

ACDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2022

**(WITH SUMMARIZED COMPARATIVE
TOTALS FOR JUNE 30, 2021)**

ACDS, INC.

CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1-2
<u>Financial Statements</u>	
Statement of Financial Position at June 30, 2022 (With Summarized Comparative Totals at June 30, 2021)	3
Statement of Activities for the Year Ended June 30, 2022 (With Summarized Comparative Totals for the Year Ended June 30, 2021)	4
Statement of Functional Expenses for the Year Ended June 30, 2022 (With Summarized Comparative Totals for the Year Ended June 30, 2021)	5
Statement of Cash Flows for the Year Ended June 30, 2022 (With Summarized Comparative Totals for the Year Ended June 30, 2021)	6
Notes to Financial Statements	7-22

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of ACDS, Inc. ("ACDS"), which comprise the statement of financial position at June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACDS at June 30, 2022, and the 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 ACDS and to meet our other ethical responsibilities in accordance with the 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 audit opinion.

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.

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

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted 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, including omissions, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 ACDS'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ACDS'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.

Report on Summarized Comparative Information

We have previously audited ACDS's 2021 financial statements, and our report dated December 1, 2021 expressed an unmodified audit opinion on those audited financial statements. The summarized comparative information presented herein at and for the year ended June 30, 2021 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
March 24, 2023

ACDS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2021)

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 189,631	\$ 1,137,958
Investments	1,556,492	1,643,241
Accounts receivable, net	7,466,776	8,061,747
Contributions receivable	1,286	-
Prepaid expenses and other assets	264,633	727,732
Finance lease right-of-use assets	178,493	323,391
Operating lease right-of-use assets	2,128,902	1,410,445
Assets limited as to use	63,983	166,486
Fixed assets, net	<u>5,479,723</u>	<u>2,537,004</u>
 TOTAL ASSETS	 <u>\$ 17,329,919</u>	 <u>\$ 16,008,004</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 678,596	\$ 845,449
Accrued salaries payable and related benefits	2,043,192	2,206,694
Line of credit payable	400,000	-
Paycheck Protection Program loan payable	-	3,720,175
Due to government agencies	722,735	416,911
Refundable advance	768,425	-
Contract liabilities	-	26,400
Finance lease liabilities	183,946	327,980
Operating lease liabilities	2,162,114	1,434,468
Loans and mortgages payable, net	2,420,572	495,675
Bond payable, net	<u>15,529</u>	<u>123,017</u>
 Total Liabilities	 <u>9,395,109</u>	 <u>9,596,769</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Without donor restrictions:		
Operating	6,212,880	4,676,116
Board designated	<u>1,650,000</u>	<u>1,650,000</u>
 Total Without Donor Restrictions	 7,862,880	 6,326,116
 With donor restrictions	 <u>71,930</u>	 <u>85,119</u>
 Total Net Assets	 <u>7,934,810</u>	 <u>6,411,235</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 17,329,919</u>	 <u>\$ 16,008,004</u>

