

VANDERHEYDEN HALL, INC.
FINANCIAL REPORT
JUNE 30, 2018

VANDERHEYDEN HALL, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vanderheyden Hall, Inc.

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, 2018 and 2017, 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, 2018 and 2017, 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18-21 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.

The 2017 comparative totals included in the schedule of support and revenue related to functional expenses of page 19 and the 2017 comparative totals included in the schedule of functional expenses on page 21 was subjected to our auditing procedures applied in the June 30, 2017 audit of the financial statements. Our report dated December 1, 2017, stated such information was fairly stated in all material respects, in relation to the June 30, 2017 financial statements as a whole.

Marvin and Company, P.C.

Latham, NY
November 30, 2018

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 155,490	\$ -
Investments	1,304,528	1,211,094
Accounts receivable, net of allowance of \$75,256 and \$75,256, respectively		
Government	2,443,297	2,163,355
Other	89,025	111,527
Pledges receivable, current	20,000	-
Prepaid expenses	117,976	50,612
Total Current Assets	4,130,316	3,536,588
Property, Plant and Equipment		
Land and improvements	585,107	585,107
Buildings and improvements	16,063,217	15,871,807
Furniture, fixtures and equipment	1,608,099	1,594,996
Vehicles	63,955	63,955
Construction in progress	-	48,599
Total	18,320,378	18,164,464
Less accumulated depreciation	15,518,334	14,849,664
Net Property, Plant and Equipment	2,802,044	3,314,800
Other Assets		
Pledges receivable, long term	60,000	-
Restricted cash	82,678	60,867
Investment in CHHUNY	25,000	25,000
Escrow	118,627	118,627
Total Other Assets	286,305	204,494
TOTAL ASSETS	\$ 7,218,665	\$ 7,055,882

VANDERHEYDEN HALL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Cash overdraft	\$ -	\$ 83,883
Note payable - line of credit	738,886	2,347,496
Current installments of long-term debt	157,588	154,378
Accrued pension	-	125,000
Accounts payable	540,645	486,095
Accrued expenses	1,093,961	1,048,854
Deferred revenue	541,950	675,358
Total Current Liabilities	<u>3,073,030</u>	<u>4,921,064</u>
Other Liabilities		
Accrued pension, net of current	1,506,604	1,481,781
Accrued expenses	559,285	559,285
Long-term debt, net of current installments	5,052,835	3,616,877
Total Other Liabilities	<u>7,118,724</u>	<u>5,657,943</u>
 Total Liabilities	 <u>10,191,754</u>	 <u>10,579,007</u>
Net Assets (Deficit)		
Unrestricted		
Undesignated	(1,640,259)	(1,958,118)
Pension fund liability	(1,506,604)	(1,606,781)
Temporarily restricted	173,774	41,774
Total Net Assets (Deficit)	<u>(2,973,089)</u>	<u>(3,523,125)</u>
 TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	 <u>\$ 7,218,665</u>	 <u>\$ 7,055,882</u>

VANDERHEYDEN HALL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Change in Unrestricted Net Assets		
Support and Revenue		
Program	\$ 20,203,749	\$ 18,897,133
Nonprogram	335,065	243,548
Released from restrictions	-	8,999
Total Support and Revenue	<u>20,538,814</u>	<u>19,149,680</u>
Expenses		
Program Services		
Education	4,597,203	4,858,858
Residential	5,153,510	5,449,752
Community residence	4,770,644	5,162,741
Group homes	1,542,693	1,575,339
Independent living	313,621	278,926
Community services	527,469	388,264
Medicaid	1,038,101	1,036,353
Total Program Services	<u>17,943,241</u>	<u>18,750,233</u>
Supporting Services		
Development fund (fundraising)	129,893	102,548
Administration	2,013,406	2,086,986
Total Supporting Services	<u>2,143,299</u>	<u>2,189,534</u>
Total Expenses	<u>20,086,540</u>	<u>20,939,767</u>
Change in Unrestricted Net Assets Before the Effect of Actuarial Gains (Losses)	452,274	(1,790,087)
Effect of Actuarial Gains (Losses)	<u>(34,238)</u>	<u>977,035</u>
Increase (Decrease) in Unrestricted Net Assets	<u>418,036</u>	<u>(813,052)</u>
Change in Temporarily Restricted Net Assets		
Contributions and bequests	132,000	31,692
Amounts released from restrictions	-	(8,999)
Increase in Temporarily Restricted Net Assets	<u>132,000</u>	<u>22,693</u>
Change in Net Assets	550,036	(790,359)
Net Assets (Deficit), Beginning of Year	<u>(3,523,125)</u>	<u>(2,732,766)</u>
Net Assets (Deficit), End of Year	<u>\$ (2,973,089)</u>	<u>\$ (3,523,125)</u>

