BESTSELF BEHAVIORAL HEALTH, INC.

Consolidated Financial Statements
With Independent Auditor's Report

December 31, 2018 and 2017

Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
BestSelf Behavioral Health, Inc.
Buffalo, New York

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of BestSelf Behavioral Health Inc. and its affiliated entities which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 the 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 audits 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.

200 International Drive ▪ Buffalo, New York 14221-5794
(716) 634-8800 ▪ Toll Free (888) 634-0001 ▪ Fax (716) 634-8987 ▪ www.dopkins.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BestSelf Behavioral Health, Inc. and its affiliated entities as of December 31, 2018 and 2017 and 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 23, 2019

BESTSELF BEHAVIORAL HEALTH, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS	**2018**	2017
Current Assets		
Cash and cash equivalents	**$ 6,981,119**	$ 2,328,804
Investments	**635,809**	812,198
Accounts receivable, net	**4,764,637**	4,155,227
Contracts and grants receivable	**2,093,348**	2,275,106
Prepaid expenses and other assets	**248,551**	273,903
Total current assets	**14,723,464**	9,845,238
Property and Equipment, net	**7,140,026**	2,087,616
Total assets	**$ 21,863,490**	$ 11,932,854
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	**$ 2,326,923**	$ 1,525,324
Accrued salaries and benefits	**3,508,944**	2,407,266
Amounts due to third-party payors	**6,205,285**	793,610
Total current liabilities	**12,041,152**	4,726,200
Long-Term Debt	**3,000,000**	-
Total liabilities	**15,041,152**	4,726,200
Net Assets		
Without donor restrictions:		
Board designated	**724,534**	735,371
Undesignated	**6,097,804**	6,471,283
Total net assets	**6,822,338**	7,206,654
Total liabilities and net assets	**$ 21,863,490**	$ 11,932,854

See Notes to Consolidated Financial Statements.

BESTSELF BEHAVIORAL HEALTH, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended December 31, 2018 and 2017

	2018			2017 As Adjusted, Note 1		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Net patient services	**$ 36,026,343**	**$ -**	**$ 36,026,343**	$ 25,582,475	$ -	$ 25,582,475
Contracts and grants	**14,858,151**	**-**	**14,858,151**	10,681,254	-	10,681,254
Other program services	**606,423**	**-**	**606,423**	636,852	-	636,852
Total program related revenues	**51,490,917**	**-**	**51,490,917**	36,900,581	-	36,900,581
Contributions	**111,108**	**-**	**111,108**	157,909	481,486	639,395
Net assets released from restriction	**-**	**-**	**-**	833,932	(833,932)	-
Total revenues	**51,602,025**	**-**	**51,602,025**	37,892,422	(352,446)	37,539,976
Expenses:						
Program services	**46,179,463**	**-**	**46,179,463**	31,428,767	-	31,428,767
Support services	**5,802,164**	**-**	**5,802,164**	4,221,041	-	4,221,041
Total expenses	**51,981,627**	**-**	**51,981,627**	35,649,808	-	35,649,808
Operating income	**(379,602)**	**-**	**(379,602)**	2,242,614	(352,446)	1,890,168
Non-operating income (loss):						
Inherent contribution due to merger (Note 3)	**-**	**-**	**-**	2,828,309	-	2,828,309
Investment income (loss)	**(4,714)**	**-**	**(4,714)**	29,441	-	29,441
Non-operating income (loss)	**(4,714)**	**-**	**(4,714)**	2,857,750	-	2,857,750
Change in net assets	**(384,316)**	**-**	**(384,316)**	5,100,364	(352,446)	4,747,918
Net assets:						
Beginning of year	**7,206,654**	**-**	**7,206,654**	2,106,290	352,446	2,458,736
End of year	**$ 6,822,338**	**$ -**	**$ 6,822,338**	$ 7,206,654	$ -	$ 7,206,654

See Notes to Consolidated Financial Statements.