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

ACDS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, GAINS, LOSSES, AND OTHER SUPPORT:				
Program service fees	\$ 27,425,474	\$ -	\$ 27,425,474	\$ 22,648,462
Government grants and contracts	366,283	-	366,283	530,991
Government grants - provider relief funds	463,324	-	463,324	554,916
Government grants - employee retention tax credits	-	-	-	4,584,747
Workforce stabilization revenue	1,448,083	-	1,448,083	-
Contributions	818,740	45,000	863,740	709,766
Forgiveness of debt - Paycheck Protection Program	3,720,175	-	3,720,175	-
Special events	113,611	-	113,611	4,350
Less: Cost of direct benefits of special events	(90,735)	-	(90,735)	-
Interest and dividend income	38,088	-	38,088	25,357
Realized and unrealized loss on investments	(127,632)	-	(127,632)	(21,621)
Miscellaneous	793,098	-	793,098	31,543
Net assets released from restrictions	58,189	(58,189)	-	-
 Total Revenues, Gains, Losses, and Other Support	 <u>35,026,698</u>	 <u>(13,189)</u>	 <u>35,013,509</u>	 <u>29,068,511</u>
EXPENSES:				
Program services:				
Early intervention	1,985,100	-	1,985,100	1,791,854
Preschool	13,128,447	-	13,128,447	11,584,463
Residential and day services	15,406,952	-	15,406,952	10,687,268
Other	741,574	-	741,574	696,949
 Total Program Services	 <u>31,262,073</u>	 <u>-</u>	 <u>31,262,073</u>	 <u>24,760,534</u>
Supporting services:				
Management and general	2,056,395	-	2,056,395	2,108,842
Fundraising	171,466	-	171,466	180,701
 Total Expenses	 <u>33,489,934</u>	 <u>-</u>	 <u>33,489,934</u>	 <u>27,050,077</u>
 CHANGE IN NET ASSETS	 1,536,764	 (13,189)	 1,523,575	 2,018,434
NET ASSETS, BEGINNING OF YEAR	6,326,116	85,119	6,411,235	4,196,876
Change in accounting principle - Topic 842	-	-	-	195,925
 NET ASSETS, END OF YEAR	 <u>\$ 7,862,880</u>	 <u>\$ 71,930</u>	 <u>\$ 7,934,810</u>	 <u>\$ 6,411,235</u>

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

ACDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	Program Services				Supporting Services						
	Early Intervention	Preschool	Residential and Day Services	Other	Total Program Services	Management and General	Fundraising	Direct Costs of Special Events	Total Supporting Services	2022 Total	2021 Total
Salaries	\$ 1,070,932	\$ 8,960,449	\$ 10,146,941	\$ 455,867	\$ 20,634,189	\$ 1,241,389	\$ 116,508	\$ -	\$ 1,357,897	\$ 21,992,086	\$ 17,636,687
Fringe benefits	132,481	1,130,575	1,256,313	56,394	2,575,763	184,796	14,413	-	199,209	2,774,972	2,298,772
	<u>1,203,413</u>	<u>10,091,024</u>	<u>11,403,254</u>	<u>512,261</u>	<u>23,209,952</u>	<u>1,426,185</u>	<u>130,921</u>	<u>-</u>	<u>1,557,106</u>	<u>24,767,058</u>	<u>19,935,459</u>
Contracted personnel services	457,855	581,190	178,470	121,222	1,338,737	5,246	-	-	5,246	1,343,983	905,950
Professional fees	7,187	53,014	68,559	6,701	135,461	165,339	659	-	165,998	301,459	260,160
Supplies	28,994	453,349	218,003	16,538	716,884	50,944	3,736	-	54,680	771,564	554,617
Telephone	2,140	62,907	56,643	671	122,361	5,866	1,315	-	7,181	129,542	122,176
Occupancy	57,530	993,268	487,700	30,445	1,568,943	86,886	3,031	-	89,917	1,658,860	1,907,658
Equipment rental and maintenance	18,658	63,318	66,954	5,583	154,513	8,981	308	-	9,289	163,802	183,561
Systems support	9,487	128,813	72,426	2,165	212,891	26,407	15,158	-	41,565	254,456	127,765
Staff travel	1,056	8,247	106,290	294	115,887	2,794	582	-	3,376	119,263	54,484
Interest	-	74,136	39,489	-	113,625	47,452	-	-	47,452	161,077	117,772
Depreciation and amortization	-	334,707	378,057	-	712,764	19,771	-	-	19,771	732,535	718,796
Interest - debt issuance costs	-	-	37,021	-	37,021	-	-	-	-	37,021	19,044
Client-related expenses	-	-	1,726,228	-	1,726,228	-	-	-	-	1,726,228	1,059,527
Insurance	46,652	224,185	396,532	31,150	698,519	108,718	3,120	-	111,838	810,357	740,259
Printing and postage	468	6,134	2,067	163	8,832	1,966	4,325	-	6,291	15,123	13,196
Food, facility and entertainment	-	-	-	-	-	-	-	90,735	90,735	90,735	-
Miscellaneous	1,660	53,476	169,259	14,381	238,776	99,840	8,311	-	108,151	346,927	319,510
Bad debt expense	150,000	679	-	-	150,679	-	-	-	-	150,679	10,143
	<u>1,985,100</u>	<u>13,128,447</u>	<u>15,406,952</u>	<u>741,574</u>	<u>31,262,073</u>	<u>2,056,395</u>	<u>171,466</u>	<u>90,735</u>	<u>2,318,596</u>	<u>33,580,669</u>	<u>27,050,077</u>
Cost of direct benefits of special events	-	-	-	-	-	-	-	(90,735)	(90,735)	(90,735)	-
Total expenses reported by function on the statement of activities	<u>\$ 1,985,100</u>	<u>\$ 13,128,447</u>	<u>\$ 15,406,952</u>	<u>\$ 741,574</u>	<u>\$ 31,262,073</u>	<u>\$ 2,056,395</u>	<u>\$ 171,466</u>	<u>\$ -</u>	<u>\$ 2,227,861</u>	<u>\$ 33,489,934</u>	<u>\$ 27,050,077</u>

