THE HORIZON CORPORATIONS

Combined Financial Report
With Independent Auditor's Report

December 31, 2017 and 2016

Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
The Horizon Corporations:
Horizon Health Services, Inc.
Horizon Village, Inc.
Health Management Group, Ltd.
Buffalo, New York

Report on the Financial Statements
We have audited the accompanying combined financial statements of The Horizon Corporations, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, 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 of 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 The Horizon Corporations as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 8, 2018

THE HORIZON CORPORATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS	**2017**	2016
Current Assets		
Cash and cash equivalents	**$ 8,295,970**	$ 7,181,742
Accounts receivable, net	**3,193,100**	4,039,404
Contracts and grants receivable	**1,255,482**	709,564
Prepaid expenses and other assets	**479,082**	431,527
Total current assets	**13,223,634**	12,362,237
Cash Designated for Capital Expenditure	**1,229,295**	1,137,925
Grant Receivable	**1,000,000**	-
Property and Equipment, net	**22,264,031**	17,880,955
Total assets	**$ 37,716,960**	$ 31,381,117

LIABILITIES AND NET ASSETS		
Current Liabilities		
Note payable, bank	**$ 214,288**	$ 275,513
Current maturities of long-term debt	**248,766**	26,536
Accounts payable	**854,185**	431,673
Accrued expenses	**3,100,178**	3,120,181
Refundable advances	**265,573**	1,086,468
Current portion of due to third-party payors	**770,432**	178,851
Total current liabilities	**5,453,422**	5,119,222
Long-Term Debt, less current maturities	**11,605,844**	7,879,709
Interest Rate Swap	**38,166**	-
Due to Third-Party Payors, less current portion	**1,528,191**	435,858
Deferred Revenue	**2,306,830**	1,292,749
Total liabilities	**20,932,453**	14,727,538
Net Assets		
Unrestricted - operations	**15,535,212**	15,446,776
Unrestricted - board designated for capital expenditure	**1,229,295**	1,137,925
	16,764,507	16,584,701
Temporarily restricted	**20,000**	68,878
Total net assets	**16,784,507**	16,653,579
Total liabilities and net assets	**$ 37,716,960**	$ 31,381,117

See Notes to Combined Financial Statements.

THE HORIZON CORPORATIONS

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets:		
Operating revenues:		
Net patient service	**$ 32,933,502**	$ 29,595,916
Contracts and grants	**8,922,683**	8,892,475
	41,856,185	38,488,391
Support and other revenues:		
Capital grants and contributions	**249,610**	312,678
In-kind rental space	**275,000**	275,000
Interest income	**9,871**	7,604
Other	**62,526**	94,665
	597,007	689,947
Net assets released from restrictions	**48,878**	9,000
Total revenues	**42,502,070**	39,187,338
Expenses:		
Program services	**38,748,179**	34,268,018
Management and general	**3,535,919**	3,808,566
Total expenses	**42,284,098**	38,076,584
Change in unrestricted net assets before change in fair value of interest rate swap	**217,972**	1,110,754
Change in fair value of interest rate swap	**(38,166)**	-
Change in unrestricted net assets	**179,806**	**1,110,754**
Temporarily restricted net assets:		
Grants and contributions from donors	**-**	68,878
Net assets released from restrictions	**(48,878)**	(9,000)
Change in temporarily restricted net assets	**(48,878)**	59,878
Change in net assets	**130,928**	1,170,632
Net assets:		
Beginning of year	**16,653,579**	15,482,947
End of year	**$ 16,784,507**	$ 16,653,579

See Notes to Combined Financial Statements.

THE HORIZON CORPORATIONS

COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	$ 130,928	$ 1,170,632
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,429,558	1,278,476
New York State funding applied to long-term debt payments	(26,536)	(25,482)
Deferred revenue amortization	(135,133)	(61,924)
Change in fair value of interest rate swap	38,166	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	846,304	(756,356)
Contracts and grants receivable	(545,918)	112,401
Prepaid expenses and other assets	(47,555)	(8,782)
Increase (decrease) in:		
Accounts payable	3,187	6,572
Accrued expenses	(20,003)	606,614
Refundable advances	(820,895)	816,785
Due to third-party payors	1,683,914	(168,234)
Net cash provided by operating activities	2,536,017	2,970,702
Cash Flows From Investing Activities		
Purchases of property and equipment	(5,393,309)	(5,128,372)
Transfers to cash designated for capital expenditure	(91,370)	(74,886)
Net cash used in investing activities	(5,484,679)	(5,203,258)
Cash Flows From Financing Activities		
Proceeds from note payable, bank	-	275,513
Payments on note payable, bank	(61,225)	-
Proceeds from long-term borrowings	4,381,952	3,719,573
Principal payments on long-term borrowings	(407,051)	-
Proceeds from capital grants	149,214	319,856
Net cash provided by financing activities	4,062,890	4,314,942
Net increase in cash and cash equivalents	1,114,228	2,082,386
Cash and cash equivalents:		
Beginning	7,181,742	5,099,356
Ending	$ 8,295,970	$ 7,181,742
Supplemental Disclosure of Non-Cash Investing Activity		
Property and equipment purchases included in accounts payable	$ 493,812	$ 74,487
Grant receivable included in deferred revenue	$ 1,000,000	$ -

