1,091		157,683	143,182	
Interest	204	9,569	196,808	123	45	15		206,764	224,492	
Depreciation and amortization	11,199	44,339	485,582	9,144	12,973	1,255		564,492	530,308	
Client-related expenses	1,206	3,230	279,709	1,317	2,708	761		288,931	266,258	
Insurance	9,940	32,143	133,491	6,051	20,291	885		202,801	178,313	
Printing and postage	1,467	8,390	271	2,608	5,200	6,884		24,820	25,927	
Food, facility and entertainment							\$ 138,974	138,974	136,334	
Miscellaneous	78,432	37,932	88,491	26,016	50,128	55,941		336,940	301,735	
Total expenses	2,409,632	4,958,883	5,899,292	760,887	1,339,257	333,064	138,974	15,839,989	15,023,503	
Cost of direct benefits of special events							(138,974)	(138,974)	(136,334)	
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,409,632	\$ 4,958,883	\$ 5,899,292	\$ 760,887	\$ 1,339,257	\$ 333,064	\$ -	\$ 15,701,015	\$ 14,887,169	

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACDS, INC.

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 433,690	\$ 470,820
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on sale of fixed assets	(9,599)	
Unrealized gain on investments	(2,601)	
Depreciation and amortization	564,492	530,308
Decrease (increase) in assets		
Accounts receivable	28,978	220,206
Contributions receivable - current	(17,931)	(45,675)
Prepaid expenses and other current assets	(12,056)	(12,939)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	57,062	(25,160)
Accrued vacation and sick payable	80,767	(3,739)
Due to government agencies	53,235	(78,171)
Deferred revenue	(46,489)	(59,262)
	<u>1,129,548</u>	<u>996,388</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(906,091)	(605,602)
Proceeds from sale of investments	600,000	
Proceeds from sale of fixed assets	24,605	
Purchase of fixed assets	(496,561)	(242,152)
Increase in assets limited as to use	(1,147)	(4,280)
	<u>(779,194)</u>	<u>(852,034)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Proceeds from line of credit	1,100,000	1,300,000
Repayments on line of credit	(1,350,000)	(1,050,000)
Proceeds from loans and mortgage payable	283,889	123,891
Repayments of loans and mortgage payable	(198,626)	(137,837)
Principal payments on capital leases	(310,000)	(300,000)
	<u>(474,737)</u>	<u>(63,946)</u>
Net cash used by financing activities		
Net change in cash and cash equivalents	(124,383)	80,408
Cash and cash equivalents - beginning of year	<u>728,020</u>	<u>647,612</u>
Cash and cash equivalents - end of year	<u>\$ 603,637</u>	<u>\$ 728,020</u>
Supplementary disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 209,116</u>	<u>\$ 226,786</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - NATURE OF ORGANIZATION

ACDS, Inc. (formerly known as Association for Children with Down Syndrome, 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, 2014. ACDS' 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 presentation - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and cash equivalents - ACDS considers all highly liquid instruments purchased with original maturities of three months or less at the date of purchase to be cash equivalents.

Certificates of deposit - Certificates of deposit with maturities greater than three months when originally acquired are considered investments for cash flow purposes.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - Investments are recorded at fair value. ACDS invests in various investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could affect the amounts reported in the organization's financial statements.

Revenue and receivables - Revenue and related accounts receivable generally are recorded using fees for services 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.

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-adjusted 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.

Allowance for doubtful accounts - Receivables are charged to bad debt when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable, a review of payments subsequent to year end, the creditworthiness of its funders, and other factors. Interest income is not accrued or recorded on outstanding receivables.

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 recorded at cost. Items with a cost in excess of \$3,000 and a useful life greater than two years are capitalized. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from three to forty years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the respective leases, which range from five to fifteen years. Closing costs are capitalized as part of building and improvements, and are amortized over the life of the underlying financing agreement.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due to government agencies - Due to government agencies are recorded for differences between amounts received by ACDS from government agencies and applicable reimbursement methodologies of the individual funding sources.

Deferred revenue - Revenue collected but not earned in the current year.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In-kind contributions are reported at fair value at the date the contribution is received.

Operating leases - Operating lease expense has been recorded on the straight-line basis over the life of the lease. ACDS' policy is to reflect rent expense on the straight-line basis. However, no adjustment was made to record deferred rent as it had no material effect on the financial statements.

