

**VANDERHEYDEN HALL, INC.  
FINANCIAL REPORT  
JUNE 30, 2015**

# VANDERHEYDEN HALL, INC.

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## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Vanderheyden Hall, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Vanderheyden Hall, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanderheyden Hall, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 20-23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Marvin and Company, P.C.*

Latham, NY  
January 15, 2016

**VANDERHEYDEN HALL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**

**ASSETS**

	<u>2015</u>	<u>2014</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 137,132	\$ 79,221
Investments	1,087,116	1,047,103
Accounts receivable, net of allowance of \$114,850		
Government	2,971,354	2,807,344
Other	12,733	2,610
Pledges receivable	1,810	2,383
Prepaid expenses	75,917	95,164
Total Current Assets	4,286,062	4,033,825
<b>Property, Plant and Equipment</b>		
Land and improvements	370,014	370,014
Buildings and improvements	15,672,289	15,564,537
Furniture, fixtures and equipment	1,525,676	1,457,819
Vehicles	63,955	63,955
Total	17,631,934	17,456,325
Less accumulated depreciation	13,390,802	12,642,275
Net Property, Plant and Equipment	4,241,132	4,814,050
<b>Other Assets</b>		
Trust accounts - restricted		
Cash	685,784	669,378
U.S. Treasury Notes	1,299,771	1,300,849
Deferred charges, net of amortization of \$34,865 and \$28,853, respectively	94,861	100,872
Restricted Cash	18,821	18,375
Escrow	118,627	118,627
Total Other Assets	2,217,864	2,208,101
<b>TOTAL ASSETS</b>	<b>\$ 10,745,058</b>	<b>\$ 11,055,976</b>

See accompanying notes to financial statements.

**VANDERHEYDEN HALL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**

**LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)**

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities</b>		
Note payable - line of credit	\$ 2,278,597	\$ 1,879,798
Current installments of long-term debt	743,250	713,366
Accounts payable	441,522	520,583
Accrued expenses	1,508,174	1,612,694
Deferred revenue	557,603	406,228
Total Current Liabilities	<u>5,529,146</u>	<u>5,132,669</u>
<b>Other Liabilities</b>		
Accrued pension	1,610,564	1,426,261
Accrued expenses	75,000	75,000
Long-term debt, net of current installments	5,817,117	6,522,286
Total Other Liabilities	<u>7,502,681</u>	<u>8,023,547</u>
Total Liabilities	<u>13,031,827</u>	<u>13,156,216</u>
<b>Net Assets (Accumulated Deficit)</b>		
Unrestricted		
Undesignated	(695,276)	(685,415)
Pension fund liability	(1,610,564)	(1,426,261)
Temporarily restricted	19,071	11,436
Total Net Assets (Accumulated Deficit)	<u>(2,286,769)</u>	<u>(2,100,240)</u>
<b>TOTAL LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)</b>	<u>\$ 10,745,058</u>	<u>\$ 11,055,976</u>

See accompanying notes to financial statements.

**VANDERHEYDEN HALL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>Change in Unrestricted Net Assets</b>		
<b>Support and Revenue</b>		
Program	\$ 18,597,146	\$ 17,385,319
Nonprogram	151,079	246,938
Released from restrictions	948	43,058
Total Support and Revenue	<u>18,749,173</u>	<u>17,675,315</u>
<b>Expenses</b>		
Education	3,960,030	3,514,950
Residential	4,856,881	4,234,317
Community residence	4,778,782	4,299,696
Group homes	1,585,567	1,824,909
Independent living	282,359	298,269
Community services	287,720	227,450
Medicaid	915,329	901,359
Development fund	105,221	132,972
Administration	1,785,013	1,919,259
Total Expenses	<u>18,556,902</u>	<u>17,353,181</u>
<b>Change in Unrestricted Net Assets Before the Effect of Actuarial Gains (Losses)</b>	192,271	322,134
Effect of Actuarial Gains (Losses)	<u>(386,435)</u>	<u>114,625</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>(194,164)</u>	<u>436,759</u>
<b>Change in Temporarily Restricted Net Assets</b>		
Contributions and bequests	8,583	-
Amounts released from restrictions	<u>(948)</u>	<u>(43,058)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>7,635</u>	<u>(43,058)</u>
<b>Change in Net Assets</b>	(186,529)	393,701
Net Assets, Beginning of Year	<u>(2,100,240)</u>	<u>(2,493,941)</u>
<b>Net Assets, End of Year</b>	<u>\$ (2,286,769)</u>	<u>\$ (2,100,240)</u>

See accompanying notes to financial statements.