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

ACDS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,523,575	\$ 2,018,434
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized loss on investments	127,632	21,621
Bad debt expense	150,679	10,143
Depreciation and amortization	499,095	487,739
Forgiveness of debt	(3,720,175)	-
Interest - debt issuance costs	37,021	19,044
Interest expense - finance lease	5,635	8,223
Amortization of operating lease expense	686,466	694,091
Amortization of finance lease right-of-use assets	233,440	231,057
Decrease (increase) in assets:		
Accounts receivable	444,292	(4,475,474)
Contributions receivable	(1,286)	-
Prepaid expenses and other assets	463,099	(40,981)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(166,853)	508,633
Accrued salaries payable and related benefits	(163,502)	800,007
Due to government agencies	305,824	62,714
Refundable advance	768,425	-
Operating lease liabilities	(690,818)	(709,091)
Contract liabilities	(26,400)	26,400
Net cash provided by (used in) operating activities	<u>476,149</u>	<u>(337,440)</u>
Cash flows from investing activities:		
Purchase of investments	(262,641)	(262,641)
Proceeds from the sale of investments	221,758	238,509
Purchase of fixed assets	(3,441,814)	(197,484)
Net cash used in investing activities	<u>(3,482,697)</u>	<u>(221,616)</u>
Cash flows from financing activities:		
Proceeds from line of credit	400,000	-
Repayments of line of credit	-	(2,600,000)
Proceeds from loans and mortgage payable	2,341,160	-
Repayments of loans and mortgage payable	(453,284)	(120,495)
Principal payments on bonds payable	(107,488)	(102,487)
Principal payments on finance lease liabilities	(224,670)	(220,755)
Net cash provided by (used in) financing activities	<u>1,955,718</u>	<u>(3,043,737)</u>
Net change in cash and cash equivalents, including restricted	(1,050,830)	(3,602,793)
Cash and cash equivalents, including restricted, beginning of year	<u>1,304,444</u>	<u>4,907,237</u>
Cash and cash equivalents, including restricted, end of year	<u>\$ 253,614</u>	<u>\$ 1,304,444</u>
Non-cash financing activities:		
Forgiveness of debt	<u>\$ 3,720,175</u>	<u>\$ -</u>
Acquisition of operating lease right-of-use assets	<u>\$ 1,442,801</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 161,077</u>	<u>\$ 117,772</u>
Cash and cash equivalents, including restricted, are included in the statements of financial position at June 30, 2022 and 2021 as follows:		
Cash and cash equivalents	\$ 189,631	\$ 1,137,958
Assets limited as to use	63,983	166,486
Total	<u>\$ 253,614</u>	<u>\$ 1,304,444</u>

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

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

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, 2022. 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.