See accompanying notes to financial statements.

VANDERHEYDEN HALL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 550,036	\$ (790,359)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	662,572	732,215
Amortization classified as interest expense	4,989	6,012
Bad debts	53,307	21,393
Net realized/unrealized (gain) loss on investments	(69,766)	(104,630)
Actuarial (gain) loss	34,238	(977,035)
(Increase) Decrease in assets:		
Restricted cash	(21,811)	(24,123)
Receivables	(310,747)	722,378
Pledges receivable	(80,000)	-
Prepaid expenses	(67,364)	(6,656)
Increase (Decrease) in liabilities:		
Cash overdraft	(83,883)	83,883
Accounts payable	54,550	202,372
Accrued expenses	(89,308)	176,850
Deferred revenue	(133,408)	(118,930)
Net Cash Provided (Used) by Operating Activities	<u>503,405</u>	<u>(76,630)</u>
Cash Flows From Investing Activities		
Proceeds from sale of trust account assets	-	2,007,363
Purchase of trust account assets	-	(5,013)
Proceeds of investments, net	(23,668)	(15,861)
Expenditures for property, plant and equipment	(149,816)	(154,491)
Net Cash Provided (Used) by Investing Activities	<u>(173,484)</u>	<u>1,831,998</u>
Cash Flows From Financing Activities		
Net proceeds (repayments) on line of credit	(158,610)	342,467
Repayment of long-term debt	(141,821)	(2,179,678)
Proceeds from long-term debt	126,000	-
Net Cash Used by Financing Activities	<u>(174,431)</u>	<u>(1,837,211)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	155,490	(81,843)
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>81,843</u>
Cash and Cash Equivalents, End of Year	<u>\$ 155,490</u>	<u>\$ -</u>
Supplemental Information:		
Cash paid for interest	<u>\$ 269,525</u>	<u>\$ 364,288</u>

See accompanying notes to financial statements.

**VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Vanderheyden Hall, Inc. (the Agency) is a nonprofit human services organization assisting 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, 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. Uncollectible promises are expected to be insignificant. Pledges receivable are expected to be received within four years.

Pledges are expected to be realized in the following periods:

	<u>2018</u>	<u>2017</u>
In one year or less	\$ 20,000	\$ -
Between one and four years	<u>60,000</u>	<u>-</u>
Total	<u>\$ 80,000</u>	<u>\$ -</u>

**VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Agency provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of funding sources to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Bad debt expense totaled \$53,307 and \$21,393 for the years ended June 30, 2018 and 2017, respectively.

Property, Plant, Equipment and Depreciation

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

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

Depreciation expense was \$662,572 and \$732,215 for the years ended June 30, 2018 and 2017, 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.

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.

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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.

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.

Deferred Loan Costs

During the year ended June 30, 2017, the Agency adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* regarding the presentation on the statement of financial position of the costs of issuance of debt and related amortization expense in the statement of activities. The new guidance requires presenting such unamortized costs as a direct reduction from the unpaid principal of the debt. (See Note 4, Long-Term Debt). Amortization is required to be included with interest expense in the schedule of functional 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 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, 2018 and June 30, 2017.

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 using prices obtained from pricing services using primarily matrix pricing, which considers observable data that may include dealer quotes, market spreads, the bond's terms and conditions among other inputs.

