VANDERHEYDEN HALL, INC.
FINANCIAL REPORT
JUNE 30, 2016

VANDERHEYDEN HALL, INC.

TABLE OF CONTENTS

MARVIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
A History of Shaping Futures

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

Heather D. Patten, CPA

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, 2016 and 2015, 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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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, 2016 and 2015, 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 pages 21-24 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
November 18, 2016

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
Current Assets		
Cash and cash equivalents	$ 81,843	$ 137,132
Investments	1,090,603	1,087,116
Accounts receivable, net of allowance of $75,000 and $114,850, respectively		
Government	2,990,634	2,971,354
Other	26,209	12,733
Pledges receivable	1,810	1,810
Prepaid expenses	43,956	75,917
Total Current Assets	4,235,055	4,286,062
Property, Plant and Equipment		
Land and improvements	341,468	370,014
Buildings and improvements	16,051,519	15,672,289
Furniture, fixtures and equipment	1,553,028	1,525,676
Vehicles	63,955	63,955
Total	18,009,970	17,631,934
Less accumulated depreciation	14,117,446	13,390,802
Net Property, Plant and Equipment	3,892,524	4,241,132
Other Assets		
Trust accounts - restricted		
Cash	702,425	685,784
U.S. Treasury Notes	1,299,925	1,299,771
Deferred charges, net of amortization of $40,876 and $34,865, respectively	88,850	94,861
Restricted cash	36,744	18,821
Investment in CHHUNY	25,000	-
Escrow	118,627	118,627
Total Other Assets	2,271,571	2,217,864
TOTAL ASSETS	$ 10,399,150	$ 10,745,058

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

LIABILITIES AND NET ASSETS (DEFICIT)

	2016	2015
Current Liabilities		
Note payable - line of credit	$ 2,005,029	$ 2,278,597
Current installments of long-term debt	796,264	743,250
Accounts payable	283,723	441,522
Accrued expenses	1,430,579	1,508,174
Deferred revenue	794,288	557,603
Total Current Liabilities	5,309,883	5,529,146
Other Liabilities		
Accrued pension	2,509,526	1,610,564
Accrued expenses	75,000	75,000
Long-term debt, net of current installments	5,237,507	5,817,117
Total Other Liabilities	7,822,033	7,502,681
Total Liabilities	13,131,916	13,031,827
Net Assets (Deficit)		
Unrestricted		
Undesignated	(242,321)	(695,276)
Pension fund liability	(2,509,526)	(1,610,564)
Temporarily restricted	19,081	19,071
Total Net Assets (Deficit)	(2,732,766)	(2,286,769)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 10,399,150	$ 10,745,058

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 19,866,540	$ 18,597,146
Nonprogram	128,536	151,079
Released from restrictions	-	948
Total Support and Revenue	19,995,076	18,749,173
Expenses		
Program Services		
Education	4,217,831	3,960,030
Residential	5,184,045	4,856,881
Community residence	5,116,216	4,778,782
Group homes	1,649,510	1,585,567
Independent living	295,705	282,359
Community services	238,411	287,720
Medicaid	944,220	915,329
Total Programs Services	17,645,938	16,666,668
Supporting Services		
Development fund (fundraising)	95,941	105,221
Administration	1,798,372	1,785,013
Total Supporting Services	1,894,313	1,890,234
Total Expenses	19,540,251	18,556,902
Change in Unrestricted Net Assets Before the Effect of Actuarial Gains (Losses)	454,825	192,271
Effect of Actuarial Gains (Losses)	(900,832)	(386,435)
Increase (Decrease) in Unrestricted Net Assets	(446,007)	(194,164)
Change in Temporarily Restricted Net Assets		
Contributions and bequests	10	8,583
Amounts released from restrictions	-	(948)
Increase in Temporarily Restricted Net Assets	10	7,635
Change in Net Assets	(445,997)	(186,529)
Net Assets (Deficit), Beginning of Year	(2,286,769)	(2,100,240)
Net Assets (Deficit), End of Year	$ (2,732,766)	$ (2,286,769)