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, 2021, 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, 2022

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Fair Value Measurement

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 framework for measuring fair value is used which 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) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement*, are described 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.

Refer to Note 5 for assets measured at fair value at June 30, 2022 in accordance with FASB ASC Topic 820.

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 FASB ASC. All interest, dividends, and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets without donor restrictions unless they have specific restrictions by explicit donor stipulations or by law.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 1 - Nature of Operations and 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.

Accounts Receivable and Allowance for Doubtful Accounts

ACDS determines whether an allowance for doubtful accounts 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 \$345,766 at June 30, 2022. Accounts receivable at June 30, 2022 and July 1, 2021 were \$7,466,776, and \$8,061,747, respectively.

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 \$5,000 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 and amortization are 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

Contract Assets

Amounts related to services provided to customers which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are classified as contract assets. Contract asset balances consist primarily of services provided to customers who are still receiving services at the end of the year. There were no contract assets at June 30, 2022 and July 1, 2021.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Contract Liabilities

Contract liabilities represent revenue that has been deferred for the funds advanced by third-party payors for ACDS's contracts received related to services that have not yet been provided to customers. Contract liabilities consist of payments made by funding sources for ACDS's contracts for services not yet performed that are expected to be performed within the next fiscal year. There were no contract liabilities June 30, 2022 and July 1, 2021.

Third-Party Reimbursement

ACDS receives substantially all its revenue for services provided to approved clients from third-party reimbursement agencies, primarily the New York State Office for People with Developmental Disabilities ("OPWDD"), the New York State Education Department ("SED") and the New York State Department of Health ("DOH"). These revenues are subject to audit and retroactive adjustment by the respective third-party intermediary.

Debt Issuance Costs

Debt issuance costs were incurred in connection with the issuance of ACDS's term loans payable. These costs are amortized using the effective interest method over the term of the related indebtedness and are included in interest expense in the accompanying financial statements. In order to simplify the presentation, ACDS reports the deferred financing costs as a direct deduction from the carrying amount of the corresponding debt liability.

Amortization expense related to capitalized loan and closing costs amounted to \$37,021 for the year ended June 30, 2022.

Net Assets

Net assets without donor restrictions 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. Net assets with donor restrictions are those net assets that are restricted by the donors for specific purposes.

ACDS, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Contributions

Contributions are provided to ACDS either with or without donor restrictions. Revenues and net assets are separately reported to reflect the nature of those gifts - with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts and grants, with or without restrictions</i>	
Gifts and grants that depend on ACDS overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, i.e., the donor-imposed barrier is met
<i>Unconditional gifts and grants, with or without restrictions</i>	
Received at date of gift - cash and other assets	Fair value
Received at date of gift - property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Leases

Under FASB ASC Topic 842, *Leases*, ACDS applies a two-model approach to all leases in which ACDS is a lessee and classifies leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by ACDS. Lease classification is evaluated at the inception of the lease agreement. Regardless of classification, ACDS records a right-of-use asset and a lease liability for all leases with a term greater than 12 months.

In order to calculate the lease liability, certain assumptions related to lease terms and discount rates are made. Renewal options are evaluated in the determination of lease terms. When available, ACDS uses the rate implicit in the lease or a borrowing rate based on similar debt to discount lease payments to present value. However, when a lease does not provide a readily determinable implicit rate, and ACDS's existing debt does not have similar terms, ACDS uses the U.S. Treasury rate constant maturity at each lease commencement date to discount lease payments. At June 30, 2022, ACDS applied rates ranging from 0.11% to 2.94%.

ACDS recognizes amortization of the right-of-use assets separately from interest on the lease liability of all finance leases. Operating lease expense is recognized on a straight-line basis over the term of the lease.