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Fair Value Measurements

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.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash Equivalents	\$ 174,762	\$ 174,762	\$ -	\$ -
Equities				
Consumer Discretionary	86,038	86,038	-	-
Consumer Staples	24,985	24,985	-	-
Energy	57,223	57,223	-	-
Financials	87,047	87,047	-	-
Health Care	46,917	46,917	-	-
Industrials	71,153	71,153	-	-
Information Technology	202,375	202,375	-	-
Telecommunications	11,206	11,206	-	-
American Depository Receipts	7,557	-	7,557	-
Exchange Traded Funds				
Equity	298,236	298,236	-	-
Fixed Income	93,812	93,812	-	-
Corporate Debt Security	69,784	-	69,784	-
Government Bonds	<u>73,433</u>	<u>-</u>	<u>73,433</u>	<u>-</u>
Total Fair Value Measures	<u>\$ 1,304,528</u>	<u>\$ 1,153,754</u>	<u>\$ 150,774</u>	<u>\$ -</u>

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2017 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash Equivalents	\$ 177,864	\$ 177,864	\$ -	\$ -
Equities				
Consumer Discretionary	52,800	52,800	-	-
Consumer Staples	28,475	28,475	-	-
Energy	32,379	32,379	-	-
Financials	61,883	61,883	-	-
Health Care	35,757	35,757	-	-
Industrials	31,384	31,384	-	-
Information Technology	137,036	137,036	-	-
Telecommunications	8,452	8,452	-	-
American Depository Receipts	4,966	-	4,966	-
Mutual Funds				
Fixed Income	176,626	176,626	-	-
Exchange Traded Funds				
Equity	203,134	203,134	-	-
Fixed Income	187,273	187,273	-	-
Corporate Debt Security	28,116	-	28,116	-
Government Bonds	44,949	-	44,949	-
Total Fair Value Measures	<u>\$ 1,211,094</u>	<u>\$ 1,133,063</u>	<u>\$ 78,031</u>	<u>\$ -</u>

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

2. INVESTMENTS

Investments are carried at fair value.

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 174,762	\$ 177,864
Equity securities	594,501	393,132
Mutual funds	-	176,626
Exchange traded funds	392,048	390,407
Debt securities	<u>143,217</u>	<u>73,065</u>
 Total	 <u>\$ 1,304,528</u>	 <u>\$ 1,211,094</u>

The Agency realized net gains (losses) on sales of investments of \$40,014 and \$14 for the years ended June 30, 2018 and 2017, respectively. Net unrealized gains (losses) were \$29,752 and \$104,616 for the years ended June 30, 2018 and 2017, 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 \$1,500,000 working capital line of credit with Key Bank NA which is due on demand. The outstanding balance on this note was \$788,886 at June 30, 2018 and \$2,347,496 at June 30, 2017. The interest rate on the note is variable based on Key Bank's prime rate plus 1.00% (6.00% at June 30, 2018). The loan is secured by real estate and investments.

See Note 4, for term note relating to debt restructuring of \$1,450,000 portion of the June 30, 2018, outstanding balance.

4. LONG-TERM DEBT

	<u>2018</u>	<u>2017</u>
Mortgage payable to Community Preservation Corp. (CPC), variable interest rate (4.29% at June 30, 2018). Payments through April 1, 2026, secured by buildings.	\$ 3,213,920	\$ 3,285,354
Mortgage payable to Pioneer Savings Bank, interest of 7.00% at June 30, 2018, maturing November 30, 2021, secured by building.	75,371	93,101
Mortgage payable to Facilities Development Corporation, interest at 6.33%, payments due through 2018, secured by a building.	178,030	178,030
Mortgage payable to Key Bank NA, interest at 6.00%, payments due through July, 2020, secured by buildings.	106,127	116,548