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	$ (445,997)	$ (186,529)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	732,655	754,539
Bad debts	16,320	5,261
Gain on sale of property, plant, and equipment	(3,283)	-
Net realized/unrealized (gain) loss on investments	20,013	(33,989)
Actuarial losses	900,832	386,435
(Increase) Decrease in assets:		
Restricted cash	(17,923)	(446)
Receivables	(49,076)	(178,821)
Prepaid expenses	31,961	19,247
Increase (Decrease) in liabilities:		
Accounts payable	(157,799)	(79,061)
Accrued expenses	(79,465)	(306,652)
Deferred revenue	236,685	151,375
Net Cash Provided by Operating Activities	1,184,923	531,359
Cash Flows From Investing Activities		
Proceeds from sale of trust account assets	3,352,466	3,356,907
Purchase of trust account assets	(3,369,259)	(3,372,235)
Proceeds of investments, net	(23,501)	(6,024)
Expenditures for property, plant and equipment	(406,582)	(175,610)
Proceeds from sale of property, plant and equipment	31,828	-
Investment in CHHUNY	(25,000)	-
Net Cash Used by Investing Activities	(440,048)	(196,962)
Cash Flows From Financing Activities		
Net proceeds (repayments) on line of credit	(273,568)	398,799
Repayment of long-term debt	(716,596)	(681,199)
Proceeds from long-term debt	190,000	5,914
Net Cash Used by Financing Activities	(800,164)	(276,486)
Net Increase (Decrease) in Cash and Cash Equivalents	(55,289)	57,911
Cash and Cash Equivalents, Beginning of Year	137,132	79,221
Cash and Cash Equivalents, End of Year	$ 81,843	$ 137,132
Supplemental Information:		
Cash paid for interest	$ 354,118	$ 399,450

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), 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 $16,320 and $5,261 for the years ended June 30, 2016 and 2015, 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 $726,644 and $748,528 for the years ended June 30, 2016 and 2015, 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 $6,011 for both the years ended June 30, 2016 and 2015, 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. 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.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Income Tax Status

Information returns and tax returns filed by the Agency are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return.

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, 2016 and June 30, 2015.

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.

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, 2016 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	$ 149,129	$ 149,129	$ -	$ -
Equities			-	-
Consumer Discretionary	68,600	68,600	-	-
Consumer Staples	42,597	42,597	-	-
Energy	41,118	41,118	-	-
Financials	72,244	72,244	-	-
Health Care	48,479	48,479	-	-
Industrials	32,940	32,940	-	-
Information Technology	142,961	142,961	-	-
Telecommunications	23,609	23,609	-	-
American Depository Receipts	10,534	-	10,354	-
Mutual Funds			-	-
Fixed Income	35,261	35,261	-	-
Exchange Traded Funds				
Equity	227,437	227,437	-	-
Fixed Income	56,798	56,798	-	-
Corporate Debt Security	29,241	-	29,241	-
Government Bonds	97,122	-	97,122	-
Government Agency	12,533	-	12,533	-
Total Investments	1,090,603	941,353	149,250	-
Trust Accounts				
Cash Equivalents	702,425	702,425	-	-
U.S. Treasury Notes	1,299,925	-	1,299,925	-
Total Trust Accounts	2,002,350	702,425	1,299,925	-
Total Fair Value Measures	$ 3,092,953	$ 1,643,778	$ 1,449,175	$ -

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:

	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	$ 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	1,087,116	945,134	141,982	-
Trust Accounts				
Cash Equivalents	685,784	685,784	-	-
U.S. Treasury Notes	1,299,771	-	1,299,771	-
Total Trust Accounts	1,985,555	685,784	1,299,771	-
Total Fair Value Measures	$ 3,072,671	$ 1,630,918	$ 1,441,753	$ -

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Investment in CHHUNY

During the year ended June 30, 2016 the Agency purchased a 5.3% share of CHHUNY, LLC, a New York Limited Liability Company. Membership in CHHUNY is limited to nonprofit corporations described in Code Section 501(c)(3) and 509(a), qualified to conduct activities in the State of New York and licensed, as required, or otherwise qualified to provide services to eligible Medicaid Managed Care members. During the year ended June 30, 2016 CHHUNY, LLC had no activity.

