VANDERHEYDEN HALL, INC.
FINANCIAL REPORT
JUNE 30, 2013

VANDERHEYDEN HALL, INC.

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Marvin and company, p.c.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Kevin J. McCoy, CPA
Thomas W. Donovan, CPA
Frank S. Venezia, CPA
James E. Amell, CPA
Carol A Hausamann, CPA
Benjamin R. Lasher, CPA
Daniel J. Litz, CPA
Karl F. Newton, CPA
Kevin P. O'Leary, CPA
Timothy A Reynolds, CPA
Leo A. Rigby, CPA

Thomas J. Ross, CPA
Heather D. Patten, CPA

11 British American Blvd.
Latham, NY 12110
Ph: 518-785-0134
Fx:518-785-0299

111 Everts Avenue
Queensbury, NY 12804
Ph: 518-792-6596
Fx: 518-792-6635

Email:
webmaster@marvincpa.com
Web:
http://www.marvincpa.com

AN INDEPENDENT MEMBER OF BDO SEIDMAN ALLIANCE

INDEPENDENT AUDITORS' REPORT

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, 2013 and 2012 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, 2013 and 2012, 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
October 31, 2013

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Current Assets		
Cash and cash equivalents	$ 63,610	$ 156,630
Investments	895,871	806,287
Accounts receivable, net of allowance of $114,850		
Government	2,232,824	2,333,652
Other	50,312	64,817
Pledges receivable	2,383	7,486
Prepaid expenses	48,966	52,814
Total Current Assets	3,293,966	3,421,686
Property, Plant and Equipment		
Land and improvements	370,014	370,014
Buildings and improvements	15,414,408	15,375,780
Furniture, fixtures and equipment	1,371,968	1,336,038
Vehicles	63,955	60,055
Total	17,220,345	17,141,887
Less accumulated depreciation	11,888,278	11,115,239
Net Property, Plant and Equipment	5,332,067	6,026,648
Other Assets		
Trust accounts - restricted		
Cash	14,725	646,726
U.S. Treasury Notes	1,941,576	1,302,447
Deferred charges, net of amortization of $22,752 and $29,213, respectively	106,884	114,973
Escrow	257,185	18,805
Total Other Assets	2,320,370	2,082,951
TOTAL ASSETS	$ 10,946,403	$ 11,531,285

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)

	2013	2012
Current Liabilities		
Note payable - line of credit	$ 1,543,575	$ 2,331,143
Current installments of long-term debt	673,505	696,400
Accounts payable	300,640	367,909
Accrued expenses	1,266,369	1,335,696
Deferred revenue	345,815	480,681
Due to governmental agencies	-	81,991
Total Current Liabilities	4,129,904	5,293,820
Other Liabilities		
Accrued pension	1,766,162	2,702,685
Accrued expenses	75,000	75,000
Long-term debt, net of current installments	7,193,820	7,423,074
Total Other Liabilities	9,034,982	10,200,759
Total Liabilities	13,164,886	15,494,579
Net Assets (Accumulated Deficit)		
Unrestricted		
Undesignated	(506,815)	(1,298,600)
Pension fund liability	(1,766,162)	(2,702,685)
Temporarily restricted	54,494	37,991
Total Net Assets (Accumulated Deficit)	(2,218,483)	(3,963,294)
TOTAL LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)	$ 10,946,403	$ 11,531,285

VANDERHEYDEN HALL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 15,581,392	$ 14,577,564
Nonprogram	230,638	92,465
Released from restrictions	5,103	25,482
Total Support and Revenue	15,817,133	14,695,511
Expenses		
Education	3,081,839	3,424,224
Residential	3,566,357	3,735,697
Community residence	3,755,838	3,699,402
Group homes	1,881,116	1,312,769
Independent living	204,824	305,036
Community services	190,513	219,915
Medicaid	718,816	688,420
Development fund	132,012	101,790
Administration	1,309,260	1,522,739
Total Expenses	14,840,575	15,009,992
Change in Unrestricted Net Assets Before the Effect of Actuarial Gains (Losses)	976,558	(314,481)
Effect of Actuarial Gains (Losses)	751,750	(1,116,333)
Increase (Decrease) in Unrestricted Net Assets	1,728,308	(1,430,814)
Change in Temporarily Restricted Net Assets		
Contributions and bequests	21,606	20,556
Amounts released from restrictions	(5,103)	(25,482)
Increase (Decrease) in Temporarily Restricted Net Assets	16,503	(4,926)
Change in Net Assets	1,744,811	(1,435,740)
Net Assets, Beginning of Year	(3,963,294)	(2,527,554)
Net Assets, End of Year	$ (2,218,483)	$ (3,963,294)