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

4. LONG-TERM DEBT

	<u>2018</u>	<u>2017</u>
Mortgage payable to Key Bank NA, interest at 4.98%, payments due through April 2031, secured by building.	170,324	179,545
Term loan, payable to Key Bank NA, variable interest rate at Key Bank prime rate plus 1% (6.00% at June 30, 2018). Interest only payments through October 2019. In November 2019, principal payment of \$97,667, plus interest is due. Commencing December 2019, monthly principal payments based 15 year amortization of \$8,056 plus interest, maturing December 2020, secured by buildings. Loan covenant of a debt service coverage ratio is included in the term loan. For the year ended June 30, 2018 this covenant was met.	1,450,000	-
Kila-Watt Energy & Lighting LLC, interest at 0%, payments through September 2020.	94,500	-
Retail installment agreement, interest at 6.9%, payments due through September 2017, secured by equipment.	-	1,515
Total Long-Term Debt	5,288,272	3,854,093
Less current installments	157,588	154,378
Long-Term Debt, net of current installments	5,130,684	1,515
Less deferred financing costs	77,849	82,838
Long-Term Debt less unamortized financing costs	\$ 5,052,835	\$ 3,699,715

Total interest expense was \$274,513 and \$317,144 for the years ended June 30, 2018 and 2017, respectively.

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

2019	\$	157,588
2020		317,100
2021		1,433,859
2022		109,866
2023		103,608
Thereafter		3,166,251

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. Part of the terms of this financing was that additional monies would be required to be maintained in escrow. The amounts in escrow at June 30, 2018 and 2017, totaled \$118,627.

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018, and for each of the remaining years are:

2019	\$ 357,334
2020	59,692
2021	14,184
2022	14,184
2023	<u>4,728</u>
Total Minimum Future Rental Payments	<u>\$ 450,122</u>

Rental expense was \$428,402 and \$428,702 for the years ended June 30, 2018 and 2017, 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.

The following sets forth the funded status of the Plan in accordance with generally accepted accounting principles at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accumulated benefit obligation at June 30	<u>\$ 7,285,034</u>	<u>\$ 7,357,122</u>
Fair value of plan assets at June 30	\$ 5,778,430	\$ 5,750,341
Accumulated benefit obligation at June 30	<u>7,285,034</u>	<u>7,357,122</u>
Funded Status	<u>\$ (1,506,604)</u>	<u>\$ (1,606,781)</u>
Weighted average assumptions as of June 30		
Discount rate	4.00%	3.75%
Expected long-term return on plan assets	6.00%	6.00%
Rate of compensation increase	n/a	n/a
Net Periodic Benefit Cost	<u>\$ (9,415)</u>	<u>\$ 74,290</u>
Employer Contributions	<u>\$ -</u>	<u>\$ -</u>
Benefits Paid	<u>\$ (420,546)</u>	<u>\$ (240,661)</u>

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

7. DEFINED BENEFIT PLAN

	<u>2018</u>	<u>2017</u>
<i>Amounts Recognized in the statement of financial position</i>		
Accrued Pension Liability	\$ (1,506,604)	\$ (1,606,781)
Total	<u>\$ (1,506,604)</u>	<u>\$ (1,606,781)</u>
<i>Amounts Recognized in the statement of activities</i>		
Actuarial Gains and (Losses)	\$ (34,238)	\$ 977,035
Interest cost	(272,537)	(262,863)
Expected return on plan assets	342,466	300,050
Actuarial amortization	<u>(60,514)</u>	<u>(111,477)</u>
Total	<u>\$ (24,823)</u>	<u>\$ 902,745</u>
<i>Expected Effect in Unrestricted Net Assets in the next fiscal year</i>		
Gains/(losses)	<u>\$ (60,514)</u>	<u>\$ (111,477)</u>
Expected Employer Contributions for the year ended June 30, 2019		<u>\$ -</u>

Expected Future Benefit Payments

The following are the expected future benefit payments:

2019	\$	167,108
2020		181,170
2021		216,739
2022		252,969
2023		302,245
2024 - 2028		1,984,897

Plan Assets by Category

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

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Equities	\$ 3,884,624	67	\$ 3,966,574	69
Fixed income	1,562,540	27	1,446,180	25
Cash and equivalents	151,279	3	220,666	4
Other securities	<u>179,987</u>	<u>3</u>	<u>116,921</u>	<u>2</u>
Total	<u>\$ 5,778,430</u>	<u>100</u>	<u>\$ 5,750,341</u>	<u>100</u>

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.

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

7. DEFINED BENEFIT PLAN

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, Bloomberg Barclays US Aggregate Bond Index, and MSCI.

