

ACDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023

**(WITH SUMMARIZED COMPARATIVE
TOTALS FOR JUNE 30, 2022)**

ACDS, INC.

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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, 2023, 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, 2023, 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 2022 financial statements, and our report dated March 24, 2023 expressed an unmodified audit opinion on those audited financial statements. The summarized comparative information presented herein at and for the year ended June 30, 2022 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
November 30, 2023

ACDS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2022)

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,411,993	\$ 189,631
Investments	1,589,910	1,556,492
Accounts receivable, net	5,131,880	7,466,776
Contributions receivable	17,763	1,286
Prepaid expenses and other assets	377,701	264,633
Finance lease right-of-use assets	47,237	178,493
Operating lease right-of-use assets	1,361,434	2,128,902
Assets limited as to use	1,047	63,983
Fixed assets, net	<u>6,370,851</u>	<u>5,479,723</u>
 TOTAL ASSETS	 <u>\$ 16,309,816</u>	 <u>\$ 17,329,919</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,064,510	\$ 678,596
Accrued salaries payable and related benefits	2,474,202	2,811,617
Line of credit payable	-	400,000
Due to government agencies	874,555	722,735
Contract liabilities	67,372	-
Finance lease liabilities	35,139	183,946
Operating lease liabilities	1,506,821	2,162,114
Loans and mortgages payable, net	2,257,214	2,420,572
Bond payable, net	<u>-</u>	<u>15,529</u>
 Total Liabilities	 <u>8,279,813</u>	 <u>9,395,109</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Without donor restrictions:		
Operating	6,364,521	6,212,880
Board designated	<u>1,650,000</u>	<u>1,650,000</u>
 Total Without Donor Restrictions	 8,014,521	 7,862,880
 With donor restrictions	 <u>15,482</u>	 <u>71,930</u>
 Total Net Assets	 <u>8,030,003</u>	 <u>7,934,810</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 16,309,816</u>	 <u>\$ 17,329,919</u>

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

ACDS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, GAINS, LOSSES, AND OTHER SUPPORT:				
Program service fees	\$ 36,177,012	\$ -	\$ 36,177,012	\$ 27,425,474
Government grants and contracts	745,908	-	745,908	829,607
Workforce stabilization revenue	200,471	-	200,471	2,216,508
Contributions	805,437	309,343	1,114,780	863,740
Forgiveness of debt - Paycheck Protection Program	-	-	-	3,720,175
Fundraising events	212,792	-	212,792	113,611
Less: Cost of direct benefits of fundraising events	(118,795)	-	(118,795)	(90,735)
Interest and dividend income	39,726	-	39,726	38,088
Realized and unrealized gain (loss) on investments	575	-	575	(127,632)
Miscellaneous	18,451	-	18,451	24,673
Net assets released from restrictions	365,791	(365,791)	-	-
Total Revenues, Gains, Losses, and Other Support	38,447,368	(56,448)	38,390,920	35,013,509
EXPENSES:				
Program services:				
Early intervention	1,677,035	-	1,677,035	1,985,100
Preschool	16,146,433	-	16,146,433	13,128,447
Residential and day services	17,213,327	-	17,213,327	15,406,952
Other	655,450	-	655,450	741,574
Total Program Services	35,692,245	-	35,692,245	31,262,073
Supporting services:				
Management and general	2,417,478	-	2,417,478	2,056,395
Fundraising	186,004	-	186,004	171,466
Total Expenses	38,295,727	-	38,295,727	33,489,934
CHANGE IN NET ASSETS	151,641	(56,448)	95,193	1,523,575
NET ASSETS, BEGINNING OF YEAR	7,862,880	71,930	7,934,810	6,411,235
NET ASSETS, END OF YEAR	\$ 8,014,521	\$ 15,482	\$ 8,030,003	\$ 7,934,810