**VANDERHEYDEN HALL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (186,529)	\$ 393,701
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	754,539	759,998
Bad debts	5,261	183,516
Net realized/unrealized gains on investments	(33,989)	(136,296)
Actuarial (gains) and losses	386,435	(114,625)
(Increase) Decrease in assets:		
Restricted cash	(446)	(18,375)
Receivables	(178,821)	(710,334)
Prepaid expenses	19,247	(35,916)
Increase (Decrease) in liabilities:		
Accounts payable	(79,061)	219,943
Accrued expenses	(306,652)	(26,133)
Deferred revenue	151,375	60,413
Net Cash Provided by Operating Activities	<u>531,359</u>	<u>575,892</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of trust account assets	3,356,907	3,109,549
Purchase of trust account assets	(3,372,235)	(3,123,475)
Purchase (proceeds) of investments, net	(6,024)	(14,936)
Expenditures for property, plant and equipment	(175,610)	(235,969)
Net Cash Used by Investing Activities	<u>(196,962)</u>	<u>(264,831)</u>
<b>Cash Flows From Financing Activities</b>		
Net proceeds (repayments) on line of credit	398,799	336,223
Repayment of long-term debt	(681,199)	(667,397)
Proceeds from long-term debt	5,914	35,724
Net Cash Used by Financing Activities	<u>(276,486)</u>	<u>(295,450)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	57,911	15,611
Cash and Cash Equivalents, Beginning of Year	<u>79,221</u>	<u>63,610</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 137,132</u>	<u>\$ 79,221</u>
<b>Supplemental Information:</b>		
Cash paid for interest	<u>\$ 399,450</u>	<u>\$ 430,393</u>

See accompanying notes to financial statements.



**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Activities***

Vanderheyden Hall, Inc. (the Agency) is a nonprofit organization providing services to neglected and abused children and persons with mental illness and developmental disabilities. The Agency operates residential, diagnostic, educational, and respite programs. Revenues are derived from fees charged to county governments, school districts, Medicaid, Social Security, New York State Office for Persons with Developmental Disabilities (OPWDD), grants and individual contributions. The Agency receives the majority of its support from New York State, county, and local governments through negotiated contracts and service fees to provide services in its child care programs.

***Revenue Recognition***

Revenue from governmental agencies is recognized when services are rendered at approved rates. These rates are primarily cost based as determined by allowable expenditures in rate setting periods. Costs are subject to audit by third party payers and changes, if any, are recognized in the year known. During the year ended June 30, 2015 the State Education Department reconciled the Agency's rates through the year ended June 30, 2013. As a result an estimated adjustment was recognized in the amount of \$136,506 as of June 30, 2015. Because of the possibility that the 2013 reconciliation could have a negative impact on subsequent years rate reconciliations, management negotiated with the State Education Department, so that their 2014 reconciliation would not have a similar impact. In January of 2015 the State Education Department issued a preliminary reconciled rate for the Agency that would result in significantly lower reconciliation adjustments for 2014 and 2015. That rate has been submitted to the New York State Department of Budget for final approval. As management believes the State Education Department's recommendation will be approved, they have recognized an estimated liability based on that rate in the amount of \$12,533 for the years ended 2014 and 2015. It is at least reasonably possible that this estimate could change in the near-term.

***Contributions***

Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. If the restrictions are met in the same year in which the contributions are received, they are reported as increases in unrestricted net assets.

***Cash Equivalents***

For purposes of the statement of cash flows, the Agency considers all highly liquid investments with an initial maturity of three months or less that are not held for investment purposes to be cash equivalents.

***Pledges Receivable***

Pledges receivable represent amounts promised by donors and are recorded at their net realizable value. Uncollectible promises are expected to be insignificant. All pledges receivable are expected to be received within one year.

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

***Accounts Receivable***

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Agency provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of funding sources to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Bad debt expense totaled \$5,261 and \$183,516 for the years ended June 30, 2015 and 2014, respectively.

***Property, Plant, Equipment and Depreciation***

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10 - 40
Furniture, fixtures and equipment	5 - 15
Vehicles	5

Depreciation expense was \$748,528 and \$753,987 for the years ended June 30, 2015 and 2014, respectively.

Maintenance and repairs are charged to operations when incurred; betterments and renewals are capitalized. The Agency follows a capitalization policy in accordance with the New York State Consolidated Fiscal Reporting Manual. Items with a cost of \$5,000 and a useful life greater than two years are capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations.

***Estimates***

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

***Deferred Charges***

Deferred charges consist of closing fees and expenses incurred on mortgages. The closing fees and expenses are amortized on a straight-line basis over the term of the mortgage. Amortization expense was \$6,011 for both the years ended June 30, 2015 and 2014, respectively. Amortization expense is expected to be approximately \$6,000 in each of the next five years.

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

***Income Tax Status***

The Agency is exempt from federal income taxes as a not-for-profit corporation under tax section 501(c)(3) as determined by the Internal Revenue Service. The Agency has been designated as an organization other than a private foundation. Under Accounting Standards Codification (ASC) Section 740, the tax status of tax-exempt entities is an uncertain tax position, since events could potentially occur that jeopardize tax-exempt status. Management of the Agency is not aware of any events that could jeopardize tax exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements. Management believes that filings for tax years prior to 2012 are no longer open to examination by the IRS.