BESTSELF BEHAVIORAL HEALTH, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services										Support Services			
	Clinics	**Child Advocacy Center**	**Building Brighter Futures**	**Personal Recovery Oriented Services**	**Substance Use Disorders**	**Homeless Services**	**Assertive Community Treatment**	**Care Coordination**	**Other Services**	**Total Program Services**	**General and Administrative**	**Fundraising**	**Total Support Services**	**Total**
Salaries	$ 15,662,947	$ 448,595	$ 1,640,814	$ 1,427,078	$ 1,403,267	$ 688,264	$ 1,733,542	$ 4,061,193	$ 176,357	$ 27,242,057	$ 2,876,784	$ -	$ 2,876,784	$ 30,118,841
Fringe benefits	3,809,523	105,084	382,378	338,844	340,988	162,561	413,560	979,563	56,097	6,588,598	704,834	-	704,834	7,293,432
Consultants - direct care	2,028,313	1,685	1,576	262,488	129,016	6,980	151,650	92,602	-	2,674,310	-	117,575	117,575	2,791,885
Total personnel related expenses	21,500,783	555,364	2,024,768	2,028,410	1,873,271	857,805	2,298,752	5,133,358	232,454	36,504,965	3,581,618	117,575	3,699,193	40,204,158
Advertising	6,510	5,029	126	344	5,469	69	734	2,233	11,450	31,964	86,868	-	86,868	118,832
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	21,363	21,363	21,363
Client incidentals	23,002	3,394	878	87,588	191,183	866,682	139,272	61,349	-	1,373,348	-	-	-	1,373,348
Depreciation	218,085	1,210	398	13,593	40,367	81,260	52,882	18,103	-	425,898	121,038	-	121,038	546,936
Dues and subscriptions	36,928	775	99	275	748	4,465	-	6,667	-	49,957	69,530	-	69,530	119,487
Equipment expense	615,036	28,488	2,615	29,666	47,099	38,025	33,032	188,706	95,266	1,077,933	187,138	-	187,138	1,265,071
Information technology	195,977	241	943	10,966	474	4	6,065	231,116	27,705	473,491	257,841	-	257,841	731,332
Insurance	14,793	327	42	3,301	11,943	6,553	25,298	4,706	-	66,963	106,087	-	106,087	173,050
Janitorial supplies	115,635	4,317	2,560	25,082	27,193	29,870	19,309	12,388	224	236,578	24,099	-	24,099	260,677
Office supplies and expenses	159,309	8,539	9,496	25,680	11,105	14,308	14,433	40,460	374	283,704	199,702	-	199,702	483,406
Other expenses	4,217	7,336	645	2,365	107,895	-	-	120,646	-	243,104	20,964	2,465	23,429	266,533
Postage	15,272	767	201	625	269	211	175	4,513	100	22,133	16,166	-	16,166	38,299
Professional services	36,229	130,149	42,000	2,440	1,088	-	-	1,156	75,559	288,621	347,300	-	347,300	635,921
Program supplies	114,461	4,601	842,919	13,496	52,021	11,266	9,444	6,120	2,890	1,057,218	3,138	-	3,138	1,060,356
Recruiting	136,198	250	7,250	1,204	3,245	621	228	3,984	12,908	165,888	57,748	-	57,748	223,636
Rent	1,005,907	74,499	29,266	205,093	226,840	23,765	147,258	268,570	-	1,981,198	287,682	25,941	313,623	2,294,821
Repairs and maintenance	95,754	3,699	1,279	14,855	22,570	19,452	3,847	8,924	11,045	181,425	32,681	-	32,681	214,106
Staff development	119,090	6,314	5,203	4,385	29,962	463	3,626	5,221	-	174,264	14,591	-	14,591	188,855
Telephone	287,970	10,874	14,767	56,671	30,295	27,885	36,167	95,548	2,340	562,517	85,735	-	85,735	648,252
Travel	153,122	5,591	20,732	21,378	32,752	13,247	40,068	130,467	5,664	423,021	45,556	-	45,556	468,577
Utilities	190,768	11,050	3,044	24,122	12,456	129,896	44,128	30,528	-	445,992	31,936	-	31,936	477,928
Vehicle operations and maintenance	46,540	53	263	3,311	18,246	7,209	31,236	2,423	-	109,281	57,402	-	57,402	166,683
Total expenses	$ 25,091,586	$ 862,867	$ 3,009,494	$ 2,574,850	$ 2,746,491	$ 2,133,056	$ 2,905,954	$ 6,377,186	$ 477,979	$ 46,179,463	$ 5,634,820	$ 167,344	$ 5,802,164	$ 51,981,627

See Notes to Consolidated Financial Statements.

