VANDERHEYDEN HALL, INC.
FINANCIAL REPORT
JUNE 30, 2014

VANDERHEYDEN HALL, INC.

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INDEPENDENT AUDITOR'S 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, 2014 and 2013, 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.

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11 British American Blvd. Latham, New York 12110-1405 | P: 518-785-0134 | F: 518-785-0299
111 Everts Ave. Queensbury, NY 12804 | P: 518-792-6595 | F: 518-792-6635

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, 2014 and 2013, 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 19-22 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
December 2, 2014

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	(Restated) 2013
Current Assets		
Cash and cash equivalents	$ 79,221	$ 63,610
Investments	1,047,103	895,871
Accounts receivable, net of allowance of $114,850		
Government	2,807,344	2,232,824
Other	2,610	50,312
Pledges receivable	2,383	2,383
Prepaid expenses	95,164	59,248
Total Current Assets	4,033,825	3,304,248
Property, Plant and Equipment		
Land and improvements	370,014	370,014
Buildings and improvements	15,564,537	15,414,408
Furniture, fixtures and equipment	1,457,819	1,371,968
Vehicles	63,955	63,955
Total	17,456,325	17,220,345
Less accumulated depreciation	12,642,275	11,888,278
Net Property, Plant and Equipment	4,814,050	5,332,067
Other Assets		
Trust accounts - restricted		
Cash	669,378	14,725
U.S. Treasury Notes	1,300,849	1,941,576
Deferred charges, net of amortization of $28,764 and $22,752, respectively	100,872	106,884
Restricted Cash	18,375	-
Escrow	118,627	118,627
Total Other Assets	2,208,101	2,181,812
TOTAL ASSETS	$ 11,055,976	$ 10,818,127

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)

	2014	(Restated) 2013
Current Liabilities		
Note payable - line of credit	$ 1,879,798	$ 1,543,575
Current installments of long-term debt	713,366	673,505
Accounts payable	520,583	300,640
Accrued expenses	1,612,694	1,413,551
Deferred revenue	406,228	345,815
Total Current Liabilities	5,132,669	4,277,086
Other Liabilities		
Accrued pension	1,426,261	1,766,162
Accrued expenses	75,000	75,000
Long-term debt, net of current installments	6,522,286	7,193,820
Total Other Liabilities	8,023,547	9,034,982
Total Liabilities	13,156,216	13,312,068
Net Assets (Accumulated Deficit)		
Unrestricted		
Undesignated	(685,415)	(782,273)
Pension fund liability	(1,426,261)	(1,766,162)
Temporarily restricted	11,436	54,494
Total Net Assets (Accumulated Deficit)	(2,100,240)	(2,493,941)
TOTAL LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)	$ 11,055,976	$ 10,818,127

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	(Restated) 2013
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 17,385,319	$ 15,581,392
Nonprogram	246,938	230,638
Released from restrictions	43,058	5,103
Total Support and Revenue	17,675,315	15,817,133
Expenses		
Education	3,514,950	3,108,335
Residential	4,234,317	3,738,142
Community residence	4,299,696	3,792,745
Group homes	1,824,909	1,900,478
Independent living	298,269	206,007
Community services	227,450	192,340
Medicaid	901,359	723,672
Development fund	132,972	132,425
Administration	1,919,259	1,321,889
Total Expenses	17,353,181	15,116,033
Change in Unrestricted Net Assets Before the Effect of Actuarial Gains	322,134	701,100
Effect of Actuarial Gains	114,625	751,750
Increase in Unrestricted Net Assets	436,759	1,452,850
Change in Temporarily Restricted Net Assets		
Contributions and bequests	-	21,606
Amounts released from restrictions	(43,058)	(5,103)
Increase (Decrease) in Temporarily Restricted Net Assets	(43,058)	16,503
Change in Net Assets	393,701	1,469,353
Net Assets, Beginning of Year	(2,493,941)	(3,963,294)
Net Assets, End of Year	$ (2,100,240)	$ (2,493,941)