Other Assumptions

Mortality: Non-annuitant and annuitant; RP-2014 mortality table

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 \$43,152 and \$38,045 for the years ended June 30, 2018 and 2017, 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 was \$82,678 and \$60,867 as of June 30, 2018 and June 30, 2017, respectively.

9. TEMPORARILY RESTRICTED NET ASSETS

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

10. WORKERS' COMPENSATION ACCRUAL

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

VANDERHEYDEN HALL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

11. 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.

12. NET DEFICITS/MANAGEMENT'S PLANS

At June 30, 2018, the Agency's current assets exceed its current liabilities by \$1,057,286, and the Agency has a net accumulated deficit of \$2,973,0895 (including net accumulated deficit of \$1,506,604 related to the defined benefit pension plan (Note 7)). The Agency's increase (decrease) in net assets for the years ended June 30, 2018 and 2017, was \$550,036 and (\$790,359), respectively. Included in the increase (decrease) in net assets were gains (losses) from the defined benefit plan in the amount (\$34,238) and \$977,035 for the years ended June 30, 2018 and 2017, respectively. Included in the Agency's change in net assets for the year ended June 30, 2017 is a one-time retroactive negative revenue adjustment of approximately \$354,000 related to the defeasance of the DASNY Bonds.

During the year ended June 30, 2018, census for some programs were higher compared to the year ended June 30, 2017, while others lagged. Management continues to work with counties, school districts, and OPWDD to fill client openings. Management plans to implement several new revenue streams in the coming year. Not only will this enhance revenue but also the programs the Agency delivers. The Agency applied for licensure and was approved to provide several of these new service lines. Management continues to practice fiscally conservative initiatives to reduce expenses. For the year ended June 30, 2018 expenses were reduced \$853,227 from the prior year. Management is seeking affiliate partners to enable the Agency to achieve economies of scale in cost of services by utilizing shared services and group buying. In the coming year management will be analyzing its cost reporting methodology in an attempt to maximize revenue reimbursement rates. The Agency's management is optimistic that the work being done collaboratively with the Board of Directors to ensure the Agency's financial strength moving forward will be effective.

13. SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the statement of financial position date of June 30, 2018 through November 30, 2018, 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, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

	<u>Education</u>	<u>Residential</u>	<u>Community Residence</u>	<u>Group Homes</u>	<u>Independent Living</u>
Program Support and Revenue					
Counties	\$ 973,735	\$ 5,577,251	\$ -	\$ 1,503,546	\$ 294,890
School districts	2,935,118	675,419	-	-	-
Medicaid	-	-	4,650,691	-	-
Social security	-	-	521,988	-	-
OPWDD	-	-	12,500	-	-
DASNY	-	-	-	-	-
Community services	-	-	-	-	-
Grants	165,921	-	-	-	-
USDA	62,645	31,732	1,224	13,985	-
Health Home	-	-	-	-	-
Miscellaneous income	-	1,641	98,091	2,173	650
Retroactive revenue adjustments	224,747	172,749	124,795	47,769	-
Released from restrictions	-	-	-	-	-
Total Program Support and Revenue	<u>4,362,166</u>	<u>6,458,792</u>	<u>5,409,289</u>	<u>1,567,473</u>	<u>295,540</u>
Nonprogram Support and Revenue					
Interest and dividends	-	-	-	-	-
Contributions and bequests	5,538	-	-	-	-
Miscellaneous income	-	-	-	-	-
Net realized/unrealized gains (losses)	-	-	-	-	-
Total Nonprogram Support and Revenue	<u>5,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue Related to Functional Expenses	<u>4,367,704</u>	<u>6,458,792</u>	<u>5,409,289</u>	<u>1,567,473</u>	<u>295,540</u>
Total Functional Expenses	5,091,586	5,735,636	5,301,392	1,718,837	341,667
Excess (Deficiency) of Support and Revenue Over Expense	<u>\$ (723,882)</u>	<u>\$ 723,156</u>	<u>\$ 107,897</u>	<u>\$ (151,364)</u>	<u>\$ (46,127)</u>