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	$ 1,744,811	$ (1,435,740)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	779,319	790,533
Bad debts	18,749	3,163
Net realized/unrealized (gains) losses on investments	(76,841)	12,084
Actuarial gains and losses	(751,750)	1,116,333
(Increase) Decrease in assets:		
Receivables	101,687	851,531
Prepaid expenses	3,848	(15,531)
Increase (Decrease) in liabilities:		
Accounts payable	(67,269)	(333,704)
Accrued expenses	(254,100)	(403,230)
Deferred revenue	(134,866)	(13,634)
Due to governmental agencies	(81,991)	(119,290)
Net Cash Provided by Operating Activities	1,281,597	452,515
Cash Flows From Investing Activities		
Proceeds from sale of U.S. Treasury Notes	3,109,549	3,630,518
Purchase of U.S. Treasury Notes	(3,116,677)	(3,649,086)
Purchase of investments	(24,986)	(22,743)
Proceeds from sale of investments	12,243	11,625
Expenditures for property, plant and equipment	(78,739)	(97,165)
Escrow Withdrawals (Deposits)	(238,380)	(1,257)
Net Cash Used by Investing Activities	(336,990)	(128,108)
Cash Flows From Financing Activities		
Net proceeds (repayments) on line of credit	(787,568)	237,132
Repayment of long-term debt	(778,912)	(539,207)
Proceeds from long-term debt	526,763	-
Deferred charges	2,090	(4,110)
Net Cash Used by Financing Activities	(1,037,627)	(306,185)
Net Increase (Decrease) in Cash and Cash Equivalents	(93,020)	18,222
Cash and Cash Equivalents, Beginning of Year	156,630	138,408
Cash and Cash Equivalents, End of Year	$ 63,610	$ 156,630
Supplemental Information:		
Cash paid for interest	$ 793,101	$ 803,527

See accompanying notes to financial statements.

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 from various counties and school districts throughout the State of New York. The Agency operates residential, diagnostic, educational, and respite programs. Revenues are derived from fees charged to county governments and school districts; Medicaid; Social Security; New York State Office for Persons With Developmental Disabilities (OPWDD) and Office of Mental Health (OMH) reimbursements; 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 payors and changes, if any, are recognized in the year known.

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.

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 Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Bad debt expense was $18,749 and $3,163 for the years ended June 30, 2013 and 2012, respectively.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

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:

	Years
Buildings and improvements	10 - 40
Furniture, fixtures and equipment	5 - 15
Vehicles	5

Depreciation expense was $773,320 and $784,676 for the years ended June 30, 2013 and 2012, 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 the mortgages. The closing fees and expenses are amortized on a straight-line basis over the term of the mortgage. Amortization expense was $5,999 and $5,857 for the years ended June 30, 2013 and 2012, respectively. Amortization expense is expected to be approximately $5,900 in each of the next five years.

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 2010 are no longer open to examination by the IRS.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

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, the ratio-value method.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

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, 2013 and June 30, 2012

Most investments are traded in public markets and are valued at their closing price on the last day of the fiscal year and are valued using level 1 inputs based on quoted market prices within active markets. Other investments are traded on public markets, but at times are not actively traded daily. These investments are valued using level 2 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.