2. INVESTMENTS

Investments are carried at fair value.

	2016	2015
Cash equivalents	$ 149,129	$ 63,504
Equity securities	483,082	528,240
Mutual funds	35,261	33,006
Exchange traded funds	284,235	330,038
Debt securities	138,896	132,328
Total	$ 1,090,603	$ 1,087,116

The Agency realized net gains (losses) on sales of investments of $3,535 and $38,906 for the years ended June 30, 2016 and 2015, respectively. Net unrealized gains (losses) were ($23,548) and ($4,917) for the years ended June 30, 2016 and 2015, 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 $2,005,029 at June 30, 2016 and $2,278,597 at June 30, 2015. The interest rate on the note is variable (3.5% at June 30, 2016). The loan is secured by all real estate and investments and cross collateralized with First Niagara Bank mortgages in the amount of $315,266.

4. LONG-TERM DEBT

	2016	2015
Bonded mortgage payable to the Dormitory Authority of the State of New York (see Note 12), variable interest (5.25% at June 30, 2016), payments due through July 2018, secured by a building.	$ 2,025,000	$2,635,000
Mortgage payable to Community Preservation Corp. (CPC), variable interest rate (4.29% at June 30, 2016). Payments through April 1, 2026, secured by buildings.	3,353,792	3,419,342
Mortgage payable to Pioneer Savings Bank, interest (7.00% at June 30, 2016), maturing November 30, 2021, secured by building.	109,668	123,788
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.	126,967	136,683
Mortgage payable to First Niagara Bank, interest at 4.98%, payments due through April 2031, secured by building.	188,299	-
Mortgage payable to First Niagara Bank, interest at 4.46%, maturing April 2026, secured by buildings.	44,329	47,746
Retail installment agreement, interest at 6.9%, payments due through September, 2017, secured by equipment.	7,686	19,778
Total Long-Term Debt	6,033,771	6,560,367
Less current installments	796,264	743,250
Long-Term Debt, net of current installments	$ 5,237,507	$ 5,817,117

4. LONG-TERM DEBT

Total interest expense was $338,105 and $369,788 for the years ended June 30, 2016 and 2015, respectively.

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

2017	$ 796,264
2018	838,089
2019	877,747
2020	173,734
2021	180,274
Thereafter	3,167,663

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, 2016 and 2015 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, 2016 and for each of the remaining years are:

2017	$ 370,618
2018	40,106
2019	7,132
2020	3,603
2021	371
Total Minimum Future Rental Payments	$ 421,830

Rental expense was $433,691 and $422,452 for the years ended June 30, 2016 and 2015, 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.

7. DEFINED BENEFIT PLAN

The following sets forth the funded status of the Plan in accordance with generally accepted accounting principles at June 30, 2016 and 2015:

	2016	2015
Accumulated benefit obligation at June 30	$ 7,593,331	$ 6,836,598
Fair value of plan assets at June 30	$ 5,083,805	$ 5,226,034
Accumulated benefit obligation at June 30	7,593,331	6,836,598
Funded Status	$ (2,509,526)	$ (1,610,564)
Weighted average assumptions as of June 30		
Discount rate	3.50%	4.25%
Expected long-term return on plan assets	6.00%	8.00%
Rate of compensation increase	n/a	n/a
Net Periodic Benefit Cost	$ 73,130	$ (70,224)
Employer Contributions	$ 75,000	$ 131,908
Benefits Paid	$ (169,431)	$ (177,303)
Amounts recognized in the statement of financial position		
Accrued Pension Liability	$ (2,509,526)	$ (1,610,564)
Total	$ (2,509,526)	$ (1,610,564)
Amounts recognized in the statement of activities		
Actuarial Gains and (Losses)	$ (900,832)	$ (386,435)
Interest cost	(287,352)	(270,498)
Expected return on plan assets	313,352	403,663
Actuarial amortization	(99,130)	(62,941)
Total	$ (973,962)	$ (316,211)
Expected effect on unrestricted net assets in the next fiscal year		
Gains/(losses)	$ 111,477	$ (99,130)
Net prior service cost	-	-
New transition asset	-	-