Accounting for Uncertainty in Income Taxes

ACDS 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 for years prior to 2019.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting services of ACDS. Those expenses include staffing and general operating expenses. Shared staff include therapists, other program administration and support staff, and maintenance staff. Therapists are allocated monthly based on actual service delivery. Other program administration and support staff are allocated by student full-time equivalents. Maintenance staff are allocated based on a square footage basis. All other staff are allocated using time studies or the ratio value method. General operating expenses are allocated based upon the methodology set forth by the New York State Consolidated Fiscal Report ("CFR") Instruction Manual, Appendix J.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 2 - Revenue from Contracts with Government Agencies

Service Revenue

ACDS receives funding from various government agencies, including OPWDD, SED, and DOH, to provide services to individuals with developmental disabilities. Revenue is reported at the amount that reflects the consideration to which ACDS expects to be entitled in exchange for providing the support and services. These amounts are due from third-party payors (including government programs), individuals (including Social Security (“SSA”) and Supplemental Security Income (“SSI”) benefits) and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. As part of its reimbursement process, SED adjusts the tuition rates paid to reflect actual allowable expenditures based on the Consolidated Fiscal Report filed with SED. ACDS estimates these adjustments and records them during each fiscal year. As of June 30, 2022, ACDS’s latest adjusted and reconciled tuition rate is for the school year ended June 30, 2019. The subsequent year’s adjustments have been accrued in these financial statements.

Generally, ACDS bills individuals and third-party payors after the services are performed or it has completed its portion of the contract. Receivables are due in full when billed, and revenue is recognized as performance obligations are satisfied.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Performance obligations are determined based on the nature of the services provided by ACDS in accordance with the contract. Revenue for performance obligations satisfied over time is recognized as the services are provided based on per diem or monthly rates. ACDS believes 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. ACDS measures the performance obligation from the beginning of the next month or day to the point when it is no longer required to provide services under the contract or has met the requirements to bill for the services provided, which is generally at the end of each month or period of time allowed based on the government agencies’ stipulations.

Because all of its performance obligations relate to contracts with a duration of less than one year, ACDS has elected to apply the optional exemption provided in FASB ASC Subtopic 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the service is completed and upon submission of required documentation, which is usually at each month-end.

ACDS determines the transaction price based on established rates and contracts for services provided. The initial estimate of the transaction price is determined by reducing the established rates for services provided by any implicit price concessions based on historical collection experience with each government agency and school district. ACDS has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payors and service lines. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 2 - Revenue from Contracts with Government Agencies (cont'd.)

Third-Party Payors

Agreements with third-party payors typically provide for payments at established charges. A summary of the payment arrangements with major third-party payors is as follows:

Medicaid: Reimbursements for day and residential services are generally paid for each type of service provided. Certain of these rates may be subject to final settlement as determined after submission of annual cost reports by ACDS.

School Districts and Counties: Reimbursements for education and early intervention services are generally paid as those services are provided. Certain of these rates are subject to final settlement as determined after submission of annual cost reports by ACDS.

Other: Payment agreements with private payors are based on pre-determined rates for established services as they are provided, on a monthly basis.

SSA and SSI

Generally, individuals who receive long-term residential support and services are responsible for a portion of their cost of care, which is based on the individual's income level. ACDS estimates the transaction price based on government guidelines and historical experience.

Significant Judgments

Laws and regulations concerning government programs are complex and subject to varying interpretation. There can be no assurance that regulatory authorities will not challenge ACDS's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have upon ACDS.

From time to time, ACDS will receive overpayments resulting in amounts owed back to the government agency. In addition, contracts that ACDS has with certain government agencies provide for reconciliation and retroactive audit and review of documentation and annual report filings. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2022, ACDS has an estimated liability for amounts due to government agencies of \$722,735.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 2 - Revenue from Contracts with Government Agencies (cont'd.)