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	(Restated) 2013
Cash Flows From Operating Activities		
Change in net assets	$ 393,701	$ 1,469,353
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	759,998	779,319
Bad debts	183,516	18,749
Net realized/unrealized gains on investments	(136,296)	(76,841)
Actuarial gains and losses	(114,625)	(751,750)
(Increase) Decrease in assets:		
Restricted Cash	(18,375)	-
Receivables	(710,334)	101,687
Prepaid expenses	(35,916)	(6,434)
Increase (Decrease) in liabilities:		
Accounts payable	219,943	(67,269)
Accrued expenses	(26,133)	(106,918)
Deferred revenue	60,413	(134,866)
Due to governmental agencies	-	(81,991)
Net Cash Provided by Operating Activities	575,892	1,143,039
Cash Flows From Investing Activities		
Proceeds from sale of trust account assets	3,109,549	3,109,549
Purchase of trust account assets	(3,123,475)	(3,116,677)
Purchase of investments	(14,936)	(24,986)
Proceeds from sale of investments	-	12,243
Expenditures for property, plant and equipment	(235,969)	(78,739)
Escrow Withdrawals (Deposits)	-	(99,822)
Net Cash Used by Investing Activities	(264,831)	(198,432)
Cash Flows From Financing Activities		
Net proceeds (repayments) on line of credit	336,223	(787,568)
Repayment of long-term debt	(667,397)	(778,912)
Proceeds from long-term debt	35,724	526,763
Deferred charges	-	2,090
Net Cash Used by Financing Activities	(295,450)	(1,037,627)
Net Increase (Decrease) in Cash and Cash Equivalents	15,611	(93,020)
Cash and Cash Equivalents, Beginning of Year	63,610	156,630
Cash and Cash Equivalents, End of Year	$ 79,221	$ 63,610
Supplemental Information:		
Cash paid for interest	$ 430,393	$ 491,877

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. 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) and Office of Mental Health (OMH), 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.

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 Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Bad debt expense totaled $183,516 and $18,749 for the years ended June 30, 2014 and 2013, 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 $753,986 and $773,320 for the years ended June 30, 2014 and 2013, 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 are 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 $6,012 and $5,999 for the years ended June 30, 2014 and 2013, respectively. Amortization expense is expected to be approximately $6,000 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 (IRS). 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 2011 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.

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, 2014 and June 30, 2013:

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 a pricing service 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.

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:

	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	$ 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 Securities	90,574	-	90,574	
Government Bonds	20,256	-	20,256	-
Government Agency	13,556	-	13,556	-
	1,047,103	913,526	133,577	-
Trust Accounts				
Cash Equivalents	669,378	669,378	-	-
U.S. Treasury Notes	1,300,849	-	1,300,849	-
Total Trust Accounts	1,970,227	669,378	1,300,849	-
Total Fair Value Measures	$ 3,017,330	$ 1,582,904	$ 1,434,426	$ -

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	-

2. INVESTMENTS

Investments are summarized as follows:

	2014	2013
Cash equivalents	$ 13,424	$ 31,782
Equity securities	859,843	356,373
Mutual funds	49,450	368,343
Debt securities	124,386	139,373
Total	$ 1,047,103	$ 895,871

2. INVESTMENTS

The Agency realized net gains (losses) on sales of investments of $917 and $24,283 for the years ended June 30, 2014 and 2013, respectively. Net unrealized gains (losses) were $135,379 and $52,558 for the years ended June 30, 2014 and 2013, 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 $1,879,798 at June 30, 2014 and $1,543,575 at June 30, 2013. The interest rate on the note is variable (3.25% at June 30, 2014). The loan is secured by all real estate and investments and cross collateralized with a First Niagara Bank mortgage in the amount of $146,213.

4. LONG-TERM DEBT

	2014	2013
Bonded mortgage payable to the Dormitory Authority of the State of New York (see Note 12), variable interest (4.40% at June 30, 2014), payments due through 2018, secured by a building.	$ 3,215,000	$ 3,765,000
Mortgage payable to Community Preservation Corp. (CPC), variable interest rate (4.29% at June 30, 2014). 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.	3,482,164	3,542,351
Mortgage payable to Pioneer Savings Bank, interest at 7.00% at June 30, 2014), maturing November 30, 2021, secured by building.	140,162	153,156
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.	146,213	154,933
Mortgage payable to First Niagara Bank, interest at 4.46%, maturing June, 21, 2016, secured by buildings.	51,022	54,153
Retail installment agreement, interest at 6.9%, payments through September 2017, secured by equipment.	23,061	19,702
Total Long-Term Debt	7,235,652	7,867,325
Less current installments	713,366	673,505
Long-Term Debt, net of current installments	$ 6,522,286	$ 7,193,820

4. LONG-TERM DEBT

Total interest expense was $430,393 and $491,877 for the years ended June 30, 2014 and 2013, respectively.