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

ACDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Program Services				Supporting Services						
	Early Intervention	Preschool	Residential and Day Services	Other	Total Program Services	Management and General	Fundraising	Direct Benefits of Fundraising Events	Total Supporting Services	2023 Total	2022 Total
Salaries	\$ 1,006,535	\$ 10,791,501	\$ 10,229,799	\$ 511,620	\$ 22,539,455	\$ 1,359,015	\$ 138,669	\$ -	\$ 1,497,684	\$ 24,037,139	\$ 21,992,086
Fringe benefits	143,709	1,564,625	1,522,022	73,047	3,303,403	234,640	19,799	-	254,439	3,557,842	2,774,972
	1,150,244	12,356,126	11,751,821	584,667	25,842,858	1,593,655	158,468	-	1,752,123	27,594,981	24,767,058
Contracted personnel services	437,832	794,880	318,637	-	1,551,349	56,445	3,334	-	59,779	1,611,128	1,343,983
Professional fees	2,367	70,311	98,816	6,089	177,583	133,336	325	-	133,661	311,244	301,459
Supplies	1,461	676,274	290,099	3,318	971,152	51,912	4,778	-	56,690	1,027,842	771,564
Telephone	-	66,040	59,586	-	125,626	25,929	-	-	25,929	151,555	129,542
Occupancy	14,014	1,161,672	562,839	11,767	1,750,292	186,891	1,168	-	188,059	1,938,351	1,658,860
Equipment rental and maintenance	4,020	66,065	265,986	1,359	337,430	6,436	93	-	6,529	343,959	163,802
Systems support	6,876	118,210	73,948	2,174	201,208	3,000	9,795	-	12,795	214,003	254,456
Staff travel	1,970	20,102	105,469	109	127,650	2,857	715	-	3,572	131,222	119,263
Interest	-	96,572	-	-	96,572	112,177	-	-	112,177	208,749	161,077
Depreciation and amortization	-	362,332	284,022	-	646,354	-	-	-	-	646,354	732,535
Interest - debt issuance costs	-	-	36,402	-	36,402	-	-	-	-	36,402	37,021
Client - related expenses	12,688	-	2,690,177	-	2,702,865	-	-	-	-	2,702,865	1,726,228
Insurance	45,351	251,511	445,270	30,018	772,150	120,260	3,001	-	123,261	895,411	810,357
Printing and postage	-	9,982	549	-	10,531	7,735	-	-	7,735	18,266	15,123
Food, facility, and entertainment	-	-	-	-	-	-	-	118,795	118,795	118,795	90,735
Miscellaneous	212	96,356	229,706	15,949	342,223	116,845	4,327	-	121,172	463,395	346,927
Bad debt expense	-	-	-	-	-	-	-	-	-	-	150,679
Total expenses	1,677,035	16,146,433	17,213,327	655,450	35,692,245	2,417,478	186,004	118,795	2,722,277	38,414,522	33,580,669
Cost of direct benefits of fundraising events	-	-	-	-	-	-	-	(118,795)	(118,795)	(118,795)	(90,735)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,677,035	\$ 16,146,433	\$ 17,213,327	\$ 655,450	\$ 35,692,245	\$ 2,417,478	\$ 186,004	\$ -	\$ 2,603,482	\$ 38,295,727	\$ 33,489,934

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

ACDS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 95,193	\$ 1,523,575
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	(575)	127,632
Bad debt expense	-	150,679
Depreciation and amortization	533,114	499,095
Forgiveness of debt	-	(3,720,175)
Interest - debt issuance costs	36,402	37,021
Interest expense - finance lease	2,402	5,635
Noncash lease expense	767,468	686,466
Amortization of finance lease right-of-use assets	113,240	233,440
Decrease (increase) in assets:		
Accounts receivable	2,334,896	444,292
Contributions receivable	(16,477)	(1,286)
Prepaid expenses and other assets	(113,068)	463,099
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	385,914	(166,853)
Accrued salaries payable and related benefits	(337,415)	604,923
Due to government agencies	151,820	305,824
Operating lease liabilities	(655,293)	(690,818)
Contract liabilities	67,372	(26,400)
Net cash provided by operating activities	<u>3,364,993</u>	<u>476,149</u>
Cash flows from investing activities:		
Purchase of investments	(1,600,630)	(262,641)
Proceeds from the sale of investments	1,567,787	221,758
Purchase of fixed assets	<u>(1,424,242)</u>	<u>(3,441,814)</u>
Net cash used in investing activities	<u>(1,457,085)</u>	<u>(3,482,697)</u>
Cash flows from financing activities:		
Proceeds from line of credit	-	400,000
Repayments of line of credit	(400,000)	-
Proceeds from loans and mortgage payable	-	2,341,160
Repayments of loans and mortgage payable	(199,760)	(453,284)
Principal payments on bonds payable	(15,529)	(107,488)
Finance lease liabilities	<u>(133,193)</u>	<u>(224,670)</u>
Net cash (used in) provided by financing activities	<u>(748,482)</u>	<u>1,955,718</u>
Net change in cash and cash equivalents, including restricted	1,159,426	(1,050,830)
Cash and cash equivalents, including restricted, beginning of year	<u>253,614</u>	<u>1,304,444</u>
Cash and cash equivalents, including restricted, end of year	<u>\$ 1,413,040</u>	<u>\$ 253,614</u>
Non-cash financing activities:		
Forgiveness of debt	<u>\$ -</u>	<u>\$ 3,720,175</u>
Acquisition of operating lease right-of-use assets	<u>\$ -</u>	<u>\$ 1,442,801</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 208,749</u>	<u>\$ 161,077</u>
Cash and cash equivalents, including restricted, are included in the statements of financial position at June 30, 2023 and 2022 as follows:		
Cash and cash equivalents	\$ 1,411,993	\$ 189,631
Assets limited as to use	1,047	63,983
Total	<u>\$ 1,413,040</u>	<u>\$ 253,614</u>