Disaggregation of Revenue

The composition of revenue by program and primary payor, as well as revenue by reimbursement method, for the year ended June 30, 2022 is as follows:

	OPWDD	Medicaid Including SSI	School Districts & Counties	Other	Total
Preschool	\$ -	\$ -	\$ 12,233,296	\$ -	\$ 12,233,296
Early Intervention	-	-	1,482,957	-	1,482,957
Individual Residential Alternative	240,050	6,084,041	-	-	6,324,091
Day Habilitation	-	1,815,641	-	-	1,815,641
Daycare	-	-	-	639,385	639,385
Other	802,784	4,010,897	-	116,423	4,930,104
	<u>\$ 1,042,834</u>	<u>\$ 11,910,579</u>	<u>\$ 13,716,253</u>	<u>\$ 755,808</u>	<u>\$ 27,425,474</u>

Reimbursement Method

Per Diem	\$ 25,511,624
Per Month	1,884,855
Established Rates	<u>28,995</u>
	<u><u>\$ 27,425,474</u></u>

Revenue of \$27,425,474 for the year ended June 30, 2022 was recognized as the service transferred over time.

Financing Component

ACDS has elected the practical expedient allowed under FASB ASC Subtopic 606-10-32-18 and does not adjust the promised amount of consideration from customers and third parties for the effects of a significant financing component due to ACDS's expectation that the period between the time the service is provided to a customer and the time the customer or a third-party payor pays for that service will be one year or less.

Contract Costs

ACDS has applied the practical expedient provided by FASB ASC Subtopic 340-40-25-4, and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that ACDS otherwise would have recognized is one year or less in duration.

Note 3 - Concentrations of Credit Risk

ACDS maintains cash balances in several financial institutions. Such balances 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.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 4 - Assets Limited as to Use

At June 30, 2022, assets held for specific purposes are maintained in the following restricted funds:

Debt service reserve funds (a)	\$	62,937
Restricted cash (b)		1,046
	\$	63,983

(a) The debt service reserve funds consist of investments in U.S. Treasury Notes, with 0% interest. The investments are carried at fair value. At June 30, 2022, the debt service reserve funds represent the debt service reserves required under the Nassau County Industrial Developmental Agency (“IDA”) bond financing agreements.

(b) The restricted cash consists of a money market account held as a security deposit against a letter of credit on a lease agreement.

Note 5 - Fair Value Measurement

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2022.

Cash and Cash Equivalents: Valued based on cash management funds whose underlying assets are valued at the net asset value (“NAV”) of shares held by ACDS. Cash and cash equivalents are categorized as Level 1 of the fair value hierarchy.

U.S. Treasury Notes: Valued at the closing price reported on the active market on which the individual securities are traded. U.S. Treasury Notes are categorized as Level 1 of the fair value hierarchy.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by ACDS are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by ACDS are deemed to be actively traded and are categorized as Level 1 of the fair value hierarchy.

Corporate Bonds: Value estimated using recently executed transactions, market price quotations (where observable), bond spreads, or credit default swap spreads. The spread data used is for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves, bond or single name credit default swap spreads, and recovery rates based on collateral values as key inputs. Corporate bonds are generally categorized as Level 2 of the fair value hierarchy.

Certificate of Deposit: Valued at original cost plus accreted interest, which approximates fair value. Certificate of deposit are categorized as Level 2 of the fair value hierarchy.

Equities – Domestic: Valued at the closing price reported on the active market on which the individual securities are traded. Equities - Domestic are categorized as Level 1 of the fair value hierarchy.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 5 - Fair Value Measurement (cont'd.)