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, 2013 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash Equivalents	$ 31,782	$ 31,782	$ -	$ -
Equities			-	-
Consumer Discretionary	46,285	46,285	-	-
Consumer Staples	70,634	70,634	-	-
Financials	77,604	77,604	-	-
Health Care	46,480	46,480	-	-
Industrials	54,112	54,112	-	-
Information Technology	53,959	53,959	-	-
Telecommunications	7,299	7,299	-	-
Mutual Funds			-	-
Index Funds	107,452	107,452	-	-
Domestic Equity	140,181	140,181	-	-
Foreign Equity	26,771	26,771	-	-
Government Bonds	73,983	73,983	-	-
Other Funds	19,956	19,956	-	-
Corporate Debt Securities	91,897	-	91,897	-
Government Debt Securities	47,476	-	47,476	-
Total Investments	$ 895,871	$ 756,498	$ 139,373	$ -
Trust Accounts				
Cash Equivalents	$ 14,725	$ 14,725	$ -	$ -
U.S. Treasury Notes	1,941,576	-	1,941,576	-
Total Trust Accounts	$ 1,956,301	$ 14,725	$ 1,941,576	$ -
Total Fair Value Measures	$ 2,852,172	$ 771,223	$ 2,080,949	$ -

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, 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash Equivalents	$ 78,224	$ 78,224	$ -	$ -
Equities			-	-
Consumer Discretionary	35,688	35,688	-	-
Consumer Staples	72,529	72,529	-	-
Financials	39,340	39,340	-	-
Health Care	38,758	38,758	-	-
Industrials	44,798	44,798	-	-
Information Technology	63,527	63,527	-	-
Telecommunications	6,444	6,444	-	-
Mutual Funds			-	-
Index Funds	79,619	79,619	-	-
Domestic Equity	120,577	120,577	-	-
Foreign Equity	11,398	11,398	-	-
Government Bonds	38,121	38,121	-	-
Corporate Debt Securities	127,098	-	127,098	-
Government Debt Securities	50,166	-	50,166	-
Total Investments	$ 806,287	$ 629,023	$ 177,264	$ -
Trust Accounts				
Cash Equivalents	$ 646,726	$ 646,726	$ -	$ -
U.S. Treasury Notes	1,302,447	-	1,302,447	-
Total Trust Accounts	$ 1,949,173	$ 646,726	$ 1,302,447	$ -
Total Fair Value Measures	$ 2,755,460	$ 1,275,749	$ 1,479,711	$ -

2. INVESTMENTS

Investments are carried at fair value based on readily determinable quoted market prices.

	2013	2012
Cash equivalents	$ 31,782	$ 78,224
Equity securities	356,373	301,084
Mutual funds	368,343	249,715
Debt securities	139,373	177,264
Total	$ 895,871	$ 806,287

2. INVESTMENTS

The Agency realized net gains (losses) on sales of investments of $24,283 and $(8,147) for the years ended June 30, 2013 and 2012, respectively. Net unrealized gains (losses) were $52,558 and $(3,937) for the years ended June 30, 2013 and 2012, 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 $1,543,575 at June 30, 2013 and $2,331,143 at June 30, 2012. The interest rate on the note is variable (3.25% at June 30, 2013). The loan is secured by all real estate and investments and cross collateralized with a First Niagara Bank mortgage in the amount of $154,932.

4. LONG-TERM DEBT

	2013	2012
Bonded mortgage payable to the Dormitory Authority of the State of New York (see Note 12), variable interest (4.40% at June 30, 2013), payments due through 2018, secured by a building.	$ 3,765,000	$ 4,290,000
Mortgage payable to Community Preservation Corp. (CPC), variable interest rate (4.29% at June 30, 2013). Payments through April 1, 2026, secured by buildings. During 2012, the Agency made a principal deferral arrangement with CPC as part of a loan refinancing, which was completed during the year ended June 30, 2013.	3,542,351	3,265,710
Mortgage payable to Pioneer Savings Bank, interest (7.00% at June 30, 2013), maturing November 30, 2021, secured by building.	153,156	165,449
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.	154,933	163,139
Mortgage payable to First Niagara Bank, interest at 4.46%, maturing June, 21, 2016, secured by buildings.	54,153	57,146
Retail installment agreement, interest at 6.9%, payments through September, 2017, secured by equipment.	19,702	-
Total Long-Term Debt	7,867,325	8,119,474
Less current installments	673,505	696,400
Long-Term Debt, net of current installments	$ 7,193,820	$ 7,423,074

4. LONG-TERM DEBT

Total interest expense was $491,877 and $564,209 for the years ended June 30, 2013 and 2012, respectively.