***Allocation of Expenses***

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services using specific allocation methods. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency and are allocated based on total direct program expenses to total direct expenses.

***Fair Value Measurements***

Generally accepted accounting principles establishes a framework for measuring fair value. That framework provides for a fair value hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used at June 30, 2015 and June 30, 2014

The Agency's investments in equities, mutual funds and exchange traded funds are traded in public markets and are valued at their quoted market prices within those active markets. The Agency's investments in corporate debt securities, U.S. Treasury notes, government bonds and agencies are valued based on prices obtained from pricing services using primarily matrix pricing, which considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, credit information, and the investment terms and conditions among other inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

***Fair Value Measurements***

Fair values of assets and liabilities measured on a recurring basis at June 30, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Investments</b>				
Cash Equivalents	\$ 63,504	\$ 63,504	\$ -	\$ -
Equities			-	-
Consumer Discretionary	91,225	91,225	-	-
Consumer Staples	37,626	37,626	-	-
Energy	47,514	47,514	-	-
Financials	70,737	70,737	-	-
Health Care	96,838	96,838	-	-
Industrials	46,809	46,809	-	-
Information Technology	121,079	121,079	-	-
Telecommunications	6,758	6,758	-	-
American Depository Receipts	9,654	-	9,654	-
Mutual Funds				
Fixed Income	33,006	33,006	-	-
Exchange Traded Funds				
Equity	275,142	275,142	-	-
Fixed Income	54,896	54,896	-	-
Corporate Debt Securities	54,270	-	54,270	-
Government Bonds	64,988	-	64,988	-
Government Agency	13,070	-	13,070	-
Total Investments	<u>1,087,116</u>	<u>945,134</u>	<u>141,982</u>	<u>-</u>
<b>Trust Accounts</b>				
Cash Equivalents	685,784	685,784	-	-
U.S. Treasury Notes	1,299,771	-	1,299,771	-
Total Trust Accounts	<u>1,985,555</u>	<u>685,784</u>	<u>1,299,771</u>	<u>-</u>
<b>Total Fair Value Measures</b>	<u>\$ 3,072,671</u>	<u>\$ 1,630,918</u>	<u>\$ 1,441,753</u>	<u>\$ -</u>

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

***Fair Value Measurements***

Fair values of assets and liabilities measured on a recurring basis at June 30, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Investments</b>				
Cash Equivalents	\$ 13,424	\$ 13,424	\$ -	\$ -
Equities				
Consumer Discretionary	74,370	74,370	-	-
Consumer Staples	33,492	33,492	-	-
Energy	45,235	45,235	-	-
Financials	76,018	76,018	-	-
Health Care	78,071	78,071	-	-
Industrials	49,437	49,437	-	-
Information Technology	105,459	105,459	-	-
Telecommunications	7,095	7,095	-	-
American Depository Receipts	9,191	-	9,191	-
Mutual Funds				
Fixed Income	49,453	49,453	-	-
Exchange Traded Funds				
Equity	288,742	288,742	-	-
Fixed Income	92,730	92,730	-	-
Corporate Debt Security	90,574	-	90,574	-
Government Bonds	20,256	-	20,256	-
Government Agency	<u>13,556</u>	<u>-</u>	<u>13,556</u>	<u>-</u>
Total Investments	<u>1,047,103</u>	<u>913,526</u>	<u>133,577</u>	<u>-</u>
<b>Trust Accounts</b>				
Cash Equivalents	669,378	669,378	-	-
U.S. Treasury Notes	<u>1,300,849</u>	<u>-</u>	<u>1,300,849</u>	<u>-</u>
Total Trust Accounts	<u>1,970,227</u>	<u>669,378</u>	<u>1,300,849</u>	<u>-</u>
<b>Total Fair Value Measures</b>	<u>\$ 3,017,330</u>	<u>\$ 1,582,904</u>	<u>\$ 1,434,426</u>	<u>\$ -</u>

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**2. INVESTMENTS**

Investments are carried at fair value.

	<u>2015</u>	<u>2014</u>
Cash equivalents	\$ 63,504	\$ 13,424
Equity securities	528,240	478,368
Mutual funds	33,006	49,453
Exchange traded funds	330,038	381,472
Debt securities	<u>132,328</u>	<u>124,386</u>
 Total	 <u>\$ 1,087,116</u>	 <u>\$ 1,047,103</u>

The Agency realized net gains (losses) on sales of investments of \$38,906 and \$917 for the years ended June 30, 2015 and 2014, respectively. Net unrealized gains (losses) were (\$4,917) and \$135,379 for the years ended June 30, 2015 and 2014, respectively. The Agency's investment securities are classified as unrestricted. Therefore, investment income and unrealized gains or losses are considered unrestricted.