Expected Employer Contributions for the year ended June 30, 2017 $ 300,000

7. DEFINED BENEFIT PLAN

Expected Future Benefit Payments

The following are the expected future benefit payments:

2017	$ 153,166
2018	166,751
2019	181,437
2020	198,674
2021	213,428
2022 - 2026	1,689,414

Plan Assets by Category

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

	2016	%	2015	%
Equities	$ 3,753,461	74	$ 4,037,311	77
Fixed income	1,171,748	23	901,142	17
Cash and equivalents	56,217	1	287,581	6
Other securities	102,379	2	-	0
Total	$ 5,083,805	100	$ 5,226,034	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.

Other Assumptions

Mortality: Non-annuitant and annuitant; RP-2014 mortality table
Turnover: Table T-8 of the Actuary’s Pension Handbook
Assumed Retirement Age: Normal retirement age or age attained, if greater

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 $30,077 and $33,675 for the years ended June 30, 2016 and 2015, 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 the Vice President level and above. The value of the plan assets were $36,744 and $18,821 as of June 30, 2016 and June 30, 2015, 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, 2016

	Cash	U.S. Treasury Notes	Total
Construction Fund	$ 2,659	$ 384,539	$ 387,198
Debt Service Fund	698,279	-	698,279
Building and Equipment Reserve Fund	649	187,669	188,318
Debt Service Reserve Fund	838	727,717	728,555
Total	$ 702,425	$ 1,299,925	$ 2,002,350

9. TRUST ACCOUNTS - RESTRICTED

June 30, 2015

	Cash	U.S. Treasury Notes	Total
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	835	726,926	727,761
Total	$ 685,784	$ 1,299,771	$ 1,985,555

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

12. DORMITORY AUTHORITY INSURED REVENUE BONDS

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 $869,828 and $984,448 for the years ended June 30, 2016 and 2015, respectively, are included in the statement of activities in the program revenue section.

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 $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.

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, 2016, the Agency's current liabilities exceed its current assets by $1,074,828, and the Agency has a net accumulated deficit of $2,732,766 (including net accumulated deficit of $2,509,526 related to the defined benefit pension plan (Note 7)). The Agency's decrease in net assets for the years ended June 30, 2016 and 2015 was ($445,997) and ($186,529), respectively. Included in the increase (decrease) in net assets were gains (losses) from the defined benefit plan in the amount ($900,832) and ($386,435), 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.

15. NET DEFICITS/MANAGEMENT'S PLANS

Management continues to work to develop and implement a number of initiatives to enhance program revenues as well as contributions and nonprogram revenue, including working with governmental agencies to explore opportunities for additional services 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, state funders are offering new opportunities for services and the Agency is applying for licensure in those areas. The Agency is also exploring development of a new supportive housing program and has applied for grants to fund the construction process. Significant emphasis is also being placed on budget management and education as well as evaluating alternatives for shared services, affiliation agreements and merger opportunities.