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

2014	$ 673,505
2015	709,801
2016	743,094
2017	783,099
2018	1,054,257

5. ESCROW DEPOSITS

The Agency has received financing through a loan with the Community Preservation Corporation with a requirement to maintain an escrow account to be held until the end of the mortgage term. The mortgage was refinanced during 2013. Part of the terms of that refinancing was that additional monies would be required to be maintained in escrow. The amounts in escrow at June 30, 2013 and 2012 were $257,185 and $18,805, respectively.

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, 2013 and for each of the remaining years are:

2014	$ 236,498
2015	142,737
2016	121,401
2017	96,366
2018	16,220
Total Minimum Future Rental Payments	$ 613,222

Rental expense was $366,573 and $301,970 for the years ended June 30, 2013 and 2012, respectively.

7. 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 $26,198 and $30,540 for the years ended June 30, 2013 and 2012, respectively.

8. DEFINED BENEFIT PENSION PLAN

The Agency has a defined benefit pension plan covering substantially all of its employees. 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. It is the Agency's intent to continue to fund the plan as required until such time as the plan is fully funded and can be legally terminated. Contributions are intended to provide not only for benefits attributed to rendered service to date but also for services expected to be rendered in the future. 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 is noncontributory.

The following sets forth the funded status of the plan in accordance with generally accepted accounting principles at June 30, 2013 and 2012:

	2013	2012
Accumulated benefit obligation at June 30	$ 5,892,619	$ 5,918,352
Fair value of plan assets at June 30	$ 4,126,457	$ 3,215,667
Projected benefit obligation at June 30	5,892,619	5,918,352
Funded Status	$ (1,766,162)	$ (2,702,685)
Weighted average assumptions as of June 30		
Discount rate	4.25%	3.86%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increase	n/a	n/a
Net Periodic Benefit Cost	$ 93,233	$ 60,121
Employer Contributions	$ 278,006	$ 534,520
Benefits Paid	$ 174,915	$ 66,606
Amounts Recognized in the statement of financial position		
Accrued Pension Liability	$ (1,766,162)	$ (2,702,685)
Accrued Expenses, current	-	-
Total	$ (1,766,162)	$ (2,702,685)
Amounts Recognized in the statement of activities		
Actuarial Gains and (Losses)	$ 751,750	$ (1,116,333)
Net Periodic Benefit Cost	(93,233)	(60,121)
Total	$ 658,517	$ (1,176,454)
Expected Effect in Unrestricted Net Assets in the next fiscal year		
Gains/(losses)	$ (82,891)	$ (153,967)
Net prior service cost	-	-
New transition asset	-	-

8. DEFINED BENEFIT PENSION PLAN

Expected Employer Contributions for year ended June 30, 2013	$ 221,086

Expected Future Benefit Payments

The following are the expected future benefit payments:

2014	$ 360,821
2015	343,688
2016	388,746
2017	292,644
2018	287,379
2019 - 2023	2,851,040

Plan Assets by Category

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

	2013	%	2012	%
Equities	$ 3,701,968	89	$ 2,588,628	80
Fixed income	275,016	7	386,487	12
Other Securities	84,196	2	114,683	4
Cash and equivalents	65,277	2	125,869	4
Total	$ 4,126,457	100	$ 3,215,667	100

The Plan's investments are invested in securities as disclosed above and are valued at the fair values of the investments as traded in public markets. Management considers these assets to be classified as a 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.

8. DEFINED BENEFIT PENSION PLAN

Other Assumptions

Mortality: 50/50 blend annuitant/non-annuitant IRS table
Turnover: Table T-8 of the Actuary's Pension Handbook
Assumed Retirement Age: Normal retirement age or age attained, if greater

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 and can be legally terminated.