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

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

Nature of Operations

ACDS, Inc. ("ACDS"), based 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, 2023. 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, 2022, 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, 2023

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, 2023 in accordance with FASB ASC Topic 820.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds and, at times, highly liquid investments with initial maturities when acquired of three months or less. Cash and cash equivalents maintained by investment brokers are included in investments on the statement of financial position.

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, 2023

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 \$345,766 at June 30, 2023. Accounts receivable at June 30, 2023 and July 1, 2022 were \$5,131,880, and \$7,466,776, 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, 2023 and July 1, 2022.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023 and July 1, 2022.

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 \$36,402 for the year ended June 30, 2023.

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. The use of these funds must be approved by the board of directors prior to such allocation and utilization. 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, 2023

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, 2023

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, 2023, 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 for 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 2020.

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.

Reclassifications

Certain amounts relating to the prior year have been reclassified to conform to the current year's presentation. These reclassifications have no effect on the change in net assets previously reported.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023, ACDS’s latest adjusted and reconciled tuition rate is for the school year ended June 30, 2021. The subsequent year’s adjustments have been estimated by management and 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, 2023

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 and Estimates

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 or when the review period has lapsed. As of June 30, 2023, ACDS has an estimated liability for amounts due to government agencies of \$874,555.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023 is as follows:

	OPWDD	Medicaid Including SSI	School Districts & Counties	Other	Total
Preschool	\$ -	\$ -	\$ 16,710,619	\$ -	\$ 16,710,619
Early Intervention	-	-	1,501,466	-	1,501,466
Individual Residential Alternative	228,476	6,495,295	-	-	6,723,771
Day Habilitation	-	2,190,728	-	-	2,190,728
Daycare	-	-	-	637,444	637,444
Other	1,197,516	7,132,781	-	82,687	8,412,984
	<u>\$ 1,425,992</u>	<u>\$ 15,818,804</u>	<u>\$ 18,212,085</u>	<u>\$ 720,131</u>	<u>\$ 36,177,012</u>

Reimbursement Method

Per Diem	\$ 34,150,365
Per Month	1,925,757
Established Rates	<u>100,890</u>
	<u><u>\$ 36,177,012</u></u>

Revenue of \$36,177,012 for the year ended June 30, 2023 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, 2023

Note 4 - Assets Limited as to Use

At June 30, 2023, assets held for specific purposes are maintained in the following restricted funds:

Restricted cash (a)	<u>\$ 1,047</u>
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(a) 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, 2023.

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.

Mutual Funds and Exchange-Traded Funds: Valued at the daily closing price as reported by the fund. Funds held by ACDS are open-end 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 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, 2023

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, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 325,871	\$ 325,871	\$ -	\$ -
Mutual funds	4,658	4,658	-	-
Exchange-traded funds	105,901	105,901	-	-
Corporate bonds	845,120	-	845,120	-
Certificates of deposit	64,579	-	64,579	-
Equities - domestic	243,781	243,781	-	-
Total Assets Measured at Fair Value	<u>\$ 1,589,910</u>	<u>\$ 680,211</u>	<u>\$ 909,699</u>	<u>\$ -</u>

Note 6 - Fixed Assets

Fixed assets, net, are summarized as follows at June 30, 2023:

Land	\$ 1,952,596
Building and improvements	8,584,676
Leasehold improvements	1,829,678
Furniture, fixtures and equipment	1,644,438
Construction in progress	89,969
	<u>14,101,357</u>
Less: Accumulated depreciation and amortization	<u>7,730,506</u>
	<u>\$ 6,370,851</u>

Depreciation and amortization expense related to fixed assets amounted to \$533,114 for the year ended June 30, 2023.