See Notes to Combined Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

The Horizon Corporations (the Companies), prior to 2017 referred to as Horizon Health Services, Inc. and Affiliates, are comprised of the affiliated not-for-profit companies of Horizon Health Services, Inc. (HHS), Horizon Village, Inc. (HV), and Health Management Group, Ltd. (HMG). HHS is a comprehensive provider of outpatient mental health, substance use and certain related medical services in Western New York, with services provided in Erie, Genesee and Niagara Counties. HV operates four treatment centers, comprised of 168 total beds, which provides intensive substance use services to residents of all eight counties of Western New York. HMG provides all fiscal, executive, quality improvement, information technology, personnel management, facility management/development, contract development, corporate compliance and corporate development services to HHS and HV.

All treatment and rehabilitation services are centered on the needs and desires of the consumers and their goals for recovery. The Companies believe in the intrinsic dignity and unique capabilities of all persons they serve. They strive to deliver the highest quality of services through applying proven best and emerging practices, and through staff professionalism and accountability. All services are provided under the supervision of the Companies' psychiatric and medical staff consistent with the applicable Federal and New York State (NYS) regulatory agency requirements of the Office of Mental Health (OMH), Office of Alcoholism and Substance Abuse Services (OASAS), and Department of Health.

A summary of the Companies' significant accounting policies follow:

Principles of combination:

The accompanying combined financial statements reflect the combination of the individual financial statements of the Companies. The Companies are related through common management and common board members. All significant inter-company accounts and transactions have been eliminated.

Financial statement presentation:

The Companies report information regarding their financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Companies in perpetuity. The Companies have no permanently restricted net assets at December 31, 2017 or 2016.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Cash and cash equivalents:

The Companies consider all cash accounts which are not subject to withdrawal restrictions or penalties, except for cash designated for capital expenditure, as cash and cash equivalents.

The Companies maintain their cash in bank deposit accounts which, at times, may exceed federally insured limits. The Companies have not experienced any losses on such accounts and management believes they are not exposed to any significant credit risk on cash.

Accounts receivable:

The Companies carry their accounts receivable at the amount they expect to be reimbursed based on approved reimbursement rates in place at the time a service is provided, less an allowance for amounts that may become uncollectible either as a result of rate adjustments, discounts, contractual allowances, or bad debts. Management evaluates the collectability of accounts receivable on an ongoing basis based upon a review of outstanding accounts and historical collection experience. Accounts receivable are written off when deemed uncollectible. Recoveries of amounts previously written off are recorded as revenue at the time such amounts are collected. The allowance for uncollectible amounts amounted to $2,289,000 and $2,043,000 at December 31, 2017 and 2016, respectively.

Property and equipment:

Property and equipment are stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Land improvements	25
Buildings and building improvements	5 - 40
Leasehold improvements	5 - 15
Furniture, fixtures and equipment	3 - 15
Vehicles	4

Improvements to leased property are amortized over the life of the lease, or the life of the improvements, whichever is less. Expenditures for minor equipment, maintenance and repairs are charged to expense as incurred. Included in property and equipment are assets purchased with funding from governmental agencies, which have certain restrictions as to type and term of use.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Refundable advances:

Refundable advances arise from government contracts and grants where cash has been received in advance of expenses being incurred. Revenues are recognized when services are provided and expenses incurred.

Due to third-party payors:

Amounts due to third-party payors include overpayments received from the NYS OMH for various Medicaid supplements, and also for retroactive rate adjustments and anticipated contract settlements.

Deferred revenue:

The Companies have received grants from various NYS agencies to fund capital expansion. The revenue from these grants has been included in deferred revenue and will be amortized over the life of the related asset, generally forty years. Annual amortization is expected to be approximately $100,000 in 2018 through 2020 and then approximately $70,000 thereafter through 2053.

Revenue recognition:

Net patient service revenue - the Companies have agreements with third-party payors which provide for reimbursement to the Companies at established rates. Net patient service revenue from NYS Medicaid and commercial insurance plans accounted for approximately 75% and 20% of net patient service revenue for the year ended December 31, 2017, respectively, and 77% and 19% of net patient service revenue for the year ended December 31, 2016, respectively. Net program service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Contracts and grants - the Companies provide certain treatment and rehabilitation services in accordance with contracts and grants including those that are deficit funded. The contracts provide for the Companies to receive funding from federal, state and county governmental units to the extent that expenses exceed client service revenue received from other sources.

Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. It is common for issues to arise related to: 1) medical coding, 2) client eligibility, and 3) other reasons unrelated to credit risk, all of which may result in adjustments to recorded revenue amounts. The Companies continuously evaluate the potential for revenue adjustments for Medicaid and Medicare as well as other payors and, when appropriate, provides allowances for rate adjustments based upon the best available information, including that available from past experience. Such adjustments are reflected as a reduction in net patient service revenue or contracts and grants.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition (continued):

Provision for audit and retroactive adjustments by funding agencies, Medicaid, Medicare and other third-party payors and governmental units are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Companies report contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the contributed assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donor restricted contributions for which restrictions are met in the same reporting period are reported as unrestricted support in the combined statements of activities and changes in net assets.

Functional allocation of expenses:

The costs of providing the Companies various programs, services and other activities have been summarized on a functional basis in the accompanying combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes:

HHS, HV and HMG are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is highly certain that some positions taken for income tax purposes would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The Companies are not aware of any uncertain tax positions as of December 31, 2017 or 2016.

The tax returns for the tax years 2014 through 2017 remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes and also by NYS for state tax purposes.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

Subsequent events have been evaluated through May 8, 2018, which is the date the combined financial statements were available to be issued.

Recent accounting pronouncements not yet adopted:

The following accounting pronouncements enacted by the Financial Accounting Standards Board but not yet adopted by the Companies represent those considered relevant and potentially significant to the Companies:

Accounting Standards Update (ASU) ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 represents the first phase of an expected two phase project that will require various modifications to the current financial statement presentation in order to make information more useful for the users of the financial statements. Key changes include expanded disclosures on donor restrictions and board designations of net assets; reducing the net asset classifications from three to two; liquidity disclosure requirements; new reporting requirements for expenses and changes to requirements for determining when restrictions on capital contributions are released. ASU 2016-14 must be adopted by the Companies for the year ending December 31, 2018.

ASU 2014-09, *Revenue from Contracts with Customers.* This ASU will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. ASU 2014-09, as amended, will be effective for the Companies in the year ending December 31, 2019, although earlier application is permitted. The standard allows an entity to apply the amendments in the ASU using either the retrospective or cumulative effect transition method.

ASU 2016-02, *Leases*. ASU 2016-02 will require entities to recognize assets and liabilities for leases that are longer than 12 months including operating leases existing at the date the standard becomes effective. ASU 2016-02 must be adopted by the Companies for the year ending December 31, 2020, although earlier application is permitted. The standard requires use of the modified retrospective transition approach upon implementation.

The Companies are evaluating the impact of these new standards on its combined financial statements and is developing implementation strategies.

Note 2. Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

	2017	2016
Land and land improvements	**$ 452,149**	$ 453,204
Buildings and building improvements	**20,576,379**	20,596,392
Leasehold improvements	**2,418,477**	2,491,739
Furniture, fixtures and equipment	**5,408,872**	5,307,662
Vehicles	**413,318**	312,728
Construction-in-progress	**4,661,280**	3,578
	33,930,475	29,165,303
Less accumulated depreciation	**11,666,444**	11,284,348
	$ 22,264,031	$ 17,880,955

During 2017, HMG purchased an administrative building for $3,537,500 financed with a mortgage (Note 4). Total costs of the building and renovations are expected to be $4,500,000. HMG expects to move into the building in May of 2018. Costs related to the building and renovations are included in construction-in-progress at December 31, 2017 and amounted to $3,722,973.

In 2017, HV commenced construction of a 25 bed residential treatment facility for adult women (Aurora). Aurora is expected to cost approximately $4,800,000 and be completed in August of 2018. HV is financing construction with a bank loan (Note 4). OASAS has agreed to refinance the bank loan by utilizing the Dormitory of the State of New York's (DASNY) Mental Hygiene Facilities Improvement Bond Program (MHFIBP) upon completion of the facility. Utilization of MHFIBP requires HV to provide OASAS with a thirty-year state aid grant lien, a DASNY mortgage, and meet certain other conditions. Pursuant to their agreement, OASAS will pay the loan principal and interest obligations on behalf of HV. Construction costs related to Aurora are included in construction-in-progress and amounted to $938,307 at December 31, 2017.

Note 3. Note Payable, Bank

The Companies maintain two line of credit agreements with a Bank. Collectively, these agreements provide for maximum credit availability of $1,700,000 including standby letters of credit of up to $50,000. The aggregate outstanding balance on the lines of credit amounted to $214,288 and $275,513 at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, no amount has been issued or drawn upon in connection with the standby letters of credit. Borrowed amounts on these facilities bear interest at the prime rate (4.5% at December 31, 2017). The lines of credit are secured by substantially all assets of HHS and HV and include cross-guarantees. These facilities are due on demand and expire in September 2018. It has been the Companies practice to obtain replacement facilities when they expire.