Functional expenses - The costs of providing the organization's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Board designated funds represent unrestricted funds which have been designated by the Board of Directors for special purposes.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Summarized financial information - 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ACDS' financial statements for the year ended June 30, 2013, from which the summarized information was derived. On the statement of activities, certain amounts for 2013 have been reclassified from United Way into Contributions.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The 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 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ACDS 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 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at June 30, 2014, as compared to those used at June 30, 2013.

Money market funds, U.S. Treasury notes, and equities - Valued at the closing price reported on the active market on which the individual securities are traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while ACDS believes its valuation method is 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.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

	2014 (Level 1)
Money market funds	\$ 106,119
Equities - domestic	<u>13,326</u>
	\$ <u>119,445</u>

Uncertainty in income taxes - ACDS has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 22, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - ASSETS LIMITED AS TO USE

At June 30, 2014 and 2013, assets held for specific purposes are maintained in the following restricted funds:

	2014 (Level 1)	2013 (Level 1)
Debt service reserve funds (a)	\$ 322,448	\$ 321,301
Bond funds (b)	<u>66,500</u>	<u>66,500</u>
	\$ <u>388,948</u>	\$ <u>387,801</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, 2014 and 2013, the Debt Service Reserve Funds represent the debt service reserves required under the Nassau County Industrial Development Agency ("IDA") bond financing agreements.
- (b) **Bond funds** - The Bond Funds consist of investments in money market funds for future scheduled IDA bond payments.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 - FIXED ASSETS

	<u>2014</u>	<u>2013</u>
Land	\$ 1,370,000	\$ 1,370,000
Buildings and improvements	4,911,024	4,873,806
Leasehold improvements	736,019	648,451
Furniture, fixtures and equipment	848,591	764,626
Vehicles	<u>840,283</u>	<u>645,314</u>
	8,705,917	8,302,197
Less accumulated depreciation and amortization	<u>(4,311,857)</u>	<u>(3,825,200)</u>
	<u>\$ 4,394,060</u>	<u>\$ 4,476,997</u>

As of June 30, 2014, the cost and accumulated amortization of the fixed assets associated with capital leases was \$3,269,633 and \$2,128,989, respectively (see Note 8).

NOTE 5 - LINE OF CREDIT

At June 30, 2014, ACDS had no outstanding balance on an available line of credit of \$2,500,000 from a financial institution with interest payable at the bank's base rate plus 1%, which was 5% at June 30, 2014. The line is secured by a security interest in all of ACDS' assets and is due on demand. If no demand is made, it is due in one payment of all outstanding principal plus all accrued unpaid interest, if any. 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, 2014 on such borrowings was \$8,500.

NOTE 6 - RELATED PARTY TRANSACTIONS

A member of the Board is a member of a law firm engaged by ACDS. Legal fees paid to the law firm were \$6,242 during the year ended June 30, 2014. 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 services.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 7 - LOANS AND MORTGAGES PAYABLE

Loans and mortgages payable at June 30, 2014 consist of the following:

Various loans payable in monthly installments ranging from \$327 to \$741 at interest rates of 0% to 4.9% per annum, with final maturities through June 2019. These loans are secured by vehicles.	\$ 410,830
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 collateralized by the property located in Merrick, New York.	800,809
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 collateralized by the property located in Levittown, New York.	207,821
Mortgage loan with a fixed interest rate of 6.25% and monthly payments of principal and interest of \$1,929 which is due June 2026. It is collateralized by the property located in Freeport, New York.	<u>195,261</u>
	<u>\$ 1,614,721</u>

Interest expense for the year ended June 30, 2014 was \$80,634.

Future principal payments on loans and mortgages payable are as follows:

	<u>Loans Payable</u>	<u>Mortgages Payable</u>	<u>Total</u>
2015	\$ 118,477	\$ 79,038	\$ 197,515
2016	103,547	83,994	187,541
2017	90,975	89,260	180,235
2018	71,559	93,997	165,556
2019	26,272	100,791	127,063
Thereafter	<u> </u>	<u>756,811</u>	<u>756,811</u>
	<u>\$ 410,830</u>	<u>\$ 1,203,891</u>	<u>\$ 1,614,721</u>

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 - CAPITAL LEASES PAYABLE

Bonds outstanding consist of the following:

Series 2000 A-A Tax Exempt Civic Facility Revenue Bonds which bear interest at 7.5% with annual principal payments, and quarterly interest payments and mature on June 1, 2015.	\$ 100,000
Series 2001 A-A Tax Exempt Civic Facility Revenue Bonds which bear interest at 7%, with annual principal payments, and quarterly interest payments and mature on November 1, 2016.	180,000
Series 2003 A-A Tax Exempt Civic Facility Revenue Bonds which bear interest at 6.125% with quarterly principal and interest payments and mature on September 1, 2018.	290,000
Series 2004 A-A Tax Exempt Civic Facility Revenue Bonds which bear interest at 6% with quarterly principal and interest payments and mature on December 1, 2019.	350,000
Series 2007 A-A Tax Exempt Civic Facility Revenue Bonds which bear interest at 5.95% with quarterly principal and interest payments and mature on November 1, 2022.	<u>790,000</u>
Total bonds outstanding	<u>\$ 1,710,000</u>

The bonds were issued by IDA to purchase and renovate group homes (see Note 3). Under the agreements with IDA, ACDS has leased the group homes to IDA, which subleased such facilities back to ACDS for a term that is concurrent with the bond repayment schedules. At the conclusion of the lease terms, ACDS has the option to purchase each of the leased properties for \$1. Titles to the group homes remain with ACDS pursuant to all existing operating 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.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 - CAPITAL LEASES PAYABLE (continued)

Future payments are approximately as follows:

2015	\$	436,761
2016		344,736
2017		333,661
2018		266,930
2019		193,295
Thereafter		<u>531,910</u>
		2,107,293
Less amount representing interest		<u>(397,293)</u>
Present value of net minimum payments	\$	<u>1,710,000</u>

Interest expense for the year ended June 30, 2014 was \$117,630.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2014 and 2013, temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Special needs	\$ <u>59,707</u>	\$ <u>20,580</u>

Temporarily restricted net assets were released from restrictions by satisfying the donor-imposed restrictions during the year ended June 30, 2014 as follows:

Special needs	\$ <u>81,323</u>
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ACDS, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 10 - 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, that may result from such audits are not presently determinable.
- (b) ACDS leases its school and administrative facility, located in Plainview, New York under a noncancelable operating lease agreement that expired on August 31, 2014. ACDS has submitted a letter of intent to the School District exercising its option to renew the lease for an additional five years at a fair market rental rate and has received verbal commitment from the lessor to extend through August 31, 2019. Either party may terminate the lease with 24 months notice.
- (c) ACDS entered into a five-year lease agreement 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 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, lessee 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 located within The Roman Catholic Church of St. Pius X, 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, lessee shall have the right to terminate within 30 days through a written notice.
- (e) ACDS leases certain office equipment and one vehicle under noncancelable operating lease agreements with expiration dates through June 2020.

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ACDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

Future minimum lease commitments under operating leases for space and office equipment are approximately as follows for the fiscal years ending June 30:

	Space	Office Equipment and Vehicle	Total
2015	\$ 134,517	\$ 37,296	\$ 171,813
2016	138,553	37,296	175,849
2017	142,709	30,384	173,093
2018	146,990	30,384	177,374
2019	92,152	30,384	122,536
Thereafter	<u> </u>	<u>30,384</u>	<u>30,384</u>
	<u>\$ 654,921</u>	<u>\$ 196,128</u>	<u>\$ 851,049</u>

The following are estimated commitments for the School and Administrative facility located in Plainview, New York based on the letter of intent signed by ACDS and verbal communication from lessor for same to extend the lease through August 31, 2019. These obligations have been estimated using the obligation from the last year of the current lease that is in effect.

2015	\$ 375,170*
2016	450,204
2017	450,204
2018	450,204
2019	450,204
2020	<u>75,034</u>
	<u>\$ 2,251,020</u>

* Represents 10 months for the period September 1, 2014 through June 30, 2015.

Rent expense for the facility and equipment for the year ended June 30, 2014 was \$558,397.

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ACDS, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)**

ACDS is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS), the New York State Department of Health (DOH), and Office for People with Developmental Disabilities. These agencies, as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

Laws and regulations governing ACDS' programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines and penalties and exclusion from the Medicare and Medicaid programs.

NOTE 11 - CONCENTRATIONS

Accounts receivable are primarily from local school districts, and the Counties of Nassau and Suffolk, New York City and New York State. The majority of revenue is earned through Medicaid and New York State. This also represents a concentration, as ACDS is highly dependent on the Medicaid and New York State reimbursement systems.

Financial instruments which potentially subject ACDS from time to time to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.