**3. LINE OF CREDIT**

The Agency has available a \$2,950,000 working capital line of credit with First Niagara Bank which is due on demand. The outstanding balance on this note was \$2,278,597 at June 30, 2015 and \$1,879,798 at June 30, 2014. The interest rate on the note is variable (3.25% at June 30, 2015). The loan is secured by all real estate and investments and cross collateralized with a First Niagara Bank mortgage in the amount of \$136,683.

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**4. LONG-TERM DEBT**

	<u>2015</u>	<u>2014</u>
Bonded mortgage payable to the Dormitory Authority of the State of New York (see Note 12), variable interest (5.25% at June 30, 2015), payments due through 2018, secured by a building.	\$ 2,635,000	\$ 3,215,000
Mortgage payable to Community Preservation Corp. (CPC), variable interest rate (4.29% at June 30, 2015). Payments through April 1, 2026, secured by buildings.	3,419,342	3,482,164
Mortgage payable to Pioneer Savings Bank, interest at 7.00%, maturing November 30, 2021, secured by building.	123,788	140,162
Mortgage payable to the Facilities Development Corporation, interest at 6.33%, payments due through 2018, secured by a building.	178,030	178,030
Mortgage payable to First Niagara Bank, interest at 6.00%, payments due through July 2020, secured by buildings.	136,683	146,213
Mortgage payable to First Niagara Bank, interest at 4.46%, maturing June 21, 2016, secured by buildings.	47,746	51,022
Retail installment agreement, interest at 6.9%, payments through September, 2017, secured by equipment.	<u>19,778</u>	<u>23,061</u>
Total Long-term Debt	6,560,367	7,235,652
Less current installments	<u>743,250</u>	<u>713,366</u>
Long-term Debt, net of current installments	<u>\$ 5,817,117</u>	<u>\$ 6,522,286</u>

Total interest expense was \$369,788 and \$430,393 for the years ended June 30, 2015 and 2014, respectively.

Long-term debt is payable in each of the next five years as follows:

2016	\$	743,250
2017		776,145
2018		811,944
2019		834,779
2020		115,144

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**5. ESCROW DEPOSITS**

The Agency has received financing through a loan with the Community Preservation Corporation (see Note 4) with a requirement to maintain an escrow account to be held until the end of the mortgage term. The amounts in escrow at June 30, 2015 and 2014 totaled \$118,627.

**6. OPERATING LEASES**

The Agency leases property and equipment under operating leases expiring at various dates. Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of June 30, 2015 and for each of the remaining years are:

2016	\$	270,812
2017		85,301
2018		30,218
2019		<u>4,158</u>
Total Minimum Future Rental Payments	\$	<u>390,489</u>

Rental expense was \$422,452 and \$452,171 for the years ended June 30, 2015 and 2014, respectively.

**7. DEFINED BENEFIT PLAN**

The Agency has a defined benefit pension plan that covers employees hired prior to June 2010. Benefits are based upon years of service and compensation. On June 30, 2010, the agency permanently froze accrual of additional benefits for the Defined Benefit Plan (the Plan). No employees are currently accruing benefits under the plan. It is the Agency's intent to continue to fund the plan as required until such time as the plan is fully funded. The Plan's measurement date is June 30. It is at least reasonably possible that these estimates could change in the near-term. Plan assets consist of a variety of domestic equities, real estate income securities and limited partnerships. The Plan was noncontributory.



**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**7. DEFINED BENEFIT PLAN**

The following sets forth the funded status of the plan in accordance with generally accepted accounting principles at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Accumulated benefit obligation at June 30	\$ <u>6,836,598</u>	\$ <u>6,440,845</u>
Fair value of plan assets at June 30	\$ 5,226,034	\$ 5,014,584
Projected benefit obligation at June 30	<u>6,836,598</u>	<u>6,440,845</u>
Funded Status	<u>\$ (1,610,564)</u>	<u>\$ (1,426,261)</u>
Weighted average assumptions as of June 30		
Discount rate	4.25%	4.25%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increase	n/a	n/a
Net Periodic Benefit Cost	\$ <u>(70,224)</u>	\$ <u>(4,209)</u>
Employer Contributions	\$ <u>131,908</u>	\$ <u>221,067</u>
Benefits Paid	\$ <u>(177,303)</u>	\$ <u>(344,299)</u>
<i>Amounts Recognized in the statement of financial position</i>		
Accrued Pension Liability	\$ <u>(1,610,564)</u>	\$ <u>(1,426,261)</u>
Total	<u>\$ (1,610,564)</u>	<u>\$ (1,426,261)</u>
<i>Amounts Recognized in the statement of activities</i>		
Actuarial Gains and (Losses)	\$ (386,435)	\$ 114,625
Net Periodic Benefit Cost	<u>70,224</u>	<u>4,209</u>
Total	<u>\$ (316,211)</u>	<u>\$ 118,834</u>
<i>Expected Effect in Unrestricted Net Assets in the next fiscal year</i>		
Gains/(losses)	\$ (99,130)	\$ (62,941)
Net prior service cost	-	-
New transition asset	-	-
Expected Employer Contributions for year ended June 30, 2016	<u>\$ 180,000</u>	