BESTSELF BEHAVIORAL HEALTH, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	Program Services										Support Services			
	Clinics	**Child Advocacy Center**	**Building Brighter Futures**	**Personal Recovery Oriented Services**	**Substance Use Disorders**	**Homeless Services**	**Assertive Community Treatment**	**Care Coordination**	**Other Services**	**Total Program Services**	**General and Administrative**	**Fundraising**	**Total Support Services**	**Total**
Salaries	$ 9,626,147	$ 255,980	$ 722,293	$ 1,340,466	$ 1,396,755	$ 561,650	$ 1,655,214	$ 2,757,517	$ 216,042	$ 18,532,064	$ 2,209,753	$ 65,752	$ 2,275,505	$ 20,807,569
Fringe benefits	2,346,064	64,721	174,971	311,298	325,741	126,605	387,639	683,131	45,663	4,465,833	529,629	13,031	542,660	5,008,493
Consultants - direct care	1,302,828	-	-	177,563	76,529	16,560	148,650	187,742	275	1,910,147	-	-	-	1,910,147
Total personnel related expenses	13,275,039	320,701	897,264	1,829,327	1,799,025	704,815	2,191,503	3,628,390	261,980	24,908,044	2,739,382	78,783	2,818,165	27,726,209
Advertising	6,149	-	-	1,607	5,528	17	644	2,530	50,897	67,372	74,780	-	74,780	142,152
Client incidentals	8,529	1,601	5,841	81,606	180,942	621,439	82,858	82,098	-	1,064,914	10,889	-	10,889	1,075,803
Depreciation	52,581	186	819	15,423	55,333	78,806	48,613	7,612	127	259,500	69,576	-	69,576	329,076
Dues and subscriptions	3,107	-	120	268	995	2,781	-	7,500	-	14,771	27,558	-	27,558	42,329
Equipment expense	186,965	4,729	18,771	23,673	49,875	25,322	52,771	113,996	(20,928)	455,174	77,001	-	77,001	532,175
Information technology	85,367	809	1,276	7,695	3,069	4,257	61,457	188,263	170,062	522,255	99,514	-	99,514	621,769
Insurance	2,551	207	13	1,614	5,771	2,429	11,455	1,487	6	25,533	111,859	-	111,859	137,392
Janitorial supplies	63,291	4,221	599	26,702	23,711	27,890	23,154	17,258	6,569	193,395	28,828	-	28,828	222,223
Office supplies and expenses	99,197	5,301	6,976	24,269	14,935	16,094	17,986	28,935	2,017	215,710	127,947	-	127,947	343,657
Other expenses	1,815	81,794	-	800	70,320	3,873	1,433	1,133	-	161,168	11,691	15,567	27,258	188,426
Postage	9,112	186	314	646	168	371	254	5,558	29	16,638	11,839	-	11,839	28,477
Professional services	21,328	462	45,450	341	3,895	-	2,061	15,060	315,181	403,778	353,461	-	353,461	757,239
Program supplies	19,996	1,786	208,077	8,995	20,326	7,464	1,976	3,608	566	272,794	1,484	-	1,484	274,278
Recruiting	43,796	174	4,087	416	4,358	50	1,239	1,178	1,122	56,420	42,228	-	42,228	98,648
Rent	717,268	45,056	4,383	243,937	221,071	21,320	118,160	90,874	1,798	1,463,867	186,526	-	186,526	1,650,393
Repairs and maintenance	44,950	553	98	10,930	67,885	17,986	11,746	12,732	87,187	254,067	16,832	-	16,832	270,899
Staff development	22,961	130	1,567	8,606	38,427	311	5,703	3,203	12,750	93,658	17,837	-	17,837	111,495
Telephone	148,346	6,854	5,873	35,554	22,003	18,978	43,525	48,667	1,467	331,267	52,811	-	52,811	384,078
Travel	69,469	2,319	4,029	7,616	15,941	9,971	35,095	87,845	24,401	256,686	27,401	-	27,401	284,087
Utilities	85,918	5,936	316	34,565	2,401	103,524	76,808	15,672	66	325,206	11,373	-	11,373	336,579
Vehicle operations and maintenance	171	-	-	3,300	19,451	4,471	35,493	3,664	-	66,550	25,874	-	25,874	92,424
Total expenses	$ 14,967,906	$ 483,005	$ 1,205,873	$ 2,367,890	$ 2,625,430	$ 1,672,169	$ 2,823,934	$ 4,367,263	$ 915,297	$ 31,428,767	$ 4,126,691	$ 94,350	$ 4,221,041	$ 35,649,808