VANDERHEYDEN HALL, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

	<u>Community Services</u>	<u>Medicaid</u>	<u>Development Fund</u>	<u>2018 Totals</u>	<u>2017 Totals</u>
Program Support and Revenue					
Counties	\$ 22,198	-	-	\$ 8,371,620	\$ 8,724,994
School districts	-	-	-	3,610,537	2,872,579
Medicaid	509,451	1,327,193	-	6,487,335	6,413,423
Social security	(14,287)	-	-	507,701	507,520
OPWDD	-	-	-	12,500	6,250
DASNY	-	-	-	-	-
Community services	29,926	-	16,400	46,326	49,587
Grants	-	-	2	165,923	170,562
USDA	-	-	-	109,586	107,574
Health Home	176,677	-	-	176,677	52,910
Miscellaneous income	-	(16,611)	16,770	102,714	246,476
Retroactive revenue adjustments	(1,167)	1,311	42,626	612,830	(254,742)
Released from restrictions	-	-	-	-	8,989
Total Program Support and Revenue	<u>722,798</u>	<u>1,311,893</u>	<u>75,798</u>	<u>20,203,749</u>	<u>18,906,132</u>
Nonprogram Support and Revenue					
Interest and dividends	-	-	33,778	33,778	34,929
Contributions and bequests	-	-	225,984	231,522	103,989
Miscellaneous income	-	-	-	-	-
Net realized/unrealized gains (losses)	-	-	69,765	69,765	104,630
Total Nonprogram Support and Revenue	<u>-</u>	<u>-</u>	<u>329,527</u>	<u>335,065</u>	<u>243,548</u>
Total Support and Revenue Related to Functional Expenses	<u>722,798</u>	<u>1,311,893</u>	<u>405,325</u>	<u>20,538,814</u>	<u>19,149,680</u>
Total Functional Expenses	588,428	1,164,485	144,509	20,086,540	20,939,767
Excess (Deficiency) of Support and Revenue Over Expense	<u>\$ 134,370</u>	<u>\$ 147,408</u>	<u>\$ 260,816</u>	<u>\$ 452,274</u>	<u>\$ (1,790,087)</u>

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

	<u>Education</u>	<u>Residential</u>	<u>Community Residence</u>	<u>Group Homes</u>	<u>Independent Living</u>
Functional Expenses					
Personal services	\$ 2,862,067	\$ 3,374,229	\$ 3,054,784	\$ 1,018,162	\$ 138,485
Fringe benefits	686,967	800,020	727,889	240,945	32,740
Transportation and worker's expense	5,469	45,587	54,157	11,436	3,249
Children's allowances	-	8,054	720	3,123	8,873
Children's activities	7,639	44,525	5,003	15,195	474
Related school expenses	130	-	-	(35)	(45)
Purchase of services	54,897	21,879	26,162	7,908	679
Purchase of health services	73,327	2,328	1,407	1,058	-
Food	91,129	122,138	117,367	39,513	11,264
Clothing	398	13,307	10,277	3,251	2,417
Bedding and linen	-	176	1,031	41	-
Program and household supplies	107,908	85,282	59,754	13,500	11,102
Medical supplies and prescriptions	-	(35)	15,327	-	-
Rent - equipment	10,679	6,628	6,381	1,931	715
- vehicles	6,969	37,547	53,170	16,484	3,478
- property	150	846	160,200	362	58,898
Utilities	60,522	90,413	75,641	31,659	926
Plant and equipment maintenance	68,660	70,754	71,819	26,193	1,140
Vehicle maintenance	5,967	23,587	17,177	6,598	215
Telephone	9,424	16,260	85,063	17,487	10,363
Postage	359	200	133	47	-
Dues, licenses and permits	3,658	19,357	11,265	6,551	4,087
Office supplies	3,229	6,089	2,440	868	288
Subscriptions and publications	(300)	-	3	1	-
Conference expense	2,316	1,312	1,779	2,048	96
Miscellaneous	380	655	(39)	117	40
Professional fees	-	-	-	-	-
Insurance	64,411	60,224	83,287	19,004	7,381
Interest and finance charges	23,801	180,957	39,994	23,963	5,209
Real estate taxes	7,711	9,348	2,756	6,820	19
Publicity and recruitment	2,819	4,891	5,306	1,654	873
Community Services	-	-	-	-	-
Medical transportation	-	-	-	-	-
Bad debt expense	11,763	17,977	10,923	494	251
Depreciation	424,754	88,975	69,468	26,325	10,424
Total Functional Expenses	<u>4,597,203</u>	<u>5,153,510</u>	<u>4,770,644</u>	<u>1,542,693</u>	<u>313,621</u>
Allocation of Administration Expenses	<u>494,383</u>	<u>582,126</u>	<u>530,748</u>	<u>176,144</u>	<u>28,046</u>
Total Functional Expenses	<u>\$ 5,091,586</u>	<u>\$ 5,735,636</u>	<u>\$ 5,301,392</u>	<u>\$ 1,718,837</u>	<u>\$ 341,667</u>