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**7. DEFINED BENEFIT PLAN**

***Expected Future Benefit Payments***

The following are the expected future benefit payments:

2016	\$ 139,169
2017	145,913
2018	167,306
2019	182,955
2020	233,008
2021 - 2025	1,866,657

***Plan Assets by Category***

The following are the assets by major category as of June 30:

	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Equities	\$ 4,037,311	77	\$ 4,777,143	95
Fixed income	901,142	17	126,975	3
Cash and equivalents	287,581	6	21,887	<1
Other securities	-	0	88,579	2
Total	<u>\$ 5,226,034</u>	<u>100</u>	<u>\$ 5,014,584</u>	<u>100</u>

The Plan's investments are invested in securities as disclosed above and are valued at the fair values as of June 30, 2015 and 2014. Management considers fixed income and other to be classified as a Level 2 and all other investments to be classified as Level 1 in the fair value hierarchy as described in Note 1.

***Investment Policy***

The Plan's investment objective is preservation of capital. Each transaction shall seek first to ensure the capital losses are mitigated, whether they be from securities defaults or erosion of market value. Investment decisions should favor stability of principal over income. This primary objective of capital preservation over income applies to the portion of investment portfolio used to meet liquidity needs.

It is the policy of the Plan to diversify its investment portfolio. All funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity and from a specific issuer of a specific class of securities. Performance of the fund shall be regularly measured against the S&P 500, Lehman Aggregate, and MSCI.

***Other Assumptions***

Mortality: 2015: Non-annuitant and annuitant; RP-2014 mortality table. 2014: 50/50 Blend annuities/non-annuities RP-2000

Turnover: Table T-8 of the Actuary's Pension Handbook (2015 and 2014)

Assumed Retirement Age: Normal retirement age or age attained, if greater (2015 and 2014)

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**7. DEFINED BENEFIT PLAN**

***Plan Changes and Amendments***

On June 30, 2010, the Agency permanently froze accrual of additional benefits for the Defined Benefit Plan. It is the Agency's intent to continue to fund the plan as required until such time as the plan is fully funded.

**8. OTHER RETIREMENT PLANS**

Tax Deferred Annuity Plan: The Agency contributes to a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all eligible employees who choose to participate. Employees can make contributions to the plan up to the maximum amount allowed by law. The Agency matches an employee's contribution up to a maximum established by the Board of Directors. Contributions to the Plan were \$33,675 and \$31,128 for the years ended June 30, 2015 and 2014, respectively.

457b Plan: The agency contributes to a defined contribution plan which qualifies under section 457b of the Internal Revenue Code. This plan is available to all staff at Vice President level and above. The value of the plan assets were \$18,821 and \$18,375 as of June 30, 2015 and June 30, 2014, respectively.

**9. TRUST ACCOUNTS - RESTRICTED**

In connection with the bonded mortgage with the Dormitory Authority of the State of New York, (DASNY), the Agency is required to maintain the following accounts which are administered by DASNY.

**June 30, 2015**

	<b><u>Cash</u></b>	<b><u>U.S. Treasury Notes</u></b>	<b><u>Total</u></b>
Construction Fund	\$ 1,458	\$ 384,864	\$ 386,322
Debt Service Fund	683,359	-	683,359
Building and Equipment Reserve Fund	132	187,981	188,113
Debt Service Reserve Fund	<u>835</u>	<u>726,926</u>	<u>727,761</u>
 Total	 <u>\$ 685,784</u>	 <u>\$ 1,299,771</u>	 <u>\$ 1,985,555</u>

**June 30, 2014**

	<b><u>Cash</u></b>	<b><u>U.S. Treasury Notes</u></b>	<b><u>Total</u></b>
Construction Fund	\$ 169	\$ 385,941	\$ 386,110
Debt Service Fund	668,474	-	668,474
Building and Equipment Reserve Fund	84	187,981	188,065
Debt Service Reserve Fund	<u>651</u>	<u>726,927</u>	<u>727,578</u>
 Total	 <u>\$ 669,378</u>	 <u>\$ 1,300,849</u>	 <u>\$ 1,970,227</u>

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**10. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets represent amounts restricted by donors for certain programs and purposes.