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

2015	$ 713,366
2016	750,153
2017	784,654
2018	822,994
2019	846,520

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, 2014 and 2013 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, 2014 and for each of the remaining years are:

2015	$ 149,157
2016	25,376
2017	20,603
2018	10,233
Total Minimum Future Rental Payments	$ 205,369

Rental expense was $452,171 and $366,573 for the years ended June 30, 2014 and 2013, respectively.

7. DEFINED BENEFIT PLAN

The Agency has a defined benefit pension plan (the 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 pension 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 and can be legally terminated. 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.

7. DEFINED BENEFIT PLAN

The following sets forth the funded status of the plan in accordance with generally accepted accounting principles at June 30, 2014 and 2013:

	2014	2013
Accumulated benefit obligation at June 30	$ 6,440,845	$ 5,892,619
Fair value of plan assets at June 30	$ 5,014,584	$ 4,126,457
Projected benefit obligation at June 30	6,440,845	5,892,619
Funded Status	$ (1,426,261)	$ (1,766,162)
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	$ (4,209)	$ 93,233
Employer Contributions	$ 221,067	$ 278,006
Benefits Paid	$ (344,299)	$ 174,915
Amounts Recognized in the statement of financial position		
Accrued Pension Liability	$ (1,426,261)	$ (1,766,162)
Total	$ (1,426,261)	$ (1,766,162)
Amounts Recognized in the statement of activities		
Actuarial Gains and (Losses)	$ 114,625	$ 751,750
Net Periodic Benefit Cost	4,209	(93,233)
Total	$ 118,834	$ 658,517
Expected Effect in Unrestricted Net Assets in the next fiscal year		
Gains/(losses)	$ (62,941)	$ (82,891)
Net prior service cost	-	-
New transition asset	-	-

Expected Employer Contributions for year ended June 30, 2015 $ 207,942

Expected Future Benefit Payments

The following are the expected future benefit payments:

2015	$ 140,672
2016	141,947
2017	149,522
2018	168,741
2019	187,705
2020 - 2024	1,464,215

7. DEFINED BENEFIT PLAN

Plan Assets by Category

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

	2014	%	2013	%
Equities	$ 4,777,143	95	$ 3,701,968	89
Fixed income	126,975	3	275,016	7
Other Securities	88,579	2	84,196	2
Cash and equivalents	21,887	<1	65,277	2
Total	$ 5,014,584	100	$ 4,126,457	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 equities and cash equivalents to be classified as a Level 1, and fixed income and other securities to be classified as level 2 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 pension investment 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 pension investment fund shall be regularly measured against the S&P 500, Lehman Aggregate, and MSCI.

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.

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 $31,128 and $26,198 for the years ended June 30, 2014 and 2013, respectively.

8. OTHER RETIREMENT PLANS

457b Plan: The Agency established and began contributing to a defined contribution plan which qualified under section 457b of the internal revenue code. An opening contribution of $17,500 was made in December 2013 and covers the President and CEO. The value of the plan assets as of June 30, 2014 was $18,375.

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, 2014

	Cash	U.S. Treasury Notes	Total
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	651	726,927	727,578
Total	$ 669,378	$ 1,300,849	$ 1,970,227

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

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 $778,832 and $695,110 for the years ended June 30, 2014 and 2013, 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. RESTATED FINANCIAL STATEMENTS

During the current year management became aware of certain errors in the prior year financial statements. As a result, the 2013 financial statements have been restated to recognize $136,900 in additional workers compensation accruals and fringe benefit expense for an unrecorded worker's compensation audit adjustment. In addition, amounts previously reflected as escrow deposits in the amount of $138,558 have been recognized as interest and penalties expense in the accompanying 2013 financial statements.

15. 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.

16. NET DEFICITS/MANAGEMENT'S PLANS

At June 30, 2014, the Agency's current liabilities exceed its current assets by $1,098,844, and the Agency has a net accumulated deficit of $2,100,240 (including net accumulated deficit of $1,426,261 related to the defined benefit pension plan (Note 7)). The Agency's increase in net assets for the years ended June 30, 2014 and 2013 was $393,701 and $1,469,353, respectively. Included in the increase in net assets was a gain from the defined benefit plan in the amount of $114,625 and $751,750, respectively, due primarily to actuarial changes related to the valuation of the pension liability and increase in the 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 pursue certain new programs, expand certain existing programs, and 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. Significant emphasis is being spent on budget management and education as well as evaluating alternatives for shared services, affiliation agreements and merger opportunities.

Management is optimistic that the work being done to ensure the Agency's financial strength moving forward will be successful.

17. SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the statement of financial position date of June 30, 2014 through December 2, 2014, 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, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	Education					
	Operations	**Dormitory Authority**	**Residential**	**Community Residence**	**Group Homes**	**Independent Living**
Program Support and Revenue						
Counties	$ 1,099,411	$ -	$ 4,514,257	$ 4,095	$ 1,891,604	$ 286,431
School districts	1,777,753	-	375,210	-	-	-
Medicaid	-	-	14,168	4,348,791	115,368	-
Social security	-	-	-	526,224	-	-
OPWDD	-	-	-	11,625	-	-
DASNY	-	778,832	-	-	-	-
Community services	-	-	-	-	-	-
Grants	118,122	-	-	-	-	-
USDA	42,856	-	26,397	3,149	21,922	-
Miscellaneous income	18,940	-	2,060	82,863	627	-
Retroactive revenue adjustments	15,193	-	29,677	34,105	6,933	78
Total Program Support and Revenue	3,072,275	778,832	4,961,769	5,010,852	2,036,454	286,509
Nonprogram Support and Revenue						
Interest and dividends	-	4,364	-	-	-	-
Contributions and bequests	-	-	-	-	-	-
Miscellaneous income	-	-	-	-	-	-
Net realized/unrealized gains (losses)	-	-	-	-	-	-
Total Nonprogram Support and Revenue	-	4,364	-	-	-	-
Total Support and Revenue Related to Functional Expenses	3,072,275	783,196	4,961,769	5,010,852	2,036,454	286,509
Total Functional Expenses	3,347,803	563,058	3,918,628	4,130,797	2,068,914	225,272
Excess (Deficiency) of Support and Revenue Over Expense	$ (275,528)	$ 220,138	$ 1,043,141	$ 880,055	$ (32,460)	$ 61,237

VANDERHEYDEN HALL, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	Community Services	Medicaid	Development Fund	2014 Totals	2013 Totals
Program Support and Revenue					
Counties	$ -	$ -	$ -	$ 7,795,798	$ 7,269,998
School districts	-	-	-	2,152,963	1,889,853
Medicaid	306,952	1,045,826	-	5,831,105	4,808,635
Social security	-	-	-	526,224	507,839
OPWDD	-	-	-	11,625	16,104
DASNY	-	-	-	778,832	695,110
Community services	-	-	-	-	3,582
Grants	-	-	-	118,122	156,423
USDA	-	-	-	94,324	81,581
Miscellaneous income	8,265	(9)	2,453	115,199	144,927
Retroactive revenue adjustments	-	(124,859)	-	(38,873)	7,340
Total Program Support and Revenue	315,217	920,958	2,453	17,385,319	15,581,392
Nonprogram Support and Revenue					
Interest and dividends	-	-	21,557	25,921	21,148
Contributions and bequests	-	-	84,721	84,721	96,388
Miscellaneous income	-	-	-	-	57,867
Net realized/unrealized gains (losses)	-	-	136,296	136,296	76,841
Total Nonprogram Support and Revenue	-	-	242,574	246,938	252,244
Total Support and Revenue Related to Functional Expenses	315,217	920,958	245,027	17,632,257	15,833,636
Total Functional Expenses	209,533	790,578	145,123	17,353,181	15,116,033
Excess (Deficiency) of Support and Revenue Over Expense	$ 105,684	$ 130,380	$ 99,904	$ 279,076	$ 717,603