VANDERHEYDEN HALL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

	Community <u>Services</u>	Medicaid	Development <u>Fund</u>	Adminis- <u>tration</u>	2018 <u>Totals</u>	2017 <u>Totals</u>
Functional Expenses						
Personal services	\$ 348,020	\$ 520,360	\$ 45,793	\$ 1,130,447	\$ 12,492,347	\$ 12,939,656
Fringe benefits	82,237	123,701	10,798	246,301	2,951,598	3,204,031
Transportation and worker's expense	20,928	625	58	7,846	149,355	139,972
Children's allowances	-	-	-	-	20,770	20,346
Children's activities	4,067	11	2,780	1,520	81,214	73,542
Related school expenses	-	-	-	-	50	126
Purchase of services	559	9,852	15,100	248,361	385,397	388,360
Purchase of health services	-	172,792	-	3,427	254,339	253,120
Food	332	554	10,371	8,805	401,473	446,594
Clothing	-	-	150	(98)	29,762	30,252
Bedding and linen	-	-	-	-	1,248	-
Program and household supplies	2,287	2,927	22,107	20,311	325,178	336,406
Medical supplies and prescriptions	-	155,746	-	-	171,038	220,148
Rent - equipment	331	1,262	4,547	14,389	46,863	60,037
- vehicles	15,709	3,675	40	9,564	146,636	134,705
- property	10,894	1,466	-	2,087	234,903	233,960
Utilities	145	7,213	526	23,596	290,641	276,508
Plant and equipment maintenance	959	2,843	4,981	59,044	306,393	261,327
Vehicle maintenance	13,401	1,656	26	7,712	76,339	73,673
Telephone	7,966	6,197	52	18,011	170,823	164,671
Postage	25	3,446	-	10,989	15,199	12,438
Dues, licenses and permits	3,019	1,170	638	48,540	98,285	73,278
Office supplies	369	1,547	234	5,280	20,344	32,153
Subscriptions and publications	-	-	618	2,228	2,550	1,312
Conference expense	408	115	355	10,576	19,005	20,269
Miscellaneous	5	515	8,280	30,998	40,951	54,104
Professional fees	-	-	-	50,552	50,552	110,892
Insurance	6,231	2,249	1,588	9,672	254,047	242,377
Interest and finance charges	-	-	-	599	274,513	317,144
Real estate taxes	455	165	153	4,415	31,862	33,483
Publicity and recruitment	-	1,062	76	3,471	20,152	28,400
Community Services	6,442	-	-	-	6,442	2,525
Medical transportation	-	392	-	-	392	350
Bad debt expense	1,776	10,123	-	-	53,307	21,393
Depreciation	904	6,397	622	34,703	662,572	732,215
Total Functional Expenses	<u>527,469</u>	<u>1,038,101</u>	<u>129,893</u>	<u>2,013,406</u>	<u>20,086,540</u>	<u>20,939,767</u>
Allocation of Administration Expenses	60,959	126,384	14,616	(2,013,406)	-	-
Total Functional Expenses	<u>\$ 588,428</u>	<u>\$ 1,164,485</u>	<u>\$ 144,509</u>	<u>\$ -</u>	<u>\$ 20,086,540</u>	<u>\$ 20,939,767</u>