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, 2013

	Cash	U.S. Treasury Notes	Total
Construction Fund	$ 1,014	$ 384,865	$ 385,879
Debt Service Fund	13,165	638,943	651,658
Building and Equipment Reserve Fund	45	189,952	189,997
Debt Service Reserve Fund	501	727,816	728,317
Total	$ 14,725	$ 1,941,576	$ 1,955,851

June 30, 2012

	Cash	U.S. Treasury Notes	Total
Construction Fund	$ 580	$ 384,937	$ 385,517
Debt Service Fund	644,412	-	644,412
Building and Equipment Reserve Fund	877	188,899	189,776
Debt Service Reserve Fund	857	728,611	729,468
Total	$ 646,726	$ 1,302,447	$ 1,949,173

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 various lawsuits involving the 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 $695,110 and $643,259 for the years ended June 30, 2013 and 2012, 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. Vanderheyden Hall, Inc. along with three other participating agencies have filed a suit against Consolidated Risk Services (CRS) the administrator of the trust since inception and the trustees of the trust. These cases are still active. Management believes there is merit to the case but cannot reasonably determine any settlement or favorable determination at this juncture. A liability for the workers compensation assessment imposed on Vanderheyden Hall, Inc. of $453,606 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.

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, 2013, the Agency's current liabilities exceed its current assets by $835,938, and the Agency has a net accumulated deficit of $2,218,483 (including net accumulated deficit of 1,766,162 related to the defined benefit pension plan (Note 8)). The Agency incurred an increase in net assets for 2012-2013 of $1,744,811 and a decrease in net assets of $1,435,740 for 2011-2012. Of those amounts a gain from the defined benefit plan was recognized in the amount $751,750 for 2012-2013 due to increases in discount rates used to value the pension liability and increase in the assets funding the Plan. For 2011-2012 a loss was recognized in the amount of $1,116,333. The defined benefit plan was permanently frozen at June 30, 2010, causing the long-term accruals of the plan to be reduced. The Agency applied to the IRS for a one-time hardship waiver allowing 2009-2010 pension contributions to be paid over a 5 year term. This five year waiver was approved and the all installments have been paid into the plan as of October 2013. Over the past several years the Agency has experienced increasing trends in program costs while approved rates from governmental funding agencies, the primary source of program revenues, have increased in 2012-2013, they have not increased proportionately with the associated costs.

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 for operating losses, where allowable. Management has also instituted a number of initiatives to reduce expenses, delay certain expenditures, and is evaluating the profitability of each of its programs for closure that are not considered viable. The CPC mortgage, which financed the renovation of the agency's Residential Treatment Center cottages, was refinanced reducing the interest rate from 6.63% to 4.29% and increasing cash flow by $9,000 a month. We added one resident to our Van Leuven IRA, which will result in $84,000 annually in additional revenue with limited additional costs. A new OPWDD Day Habilitation Program was approved and opened in October 2013. OPWDD has also approved the opening of another IRA for five aging out individuals which opened in October 2013. The Agency has a surplus budget for 13/14. 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 all events subsequent to the statement of financial position date of June 30, 2013 through October 31, 2013, 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, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	Education					
	Operations	Dormitory Authority	Residential	Community Residence	Group Homes	Independent Living
Program Support and Revenue						
Counties	$ 979,800	$ -	$ 3,694,805	$ -	$ 2,366,499	$ 224,994
School districts	1,628,521	-	261,332	-	-	-
Medicaid	7,734	-	15,334	3,794,407	87,893	-
Social security	-	-	2,218	504,155	1,466	-
OPWDD	-	-	-	16,104	-	-
DASNY	-	695,110	-	-	-	-
Community services		-	-	-	-	-
Grants	156,423	-	-	-	-	-
USDA	38,161	-	18,262	4,544	20,614	-
Miscellaneous income	14,960	10,347	-	109,736	77	287
Retroactive revenue adjustments	-	-	9,491	(2,147)	-	(4)
Total Program Support and Revenue	2,825,599	705,457	4,001,442	4,426,799	2,476,549	225,277
Nonprogram Support and Revenue						
Interest and dividends	-	553	-	-	-	-
Contributions and bequests	-	-	-	-	-	-
Miscellaneous income	-	-	-	-	-	-
Net realized/unrealized gains (losses)	-	-	-	-	-	-
Total Nonprogram Support and Revenue	-	553	-	-	-	-
Total Support and Revenue Related to Functional Expenses	2,825,599	706,010	4,001,442	4,426,799	2,476,549	225,277
Total Functional Expenses	2,754,737	577,154	3,918,628	4,130,797	2,068,914	225,272
Excess (Deficiency) of Support and Revenue Over Expense	$ 70,862	$ 128,856	$ 82,814	$ 296,002	$ 407,635	$ 5