The following table presents ACDS's assets that are measured at fair value on a recurring basis at June 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 239,971	\$ 239,971	\$ -	\$ -
U.S. Treasury notes	485,906	485,906	-	-
Mutual funds	3,967	3,967	-	-
Corporate bonds	670,338	-	670,338	-
Certificates of deposit	155,855	-	155,855	-
Equities - domestic	455	455	-	-
Total Investments	<u>1,556,492</u>	<u>730,299</u>	<u>826,193</u>	<u>-</u>
Assets limited as to use:				
U.S. Treasury notes	<u>63,983</u>	<u>63,983</u>	<u>-</u>	<u>-</u>
Total Assets Measured at Fair Value	<u>\$ 1,620,475</u>	<u>\$ 794,282</u>	<u>\$ 826,193</u>	<u>\$ -</u>

Note 6 - Fixed Assets

Fixed assets, net, are summarized as follows at June 30, 2022:

Land	\$ 1,952,596
Building and improvements	7,168,278
Leasehold improvements	1,869,827
Furniture, fixtures and equipment	1,604,977
Construction in progress	<u>81,958</u>
	12,677,636
Less: Accumulated depreciation and amortization	<u>7,197,913</u>
	<u>\$ 5,479,723</u>

Depreciation and amortization expense related to fixed assets amounted to \$499,095 for the year ended June 30, 2022.

Note 7 - Line of Credit

ACDS has executed a line of credit of \$3,000,000 from a financial institution with interest payable at 5.875% at June 30, 2022. The line is secured by a security interest in all of ACDS's assets and is due on demand. The line of credit expires February 1, 2023. As an uncommitted line of credit, it can be withdrawn at the lender's option. Interest expense on such borrowings for the year ended June 30, 2022 was \$47,452. ACDS has \$400,000 outstanding at June 30, 2022.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 8 - Paycheck Protection Program Loan Payable

In April 2020, ACDS entered into a \$3,720,175 loan agreement with a financial institution under the Paycheck Protection Program (the "Program"), established by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act administered by the Small Business Administration ("SBA") with support from the Department of the Treasury. The loan is unsecured, bears interest at 1% per annum and was set to mature in April 2022; however, the Program provides for the forgiveness of up to the entire amount of the loan, including interest, if certain conditions are met. During July 2021, ACDS received full forgiveness by the SBA, for which the amount is recognized as forgiveness of debt on the statement of activities.

Note 9 - Related Party Transactions

A member of ACDS's board of directors 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.

Two family members of an officer of ACDS's board of directors work for ACDS. Their compensation totaled \$135,395 for the year ended June 30, 2022.

Note 10 - Loans and Mortgages Payable

Loans and mortgages payable at June 30, 2022 consist of the following:

Mortgage loan with a fixed interest rate of 6% and monthly payments of principal and interest of \$8,439, due May 2025. The mortgage is secured by property located in Merrick, NY with a net book value of \$412,523.	\$ 267,598
Mortgage loan with a fixed interest rate of 6.37% and monthly payments of principal and interest of \$2,160, due August 2025. The mortgage is secured by property located in Levittown, NY with a net book value of \$223,110.	76,095
Mortgage loan with a fixed interest rate of 6.25% and monthly payments of principal and interest of \$1,941, due June 2026. The mortgage is secured by property located in Freeport, NY with a net book value of \$47,600.	83,019
Mortgage loan with a fixed interest rate of 3.75% and monthly payments of principal and interest of \$12,217, due August 2046. The mortgage is secured by property located in Plainview, NY with a net book value of \$3,524,971.	2,314,468
	2,741,180
Less: Unamortized debt issuance costs	320,608
	\$ 2,420,572

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 10 - Loans and Mortgages Payable (cont'd.)

Debt issuance costs of \$478,548 are being amortized to interest expense over the term of the obligation.

Aggregate maturities of long-term debt are as follows:

<u>Years Ending June 30:</u>	
2023	\$ 188,259
2024	198,420
2025	188,546
2026	96,918
2027	69,399
Thereafter	<u>1,999,638</u>
	<u>\$ 2,741,180</u>

Interest expense for the year ended June 30, 2022 was \$102,437.