**11. CONTINGENCIES**

The Agency is named as defendant in lawsuits involving wrongful termination and other employment issues. In the lawsuits the allegations have not yet been defined with specificity as the cases are still in their very early stages. The Agency intends to continue to defend each action vigorously. As these lawsuits are still in their preliminary stages the Agency's attorneys cannot predict the outcome of these lawsuits nor estimate the amount of loss that may result, if any. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

**12. DORMITORY AUTHORITY INSURED REVENUE BONDS**

The Dormitory Authority of the State of New York (the Authority), Vanderheyden Hall, Inc. Insured Revenue Bonds, Series 1998F were issued in September 1998 as special obligations of the Authority. The bonds are payable solely from, and secured by, a pledge of certain payments from the tuition billings under the 853 School Program. Under the loan agreement a separate tuition rate is calculated based on the repayment requirements of the mortgage. Tuition invoices are submitted to the counties and school districts responsible for the pupils and payments are sent directly to the State Comptroller's Office and then forwarded to the Authority. These payments are deposited directly into the Debt Service Fund (see Note 9) and are therefore restricted to the payment of principal and interest under the bond issue and are not available for any other purpose. As a result, related accounts receivable have been reflected as current assets in the statement of financial position to the extent they can be used to meet the debt service requirements in the subsequent year. The remaining amount has been reflected in other assets in the statement of financial position. The billing revenues of \$984,448 and \$778,832 for the years ended June 30, 2015 and 2014, respectively, are included in the statement of activities in Program support and revenue section in the Education - Dormitory Authority cost center. This cost center reflects only the revenues and expenses associated with the bond issue and has been established at the direction of the funding sources.

**13. WORKERS' COMPENSATION ACCRUAL**

Vanderheyden Hall, Inc. participated in the Provider Agency Trust for Human Services (PATH Trust) for mandated workers compensation coverage from January 1, 2001 to December 31, 2005. The trust was dissolved on February 28, 2006 and is now run by the Workers Compensation Board of New York State (WCB). Significant assessments were imposed on the former participants of the PATH Trust. The WCB hired a public accounting firm to do a review of the trust, its service agreement, financial documents and determine if there was any fraudulent or negligent activity. A liability for the workers compensation assessment imposed on Vanderheyden Hall, Inc. of \$559,285 has been recorded in the accompanying financial statements. The liability has been recorded based on the current assessment which is based on actuarial assumptions and may change as the claims run off occurs in future years. It is at least reasonably possible this estimate could change in the near-term.

**VANDERHEYDEN HALL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**14. RISKS AND UNCERTAINTIES**

The Agency invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of financial position.

**15. NET DEFICITS/MANAGEMENT'S PLANS**

At June 30, 2015, the Agency's current liabilities exceed its current assets by \$1,243,084, and the Agency has a net accumulated deficit of \$2,286,769 (including net accumulated deficit of \$1,610,564 related to the defined benefit pension plan (Note 8)). The Agency's increase (decrease) in net assets for the years ended June 30, 2015 and 2014 was (\$186,529) and \$393,701, respectively. Included in the increase (decrease) in net assets were gains (losses) from the defined benefit plan in the amount of (\$386,435) and \$114,625, respectively, due primarily to actuarial changes related to the valuation of the pension liability and changes in the fair value of assets funding the Plan.

Management continues to work to develop and implement a number of initiatives to enhance program revenues as well as contributions and non-program revenue, including working with governmental agencies to negotiate increases to funding rates and submitting rate appeals as necessary. Management has also instituted a number of initiatives to reduce expenses and is evaluating the profitability of each of its programs for viability. In fiscal year 2015 the Agency was selected by the Alliance for Strong Families and Communities to participate as one of 15 agencies nationwide on a three year project to transform the way services are delivered. This strategic initiative has led to a design of new services that position the Agency for the new managed care environment. Additionally, significant emphasis is being spent on budget management and education as well as evaluating alternatives for shared services, affiliation agreements and merger opportunities.

The Agencies management is optimistic that the work being done collaboratively with our Board of Directors to ensure our financial strength moving forward will be effective.

**16. SUBSEQUENT EVENTS**

Management has evaluated events subsequent to the statement of financial position date of June 30, 2015 through January 15, 2016, which is the date these financial statements were available to be issued.