Note 7 - Line of Credit

ACDS maintains a \$3,000,000 line of credit from a financial institution with interest payable at 8.25% as of June 30, 2023. The line has no expiration date; however, as an uncommitted line of credit, it can be withdrawn at the lender's option. ACDS can draw down on the line of credit subject to a borrowing base calculation, based on 85% of outstanding accounts receivable aged less than 120 days. The line is secured by assets in a brokerage account with no less than \$1,000,000. Effective September 1, 2023 through October 31, 2023, ACDS will have the ability to increase the line of credit to \$4,000,000. On November 1, 2023, the available line of credit will revert to its original \$3,000,000 amount. Interest expense on such borrowings for the year ended June 30, 2023 was \$112,177. There was no outstanding balance at June 30, 2023.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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 “PPP”), 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 was unsecured, bore interest at 1% per annum and was set to mature in April 2022. The PPP provides 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 has been recognized as forgiveness of debt on the statement of activities for the year ended June 30, 2022.

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 ACDS executive are employed by ACDS. Their compensation totaled \$151,622 for the year ended June 30, 2023.

ACDS is related to ACDS Foundation, Inc. (the “Foundation”) through common management and minority overlap of board members. The Foundation was established to solicit charitable contributions and provide other benefits and support to the mission of ACDS and other organizations dedicated to the support of developmentally disabled individuals and their families. There was no financial activity between ACDS and the Foundation for the year ended June 30, 2023.

Note 10 - Loans and Mortgages Payable

Loans and mortgages payable at June 30, 2023 consist of the following:

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, NY with a net book value of \$353,301.	\$ 181,415
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, NY with a net book value of \$200,605.	54,270
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, NY with a net book value of \$32,769.	64,826
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 \$3,968,331.	2,254,838
	2,555,349
Less: Unamortized debt issuance costs	298,135
	\$ 2,257,214

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

Debt issuance costs of \$485,591 are being amortized to interest expense over the term of the obligation.

Aggregate maturities of long-term debt are as follows:

Years Ending June 30:

2024	\$ 198,420
2025	188,546
2026	96,918
2027	69,399
2028	71,880
Thereafter	<u>1,930,186</u>
	<u>\$ 2,555,349</u>

Interest expense related to these loans and mortgages payable for the year ended June 30, 2023 was \$114,028

Note 11 - Net Assets with Donor Restrictions and Net Assets Released from Restrictions

At June 30, 2023, net assets with donor restrictions are available for special needs purposes in the amount of \$15,482.

Net assets with donor restrictions of \$365,791 were released from restrictions for special needs purposes by satisfying the donor-imposed restrictions during the year ended June 30, 2023.

Note 12 - 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 13 - 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%.

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 13 - Leases (cont'd.)

The following table represents lease activity for the year ended June 30, 2023:

Lease cost:

Finance lease cost:	
Amortization of right-of-use assets	\$ 113,240
Interest on lease liabilities	2,402
Operating lease cost	<u>767,468</u>
 Total lease cost	 <u><u>\$ 883,110</u></u>

Other information:

Cash paid for amounts included in the measurement of lease liabilities:	
Financing cash flows from finance leases	<u>\$ 133,193</u>
Operating cash flows from operating leases	<u><u>\$ 655,293</u></u>

Weighted-average remaining lease term - finance leases	<u>0.66 years</u>
Weighted-average remaining lease term - operating leases	<u>1.46 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, 2023 are as follows:

<u>Years Ending June 30:</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2024	\$ 558,063	\$ 32,707
2025	349,313	2,581
2026	349,914	-
2027	<u>329,553</u>	<u>-</u>
Total minimum lease payments	1,586,843	35,288
Less: Amount representing interest	<u>80,022</u>	<u>149</u>
Present value of future payments	1,506,821	35,139
Less: Current lease liabilities	<u>522,217</u>	<u>32,566</u>
Long-term lease liabilities	<u><u>\$ 984,604</u></u>	<u><u>\$ 2,573</u></u>

ACDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 14 - 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 an uncommitted line of credit. See Note 7 for additional information about ACDS's line of credit.

The following reflects ACDS's financial assets as of June 30, 2023, 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	\$ 1,411,993
Investments	1,589,910
Accounts receivable, net	5,131,880
Contributions receivable	17,763
	8,151,546
Less: Donor restrictions for specific purposes:	
Net assets with donor restrictions	(15,482)
Financial assets available to meet cash needs for general expenditures within one year before internal designations	8,136,064
Less: Internal designations for specific purposes:	
Board-designated net assets	(1,650,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 6,486,064

ACDS maintains board-designated net assets with a balance of \$1,650,000 at June 30, 2023. Although ACDS does not intend to spend these funds (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary, with prior board approval.

Note 15 - 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, 2023, 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, 2023 was \$21,600.

Note 16 - Subsequent Events

ACDS has evaluated all events or transactions that occurred after June 30, 2023 through November 30, 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.