VANDERHEYDEN HALL, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	Community Services	Medicaid	Development Fund	2013 Totals	2012 Totals
Program Support and Revenue					
Counties	$ -	$ 3,900	$ -	$ 7,269,998	$ 6,638,379
School districts	-	-	-	1,889,853	1,821,445
Medicaid	209,696	693,571	-	4,808,635	4,615,813
Social security	-	-	-	507,839	470,530
OPWDD	-	-	-	16,104	10,500
DASNY	-	-	-	695,110	643,259
Community services	3,582	-	-	3,582	29,723
Grants	-	-	-	156,423	189,750
USDA	-	-	-	81,581	86,876
Miscellaneous income	-	-	9,520	144,927	147,183
Retroactive revenue adjustments	-	-	-	7,340	(75,894)
Total Program Support and Revenue	213,278	697,471	9,520	15,581,392	14,577,564
Nonprogram Support and Revenue					
Interest and dividends	-	-	20,595	21,148	18,715
Contributions and bequests	-	-	96,388	96,388	106,390
Miscellaneous income	-	-	57,867	57,867	-
Net realized/unrealized gains (losses)	-	-	76,841	76,841	(12,084)
Total Nonprogram Support and Revenue	-	-	251,691	252,244	113,021
Total Support and Revenue Related to Functional Expenses	213,278	697,471	261,211	15,833,636	14,690,585
Total Functional Expenses	209,533	790,578	145,123	14,840,575	15,009,992
Excess (Deficiency) of Support and Revenue Over Expense	$ 3,745	$ (93,107)	$ 116,088	$ 993,061	$ (319,407)

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	Education					
	Operations	Dormitory Authority	Residential	Community Residence	Group Homes	Independent Living
Functional Expenses						
Personal services	$ 1,706,842	$ -	$ 2,140,497	$ 2,377,572	$ 1,247,326	$ 76,211
Fringe benefits	368,821	-	466,369	516,687	271,240	16,714
Transportation and worker's expense	5,180	-	37,297	60,155	19,835	2,886
Children's allowances	-	-	7,210	-	3,119	7,523
Children's activities	1,750	-	22,958	6,370	8,159	366
Related school expenses	1,824	-	638	-	195	72
Purchase of services	35,867	-	40,987	28,117	23,653	394
Purchase of health services	45,147	-	451	796	374	-
Food	34,992	-	105,041	112,549	47,463	6,714
Clothing	-	-	14,491	10,514	6,578	1,313
Bedding and linen	62	-	172	7,936	-	98
Program and household supplies	30,090	-	53,672	51,159	19,038	8,949
Medical supplies and prescriptions	-	-	10	7,315	(1,024)	73
Rent - equipment	7,370	-	6,675	21,403	8,062	288
- vehicles	3,843	-	28,631	67,609	13,518	3,708
- property	-	-	470	114,776	74	53,800
Utilities	78,532	-	94,431	78,949	58,076	3,034
Plant and equipment maintenance	49,732	-	39,922	38,711	25,300	2,755
Vehicle maintenance	(90)	-	(145)	8,239	2,842	74
Telephone	6,830	-	6,372	64,453	13,373	7,595
Postage	102	-	62	58	4	3
Dues, licenses and permits	5,956	-	10,552	4,698	6,333	1,106
Office supplies	2,510	-	5,536	3,598	1,600	289
Subscriptions and publications	-	-	55	-	10	-
Conference expense	616	-	3,039	2,213	883	34
Miscellaneous	30	-	34,058	44	16	6
Professional fees	700	-	5,647	407	1,130	74
Insurance	44,238	-	26,153	46,143	23,207	4,784
Interest	4,334	197,662	260,873	15,349	11,212	1,899
Real estate taxes	-	-	308	5,643	4,568	-
Publicity and recruitment	2,303	-	3,060	2,672	1,142	304
Medical transportation	-	-	-	-	-	-
Bad debt expense	3,349	-	1,352	7,802	435	95
Depreciation and amortization	63,755	379,492	168,182	93,902	44,707	3,663
Total Functional Expenses	2,504,685	577,154	3,585,026	3,755,838	1,862,447	204,824
Allocation of Administration Expenses	263,096	-	344,617	378,301	195,430	15,113
Total Functional Expenses	$ 2,767,781	$ 577,154	$ 3,929,643	$ 4,134,139	$ 2,057,877	$ 219,937