Agency management is optimistic that the work being done collaboratively with the 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, 2016 through November 18, 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, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	Education					
	Operations	Dormitory Authority	Residential	Community Residence	Group Homes	Independent Living
Program Support and Revenue						
Counties	$ 1,206,677	$ -	$ 5,205,610	$ -	$ 1,875,587	$ 252,474
School districts	2,321,467	-	424,880	-	-	-
Medicaid	-	-	34,302	4,820,947	-	-
Social security	-	-	(489)	513,452	-	-
OPWDD	-	-	-	12,398	-	-
DASNY	-	869,828	-	-	-	-
Community services	-	-	-	-	-	-
Grants	147,344	-	-	405	-	-
USDA	59,945	-	32,644	1,896	19,478	-
Miscellaneous income	23,231	-	30	120,693	-	735
Retroactive revenue adjustments	(9,432)	-	-	141,231	-	-
Total Program Support and Revenue	3,749,232	869,828	5,696,977	5,611,022	1,895,065	253,209
Nonprogram Support and Revenue						
Interest and dividends	2,807	-	-	-	-	-
Contributions and bequests	147	-	250	1,138	-	-
Miscellaneous income	-	-	-	-	-	-
Net realized/unrealized gains (losses)	-	-	-	-	-	-
Total Nonprogram Support and Revenue	2,954	-	250	1,138	-	-
Total Support and Revenue Related to Functional Expenses	3,752,186	869,828	5,697,227	5,612,160	1,895,065	253,209
Total Functional Expenses	4,163,598	453,079	5,711,158	5,642,582	1,827,449	322,195
Excess (Deficiency) of Support and Revenue Over Expense	$ (411,412)	$ 416,749	$ (13,931)	$ (30,422)	$ 67,616	$ (68,986)

VANDERHEYDEN HALL, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	Community Services	Medicaid	Development Fund	2016 Totals	2015 Totals
Program Support and Revenue					
Counties	$ 299	$ -	$ -	$ 8,540,647	$ 7,824,872
School districts	-	-	-	2,746,347	2,503,226
Medicaid	269,524	1,478,146	-	6,602,919	6,402,232
Social security	-	-	-	512,963	579,540
OPWDD	-	-	2,750	15,148	16,394
DASNY	-	-	-	869,828	984,448
Community services	18,417	-	50	18,467	4,746
Grants	-	-	1	147,750	135,670
USDA	-	-	-	113,963	111,673
Miscellaneous income	-	-	18,940	163,629	129,887
Retroactive revenue adjustments	3,080	-	-	134,879	(95,542)
Total Program Support and Revenue	291,320	1,478,146	21,741	19,866,540	18,597,146
Nonprogram Support and Revenue					
Interest and dividends	-	-	33,317	36,124	17,052
Contributions and bequests	-	-	107,600	109,135	106,089
Miscellaneous income	-	-	3,300	3,300	2,532
Net realized/unrealized gains (losses)	-	-	(20,013)	(20,013)	33,989
Total Nonprogram Support and Revenue	-	-	124,204	128,546	159,662
Total Support and Revenue Related to Functional Expenses	291,320	1,478,146	145,945	19,995,086	18,756,808
Total Functional Expenses	263,440	1,050,369	106,381	19,540,251	18,556,902
Excess (Deficiency) of Support and Revenue Over Expense	$ 27,880	$ 427,777	$ 39,564	$ 454,835	$ 199,906

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	Education					
		Dormitory		Community	Group	Independent
	Operations	Authority	Residential	Residence	Homes	Living
Functional Expenses						
Personal services	$ 2,477,989	$ -	$ 3,298,918	$ 3,262,384	$ 1,094,678	$ 144,995
Fringe benefits	635,151	-	845,569	836,204	280,585	37,165
Transportation and worker's expense	9,236	-	43,298	56,031	12,843	2,189
Children's allowances	-	-	9,113	136	4,697	9,430
Children's activities	2,987	-	42,605	4,365	16,670	744
Related school expenses	-	-	-	86	-	-
Purchase of services	14,856	-	10,334	13,089	3,844	53
Purchase of health services	80,593	-	2,593	1,231	695	1
Food	99,917	-	110,542	137,216	48,420	8,080
Clothing	485	-	19,330	10,979	5,131	2,193
Bedding and linen	-	-	675	2,790	-	-
Program and household supplies	78,307	-	94,154	58,018	22,190	10,700
Medical supplies and prescriptions	-	-	-	18,722	7,430	10
Rent - equipment	14,506	-	10,185	14,845	5,035	1,572
- vehicles	6,318	-	34,850	65,444	11,795	4,022
- property	-	-	-	169,934	-	47,221
Utilities	56,572	-	73,554	74,248	32,354	1,024
Plant and equipment maintenance	145,482	-	88,217	79,005	26,024	2,239
Vehicle maintenance	3,891	-	21,996	26,544	4,802	2,117
Telephone	8,297	-	12,199	87,855	15,844	9,449
Postage	2,094	-	571	91	-	-
Dues, licenses and permits	2,649	-	8,717	220	3,007	1,504
Office supplies	6,915	-	7,158	2,835	473	211
Subscriptions and publications	-	-	-	170	93	-
Conference expense	5,235	-	3,244	4,927	1,534	640
Miscellaneous	1,042	-	167	958	148	25
Professional fees	-	-	-	-	-	-
Insurance	50,633	-	49,907	70,481	15,967	6,492
Interest and finance charges	3,052	91,088	214,306	18,469	8,531	1,060
Real estate taxes	-	-	353	290	-	-
Publicity and recruitment	4,056	-	7,994	7,094	1,698	1,278
Medical transportation	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-
Depreciation and amortization	54,489	361,991	173,496	91,555	25,022	1,291
Total Functional Expenses	3,764,752	453,079	5,184,045	5,116,216	1,649,510	295,705
Allocation of Administration Expenses	398,846	-	527,113	526,366	177,939	26,490
Total Functional Expenses	$ 4,163,598	$ 453,079	$ 5,711,158	$ 5,642,582	$ 1,827,449	$ 322,195