**VANDERHEYDEN HALL, INC.**  
**SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2014**

	<u>Education</u>					
	<u>Operations</u>	<u>Dormitory Authority</u>	<u>Residential</u>	<u>Community Residence</u>	<u>Group Homes</u>	<u>Independent Living</u>
<b>Program Support and Revenue</b>						
Counties	\$ 1,070,251	\$ -	\$ 4,850,233	\$ -	\$ 1,674,366	\$ 230,022
School districts	2,013,179	-	490,047	-	-	-
Medicaid	-	-	114,743	4,742,974	53,774	-
Social security	-	-	-	579,540	-	-
OPWDD	-	-	-	12,125	-	-
DASNY	-	984,448	-	-	-	-
Community services	-	-	-	-	-	-
Grants	135,651	-	-	-	-	-
USDA	59,754	-	30,044	3,831	18,044	-
Miscellaneous income	15,268	-	408	112,469	109	281
Retroactive revenue adjustments	(144,010)	-	3,963	150	45,523	-
<b>Total Program Support and Revenue</b>	<u>3,150,093</u>	<u>984,448</u>	<u>5,489,438</u>	<u>5,451,089</u>	<u>1,791,816</u>	<u>230,303</u>
<b>Nonprogram Support and Revenue</b>						
Interest and dividends	551	-	-	-	-	-
Contributions and bequests	-	-	-	-	-	-
Miscellaneous income	-	-	-	-	-	-
Net realized/unrealized gains (losses)	-	-	-	-	-	-
<b>Total Nonprogram Support and Revenue</b>	<u>551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue Related to Functional Expenses</b>	<u>3,150,644</u>	<u>984,448</u>	<u>5,489,438</u>	<u>5,451,089</u>	<u>1,791,816</u>	<u>230,303</u>
<b>Total Functional Expenses</b>	<u>3,857,320</u>	<u>494,566</u>	<u>5,374,520</u>	<u>5,298,664</u>	<u>1,763,513</u>	<u>307,620</u>
<b>Excess (Deficiency) of Support and Revenue Over Expense</b>	<u>\$ (706,676)</u>	<u>\$ 489,882</u>	<u>\$ 114,918</u>	<u>\$ 152,425</u>	<u>\$ 28,303</u>	<u>\$ (77,317)</u>

**VANDERHEYDEN HALL, INC.**  
**SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2014**

	<u>Community Services</u>	<u>Medicaid</u>	<u>Development Fund</u>	<u>2015 Totals</u>	<u>2014 Totals</u>
<b>Program Support and Revenue</b>					
Counties	\$ -	\$ -	\$ -	\$ 7,824,872	\$ 7,795,798
School districts	-	-	-	2,503,226	2,152,963
Medicaid	407,497	1,083,244	-	6,402,232	5,831,105
Social security	-	-	-	579,540	526,224
OPWDD	4,269	-	-	16,394	11,625
DASNY	-	-	-	984,448	778,832
Community services	4,746	-	-	4,746	-
Grants	-	-	19	135,670	118,122
USDA	-	-	-	111,673	94,324
Miscellaneous income	-	1,352	-	129,887	115,199
Retroactive revenue adjustments	(1,168)	-	-	(95,542)	(38,873)
Total Program Support and Revenue	<u>415,344</u>	<u>1,084,596</u>	<u>19</u>	<u>18,597,146</u>	<u>17,385,319</u>
<b>Nonprogram Support and Revenue</b>					
Interest and dividends	-	-	16,501	17,052	25,921
Contributions and bequests	-	-	106,089	106,089	84,721
Miscellaneous income	-	-	2,532	2,532	-
Net realized/unrealized gains (losses)	-	-	33,989	33,989	136,296
Total Nonprogram Support and Revenue	<u>-</u>	<u>-</u>	<u>159,111</u>	<u>159,662</u>	<u>246,938</u>
<b>Total Support and Revenue Related to Functional Expenses</b>	415,344	1,084,596	159,130	18,756,808	17,632,257
Total Functional Expenses	<u>320,387</u>	<u>1,023,476</u>	<u>116,836</u>	<u>18,556,902</u>	<u>17,353,181</u>
<b>Excess (Deficiency) of Support and Revenue Over Expense</b>	<u>\$ 94,957</u>	<u>\$ 61,120</u>	<u>\$ 42,294</u>	<u>\$ 199,906</u>	<u>\$ 279,076</u>