Note 11 - Bond Payable

ACDS maintains an outstanding bond, consisting of the following:

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.	\$ 25,000
Less: Unamortized debt issuance costs	<u>9,471</u>
Total Bond Outstanding	<u>\$ 15,529</u>

The bond was issued by the IDA to purchase and renovate group homes. Under the agreement 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. The bond is secured by mortgage and security agreements. Future payments are as follows:

<u>Year Ending June 30:</u>	
2023	<u>\$ 25,000</u>

Interest expense for the year ended June 30, 2022 was \$5,553.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 12 - Leases

ACDS has several noncancellable leases for equipment and vehicles from unrelated parties, which expire at various dates through December 2024. Monthly payments on these leases range from \$30 to \$1,060, with no escalating lease payments.

ACDS has several noncancellable leases for education and administrative space, which expire at various dates through May 2027. Monthly payments on these leases range from \$2,650 to \$29,183, with annual escalations up to 3.00%.

The following table represents lease activity for the year ended June 30, 2022:

Lease cost:

Finance lease cost	
Amortization of right-of-use assets	\$ 233,440
Interest on lease liabilities	5,635
Operating lease cost	<u>686,466</u>
 Total lease cost	 <u><u>\$ 925,541</u></u>

Other information:

Cash paid for amounts included in the measurement of lease liabilities:	
Financing cash flows from finance leases	<u>\$ 224,670</u>
Operating cash flows from operating leases	<u>\$ 690,818</u>

Weighted-average remaining lease term - finance leases	<u>0.79 years</u>
Weighted-average remaining lease term - operating leases	<u>2.07 years</u>

Weighted-average discount rate - finance leases	<u>2.13%</u>
Weighted-average discount rate - operating leases	<u>1.95%</u>

The annual minimum lease payments under these noncancellable leases, including fixed rate escalations, on ACDS's lease liabilities as of June 30, 2022 are as follows:

<u>Years Ending June 30:</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2023	\$ 703,815	\$ 150,319
2024	558,063	32,707
2025	349,313	2,581
2026	349,914	-
2027	329,547	-
Total minimum lease payments	<u>2,290,652</u>	<u>185,607</u>
Less: Amount representing interest	<u>128,538</u>	<u>1,661</u>
Present value of future payments	2,162,114	183,946
Less: Current lease liabilities	655,294	148,811
Long-term lease liabilities	<u><u>\$ 1,506,820</u></u>	<u><u>\$ 35,135</u></u>

ACDS, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022

Note 13 - Net Assets with Donor Restrictions and Net Assets Released from Restrictions

At June 30, 2022, net assets with donor restrictions are available for special needs purposes in the amount of \$71,930, including expansion of recreational and socialization programs, upgrades to playground equipment, and clinical needs.

Net assets with donor restrictions of \$48,189 were released from restrictions for special needs by satisfying the donor-imposed restrictions during the year ended June 30, 2022.

Note 14 - Contingencies

ACDS receives its funding through contracts with local school districts; Nassau, Suffolk, and Westchester 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.

The SBA may elect to undertake an audit of ACDS's PPP loan.

Note 15 - Available Resources and Liquidity

ACDS regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. ACDS has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. See Note 7 for information about ACDS's line of credit.

The following reflects ACDS's financial assets as of June 30, 2022, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

Cash and cash equivalents	\$ 189,631
Investments	1,556,492
Accounts receivable, net	7,466,776
Contributions receivable	1,286
	9,214,185
Less: Donor restrictions for specific purposes:	
Board-designated net assets	(1,650,000)
Net assets with donor restrictions	(71,930)
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,492,255

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Note 16 - Defined Contribution Plan

ACDS's retirement expense is based upon annual employer contributions determined by the union. The contributions are then made to a qualified deferred contribution plan, as defined by Internal Revenue Code Section 403(b). Accordingly, for the year ended June 30, 2022, ACDS recorded a pension contribution equal to the eligibility of participants determined by the union contract. Pension expense under this plan for the year ended June 30, 2022 was \$21,650.

Note 17 - Subsequent Events

ACDS has evaluated all events or transactions that occurred after June 30, 2022 through March 24, 2023, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.