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	Community Services	Medicaid	Development Fund	Adminis- tration	2016 Totals	2015 Totals
Functional Expenses						
Personal services	$ 161,107	$ 401,274	$ 34,514	$ 958,002	$ 11,833,861	$ 11,144,367
Fringe benefits	41,294	102,853	8,846	245,553	3,033,220	2,608,212
Transportation and worker's expense	4,370	853	21	9,601	138,442	175,191
Children's allowances	-	-	-	-	23,376	28,686
Children's activities	3,081	1,058	3,745	(31)	75,224	64,352
Related school expenses	-	-	-	-	86	1,576
Purchase of services	-	13,010	8,980	207,232	271,398	461,038
Purchase of health services	-	204,753	-	29	289,895	229,982
Food	1,283	268	12,229	7,877	425,832	404,562
Clothing	-	-	99	-	38,217	32,672
Bedding and linen	-	-	142	-	3,607	7,709
Program and household supplies	590	503	11,819	47,627	323,908	289,925
Medical supplies and prescriptions	-	189,240	-	-	215,402	201,364
Rent - equipment	559	3,297	373	21,114	71,486	63,317
- vehicles	8,291	2,864	38	6,801	140,423	143,793
- property	4,627	-	-	-	221,782	215,342
Utilities	-	5,180	367	17,296	260,595	349,311
Plant and equipment maintenance	12	3,668	2,009	22,010	368,666	385,075
Vehicle maintenance	5,078	3,296	23	3,983	71,730	46,624
Telephone	1,444	5,427	41	25,544	166,100	149,579
Postage	-	23	47	8,609	11,435	7,334
Dues, licenses and permits	-	376	-	20,422	36,895	36,847
Office supplies	549	680	61	8,805	27,687	25,964
Subscriptions and publications	-	-	-	1,266	1,529	2,605
Conference expense	233	97	(50)	12,879	28,739	18,318
Miscellaneous	-	11	10,721	14,991	28,063	28,537
Professional fees	-	-	-	65,601	65,601	62,168
Insurance	5,684	1,850	1,279	8,197	210,490	208,605
Interest and finance charges	-	-	-	1,599	338,105	369,788
Real estate taxes	-	-	-	27,416	28,059	3,170
Publicity and recruitment	-	-	(240)	19,543	41,423	29,089
Medical transportation	-	-	-	-	-	2,000
Bad debt expense	-	-	-	16,320	16,320	5,261
Depreciation and amortization	209	3,639	877	20,086	732,655	754,539
Total Functional Expenses	238,411	944,220	95,941	1,798,372	19,540,251	18,556,902
Allocation of Administration Expenses	25,029	106,149	10,440	(1,798,372)	-	-
Total Functional Expenses	$ 263,440	$ 1,050,369	$ 106,381	$ -	$ 19,540,251	$ 18,556,902