Note 4. Long-Term Debt

Long-term debt at December 31, 2017 and 2016 consist of the following:

		2017		2016
Loan payable to the Facilities Development Corporation in annual principal installments ranging from $27,766 to $36,905, plus interest at 5.0% through August 2025. The loan is collateralized by a mortgage. Pursuant to an agreement between HV and OASAS, OASAS pays the loan principal and interest obligations on behalf of HV. HV must use the facility for drug-free residential treatment programs until December 1, 2028.	**$**	**246,057**	$	272,594
Loans payable to OASAS for the construction of two residential treatment facilities. These loans require: (a) conversion to permanent financing with a mortgage whereby OASAS will pay the loan principal and interest obligations on behalf of HV; and (b) HV must use one facility for twenty years and the other for thirty years for drug-free residential treatment programs. These loans are pending a DASNY mortgage.		**7,633,651**		3,270,116
Mortgage payable to a bank in monthly principal installments of $18,417 plus variable interest at one-month LIBOR plus 1.5% (3.07% at December 31, 2017) through 2032. The Companies entered into an interest rate swap agreement for a notional amount equal to the outstanding principal balance effectively changing the Companies' interest rate exposure to a fixed rate of 3.93% through the mortgage term.		**3,296,583**		-
Construction bridge loan payable to a bank with maximum borrowings of $4,800,000. Monthly interest payments at adjusted LIBOR (3.375% at December 31, 2017) are payable through October 2019. The loan will be refinanced under the DASNY MHFIBP (Note 2) after construction is completed. The loan is secured by all assets of the Companies.		**678,319**		-
Construction bridge loan paid in full during 2017.		**-**		4,363,535
		11,854,610		7,906,245
Less current maturities		**248,766**		26,536
	$	**11,605,844**	$	7,879,709

Note 4. Long-Term Debt (Continued)

Under the agreements with OASAS, NYS has a right of reversion on the facilities should HV fail to utilize the facilities for the designated purpose through the periods stipulated.

The following presents the aggregate maturities required on long-term debt at December 31, 2017. Loans pending refinancing through MHFIBP have been presented as maturing after 2022 as repayment schedules have not been finalized.

Years ending December 31,		
2018	$	248,766
2019		928,491
2020		251,402
2021		252,808
2022		254,390
Thereafter		9,918,753
Total	$	11,854,610

Note 5. Leases

The Companies lease certain office space, vehicles and equipment under noncancelable operating leases expiring at various times through 2026. Rent expense for noncancelable operating leases for the years ended December 31, 2017 and 2016 amounted to $734,580 and $689,329, respectively.

At December 31, 2017, future minimum lease payments, by year and in the aggregate, under noncancelable operating leases are as follows:

Years ending December 31,		
2018	$	725,781
2019		634,390
2020		626,476
2021		558,928
2022		552,889
Thereafter		1,123,740
Total	$	4,222,204

HV leases a facility of approximately 22,000 square feet from an unrelated not-for-profit organization with annual rent of $1 through 2020. HV recorded $275,000 of donated rental space revenue for the years ended December 31, 2017 and 2016, which is based on the estimated fair rental value of the leased facility. HV's rental expense related to this lease in the amount of $275,000 is included in program service expense.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes or periods:

		2017		2016
Contributions received and receivable to enhance veteran treatment services	**$**	**20,000**	$	40,000
Other contributions received and receivable containing donor restrictions		**-**		28,878
	$	**20,000**	$	68,878

Net assets released by satisfying donor restrictions amounted to $48,878 and $9,000 for the years ended December 31, 2017 and 2016, respectively.

Note 7. Employee Benefit Plan

The Companies sponsor a contributory 401(k) plan (the Plan). Participants are immediately eligible to make salary deferrals into the Plan upon hire. Participants that have completed one year of service, as defined, and are employed on the last day of the year are eligible for discretionary matching and profit sharing contributions. The Companies have, by direction of the Board of Directors, the option to make a discretionary profit sharing and employer match contribution to the Plan. Total pension expense amounted to $1,070,000 and $1,500,000 for the years ended December 31, 2017 and 2016, respectively.

Note 8. Support from Governmental Units

The Companies receive a majority of their support from federal, state and local governments. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Companies' programs and activities.

Note 9. Professional Liability Insurance

The Companies purchase professional liability insurance to cover medical incident claims of up to $1,000,000. During 2017, one claim has been asserted against the Companies. The claim is in the early discovery stage and may ultimately be brought to trial. In the opinion of the Companies' legal counsel, the outcome of this action will not have a significant effect on the financial position or the operating results of the Companies. Management believes any claims asserted would be settled within the limits of insurance coverage. Accordingly, no liability has been recorded as of December 31, 2017 and 2016.

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