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	Education					
	Operations	Dormitory Authority	Residential	Community Residence	Group Homes	Independent Living
Functional Expenses						
Personal services	$ 1,994,674	$ -	$ 2,607,520	$ 2,665,757	$ 1,162,884	$ 130,458
Fringe benefits	437,214	-	569,545	583,201	254,314	28,543
Transportation and worker's expense	1,411	-	45,470	74,482	22,411	4,480
Children's allowances	13	-	6,568	474	3,974	9,680
Children's activities	250	-	26,369	4,300	8,702	176
Related school expenses	35	-	33	-	-	-
Purchase of services	48,122	-	63,198	62,020	24,296	771
Purchase of health services	58,652	-	-	874	312	160
Food	36,993	-	123,144	92,504	39,629	8,441
Clothing	123	-	8,137	11,279	4,173	2,494
Bedding and linen	290	-	500	7,035	150	-
Program and household supplies	31,353	-	65,026	69,653	27,026	10,665
Medical supplies and prescriptions	-	-	305	16,240	40,485	930
Rent - equipment	12,962	-	10,037	17,848	5,593	439
- vehicles	-	-	55,246	98,458	22,647	4,611
- property	-	-	32	126,282	-	64,385
Utilities	88,878	-	125,191	100,659	63,770	1,408
Plant and equipment maintenance	56,567	-	49,475	46,691	19,183	1,198
Vehicle maintenance	-	-	14,493	12,693	(707)	7,967
Telephone	2,442	-	4,040	75,862	15,105	8,594
Postage	595	-	64	58	-	-
Dues, licenses and permits	2,877	-	12,841	2,604	7,151	1,411
Office supplies	3,453	-	7,934	6,839	1,897	158
Subscriptions and publications	210	-	-	-	8	-
Conference expense	491	-	1,097	944	627	110
Miscellaneous	598	-	1,483	3,723	1,018	296
Professional fees	1,012	-	12,631	77	2,264	12
Insurance	51,106	-	41,335	65,653	26,717	6,979
Interest and penalties	3,787	183,225	217,771	16,061	7,411	1,662
Real estate taxes	42	-	307	2,484	4,101	-
Publicity and recruitment	775	-	1,184	1	123	-
Medical transportation	-	-	-	-	-	-
Bad debt expense	61,940	-	7,864	44,612	484	905
Depreciation and amortization	55,027	379,833	155,477	90,328	59,161	1,336
Total Functional Expenses	2,951,892	563,058	4,234,317	4,299,696	1,824,909	298,269
Allocation of Administration Expenses	395,911	-	529,038	547,782	239,925	31,083
Total Functional Expenses	$ 3,347,803	$ 563,058	$ 4,763,355	$ 4,847,478	$ 2,064,834	$ 329,352

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	Community Services	Medicaid	Development Fund	Adminis- tration	2014 Totals	(Restated) 2013 Totals
Functional Expenses						
Personal services	$ 140,161	$ 355,785	$ -	$ 1,107,559	$ 10,164,798	$ 8,819,072
Fringe benefits	30,671	77,819	918	263,428	2,245,653	2,015,195
Transportation and worker's expense	10,842	1,351	86	11,382	171,915	141,484
Children's allowances	-	-	-	-	20,709	17,852
Children's activities	881	-	7,166	100	47,944	47,919
Related school expenses	-	-	910	-	978	5,661
Purchase of services	30	8,071	33,568	225,535	465,611	297,570
Purchase of health services	11,663	183,899	-	-	255,560	200,462
Food	75	4	23,825	235	324,850	321,125
Clothing	-	-	-	-	26,206	32,896
Bedding and linen	-	-	-	-	7,975	8,268
Program and household supplies	4,607	647	25,193	24,337	258,507	204,266
Medical supplies and prescriptions	395	181,510	-	-	239,865	152,439
Rent - equipment	366	1,472	165	11,034	59,916	56,647
- vehicles	13,691	68	-	6,835	201,556	139,507
- property	-	-	-	-	190,699	169,369
Utilities	2,161	9,956	883	35,692	428,598	353,001
Plant and equipment maintenance	1,638	2,687	2,423	18,652	198,514	181,703
Vehicle maintenance	863	-	-	1,811	37,120	13,880
Telephone	1,886	235	63	32,560	140,787	118,090
Postage	-	113	4,213	7,213	12,256	5,099
Dues, licenses and permits	23	102	85	22,122	49,216	38,347
Office supplies	583	1,224	21	7,586	29,695	22,432
Subscriptions and publications	-	-	199	523	940	967
Conference expense	28	372	344	7,676	11,689	10,798
Miscellaneous	20	1,021	16,639	29,193	53,991	61,402
Professional fees	1	686	62	57,546	74,291	35,823
Insurance	4,882	1,019	1,321	14,650	213,662	174,329
Interest and penalties	3	-	-	473	430,393	630,435
Real estate taxes	-	-	-	1,460	8,394	12,387
Publicity and recruitment	-	-	14,780	6,176	23,039	17,760
Medical transportation	-	14,340	-	-	14,340	11,780
Bad debt expense	1,869	56,252	-	9,590	183,516	18,749
Depreciation and amortization	111	2,726	108	15,891	759,998	779,319
Total Functional Expenses	227,450	901,359	132,972	1,919,259	17,353,181	15,116,033
Allocation of Administration Expenses	29,526	127,580	18,416	(1,919,261)	-	-
Total Functional Expenses	$ 256,976	$ 1,028,939	$ 151,388	$ (2)	$ 17,353,181	$ 15,116,033