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	Community Services	Medicaid	Development Fund	Adminis- tration	2013 Totals	2012 Totals
Functional Expenses						
Personal services	$ 117,672	$ 312,844	$ 26,532	$ 813,575	$ 8,819,072	$ 9,035,100
Fringe benefits	25,548	67,599	7,360	137,956	1,878,295	1,888,409
Transportation and worker's expense	6,423	1,376	76	8,257	141,484	158,414
Children's allowances	-	-	-	-	17,852	21,189
Children's activities	804	-	7,512	-	47,919	38,403
Related school expenses	-	-	2,932	-	5,661	5,499
Purchase of services	38	1,266	24,911	142,337	297,570	251,703
Purchase of health services	8,972	144,722	-	-	200,462	193,685
Food	-	29	14,180	157	321,125	293,242
Clothing	-	-	-	-	32,896	27,210
Bedding and linen	-	-	-	-	8,268	6,545
Program and household supplies	2,886	347	21,683	16,442	204,266	225,132
Medical supplies and prescriptions	268	145,797	-	-	152,439	147,120
Rent - equipment	432	1,261	923	10,234	56,647	9,989
- vehicles	15,069	678	23	6,428	139,507	118,499
- property	-	-	250	-	169,369	173,483
Utilities	1,674	7,608	4,145	26,552	353,001	315,308
Plant and equipment maintenance	1,356	3,782	176	19,968	181,703	198,862
Vehicle maintenance	2,103	-	-	857	13,880	30,355
Telephone	1,265	474	11	17,717	118,090	110,365
Postage	-	64	523	4,282	5,099	9,685
Dues, licenses and permits	47	145	1,650	7,860	38,347	36,218
Office supplies	9	1,122	648	7,121	22,432	28,246
Subscriptions and publications	-	-	-	903	967	1,636
Conference expense	1	177	40	3,794	10,798	10,069
Miscellaneous	0	2	17,685	9,560	61,402	28,692
Professional fees	-	-	-	27,864	35,823	86,528
Insurance	5,646	6,875	573	16,710	174,329	175,168
Interest	5	-	-	542	491,877	564,209
Real estate taxes	-	-	-	1,868	12,387	4,563
Publicity and recruitment	-	34	-	8,246	17,760	18,386
Medical transportation	-	11,780	-	-	11,780	4,384
Bad debt expense	129	5,587	-	-	18,749	3,163
Depreciation and amortization	166	5,245	176	20,030	779,319	790,533
Total Functional Expenses	190,513	718,816	132,011	1,309,260	14,840,574	15,009,992
Allocation of Administration Expenses	18,940	79,104	14,659	(1,309,260)	-	-
Total Functional Expenses	$ 209,453	$ 797,920	$ 146,670	$ -	$ 14,840,574	$ 15,009,992