**VANDERHEYDEN HALL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2014**

	<u>Education</u>		<u>Residential</u>	<u>Community Residence</u>	<u>Group Homes</u>	<u>Independent Living</u>
	<u>Operations</u>	<u>Dormitory Authority</u>				
<b>Functional Expenses</b>						
Personal services	\$ 2,227,451	\$ -	\$ 3,040,417	\$ 3,050,155	\$ 1,035,249	\$ 132,238
Fringe benefits	521,310	-	711,575	713,854	242,288	30,949
Transportation and worker's expense	8,388	-	51,069	70,141	18,309	2,710
Children's allowances	-	-	7,979	7,737	4,480	8,490
Children's activities	2,103	-	29,183	7,380	12,133	75
Related school expenses	1,165	-	(6)	105	63	-
Purchase of services	159,905	-	27,781	21,579	15,393	1,056
Purchase of health services	70,150	-	2,725	1,336	645	-
Food	87,666	-	136,947	120,480	43,403	6,964
Clothing	-	-	12,705	13,747	4,981	1,039
Bedding and linen	-	-	73	7,350	109	-
Program and household supplies	55,093	-	80,852	66,217	21,547	13,916
Medical supplies and prescriptions	20	-	38	14,743	(2,080)	130
Rent - equipment	13,176	-	9,632	10,501	3,642	1,804
- vehicles	6,209	-	36,716	71,189	14,103	2,592
- property	70	-	157	152,702	-	57,830
Utilities	75,516	-	116,348	86,631	32,848	1,130
Plant and equipment maintenance	98,678	-	100,705	84,035	42,202	3,153
Vehicle maintenance	1,125	-	13,212	18,720	6,136	375
Telephone	8,187	-	12,096	78,435	13,988	7,382
Postage	459	-	101	137	17	35
Dues, licenses and permits	2,432	-	12,353	479	4,738	1,261
Office supplies	3,242	-	9,568	3,363	704	234
Subscriptions and publications	17	-	19	14	79	-
Conference expense	5,866	-	1,501	1,774	511	24
Miscellaneous	260	-	127	251	85	27
Professional fees	-	-	-	-	5,640	-
Insurance	50,697	-	49,094	65,985	19,919	6,032
Interest and finance charges	3,432	123,870	217,196	15,327	7,799	1,354
Real estate taxes	399	-	-	558	707	-
Publicity and recruitment	1,487	-	1,696	1,230	586	268
Medical transportation	-	-	-	-	-	-
Bad debt expense	(641)	-	32	1,025	5,472	-
Depreciation and amortization	61,602	370,696	174,990	91,602	29,871	1,291
Total Functional Expenses	<u>3,465,464</u>	<u>494,566</u>	<u>4,856,881</u>	<u>4,778,782</u>	<u>1,585,567</u>	<u>282,359</u>
Allocation of Administration Expenses	391,856	-	517,639	519,882	177,946	25,261
<b>Total Functional Expenses</b>	<u>\$ 3,857,320</u>	<u>\$ 494,566</u>	<u>\$ 5,374,520</u>	<u>\$ 5,298,664</u>	<u>\$ 1,763,513</u>	<u>\$ 307,620</u>



**VANDERHEYDEN HALL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2014**

	<u>Community Services</u>	<u>Medicaid</u>	<u>Development Fund</u>	<u>Adminis- tration</u>	<u>2015 Totals</u>	<u>2014 Totals</u>
<b>Functional Expenses</b>						
Personal services	\$ 188,288	\$ 431,439	\$ 31,993	\$ 1,007,137	\$ 11,144,367	\$ 10,164,798
Fringe benefits	44,067	100,973	7,487	235,709	2,608,212	2,245,653
Transportation and worker's expense	12,396	843	206	11,129	175,191	171,915
Children's allowances	-	-	-	-	28,686	20,709
Children's activities	2,792	24	10,281	381	64,352	47,944
Related school expenses	-	-	-	249	1,576	978
Purchase of services	-	9,012	10,288	216,024	461,038	465,611
Purchase of health services	8,972	146,154	-	-	229,982	255,560
Food	(162)	202	6,330	2,732	404,562	324,850
Clothing	-	15	185	-	32,672	26,206
Bedding and linen	-	177	-	-	7,709	7,975
Program and household supplies	3,983	1,367	8,317	38,633	289,925	258,507
Medical supplies and prescriptions	268	188,240	-	5	201,364	239,865
Rent - equipment	747	2,197	2,480	19,138	63,317	59,916
- vehicles	6,078	507	37	6,362	143,793	201,556
- property	4,583	-	-	-	215,342	190,699
Utilities	1,583	8,271	633	26,351	349,311	428,598
Plant and equipment maintenance	1,198	15,373	1,023	38,708	385,075	198,514
Vehicle maintenance	4,814	93	7	2,142	46,624	37,120
Telephone	1,168	1,981	39	26,303	149,579	140,787
Postage	20	251	197	6,117	7,334	12,256
Dues, licenses and permits	542	554	42	14,446	36,847	49,216
Office supplies	251	774	291	7,537	25,964	29,695
Subscriptions and publications	-	1	-	2,475	2,605	940
Conference expense	-	271	2	8,369	18,318	11,689
Miscellaneous	-	25	13,418	14,344	28,537	53,991
Professional fees	-	-	-	56,528	62,168	74,291
Insurance	5,554	1,822	1,189	8,313	208,605	213,662
Interest and finance charges	-	-	-	810	369,788	430,393
Real estate taxes	-	-	-	1,506	3,170	8,394
Publicity and recruitment	-	116	9,954	13,752	29,089	23,039
Medical transportation	-	2,000	-	-	2,000	14,340
Bad debt expense	387	(1,012)	-	(2)	5,261	183,516
Depreciation and amortization	191	3,659	822	19,815	754,539	759,998
Total Functional Expenses	<u>287,720</u>	<u>915,329</u>	<u>105,221</u>	<u>1,785,013</u>	<u>18,556,902</u>	<u>17,353,181</u>
Allocation of Administration Expenses	<u>32,667</u>	<u>108,147</u>	<u>11,615</u>	<u>(1,785,013)</u>	<u>-</u>	<u>-</u>
<b>Total Functional Expenses</b>	<u>\$ 320,387</u>	<u>\$ 1,023,476</u>	<u>\$ 116,836</u>	<u>\$ -</u>	<u>\$ 18,556,902</u>	<u>\$ 17,353,181</u>