See Notes to Consolidated Financial Statements.

BESTSELF BEHAVIORAL HEALTH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	**$ (384,316)**	$ 4,747,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**546,936**	329,076
Unrealized (gain) loss on investments	**15,238**	(161)
Contributed investments	**-**	(99,833)
Inherent contribution due to merger	**-**	(2,828,309)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	**(609,410)**	(668,416)
Contracts and grants receivable	**181,758**	(1,594,641)
Prepaid expenses	**25,352**	(98,649)
Increase (decrease) in:		
Accounts payable	**801,599**	484,505
Accrued salaries and benefits	**1,101,678**	559,847
Amounts due to third-party payors	**5,411,675**	(342,753)
Net cash provided by operating activities	**7,090,510**	488,584
Cash Flows From Investing Activities		
Purchase of property and equipment	**(5,599,346)**	(829,736)
Purchase of investments	**(11,152)**	(6,025)
Proceeds from sale of investments	**172,303**	-
Cash received from merger with CATS Foundation	**-**	379,101
Cash received from merger with CATS	**-**	1,528,576
Net cash provided by (used in) investing activities	**(5,438,195)**	1,071,916
Cash Flows From Financing Activities		
Proceeds from long-term debt	**3,000,000**	-
Net cash provided by financing activities	**3,000,000**	-
Increase in cash and cash equivalents	**4,652,315**	1,560,500
Cash and cash equivalents:		
Beginning of year	**2,328,804**	768,304
End of year	**$ 6,981,119**	$ 2,328,804

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

BestSelf Behavioral Health, Inc. (BestSelf) is one of the largest community-based behavioral health organizations serving children and adults of all ages in Western New York. Formed by the June 1, 2017 merger of Lake Shore Behavioral Health and Child & Adolescent Treatment Services (Note 3), BestSelf provides a comprehensive array of treatment and rehabilitation services to promote self-sufficiency, wellness and recovery, and an enhanced quality of life for individuals and families dealing with mental health and substance use disorders. BestSelf supports a family-focused approach to treatment, incorporates principles of person-centered planning and believes that each person has the potential for recovery and an improved quality of life.

BestSelf is the sole corporate member of two related entities; BestSelf Properties, Inc. and BestSelf Foundation, Inc. formally known as Lake Shore Community Mental Health Foundation and Child & Adolescent Treatment Services Foundation, Inc., respectively. BestSelf includes the related entities in these consolidated financial statements. BestSelf and the related entities are hereinafter referred to as “the Companies.”

A summary of the Companies significant accounting policies follows:

Principles of consolidation:

The consolidated financial statements reflect the consolidation of individual financial statements of the Companies. All intercompany accounts and transactions have been eliminated in consolidation.

Accounting changes:

During 2018, the Companies adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* This ASU requires various modifications to the current financial statement presentation in order to make information more useful for the users of the financial statements. Key changes that impact the Companies include expanded disclosures regarding donor restrictions and board designations of net assets; reducing the net asset classifications from three to two; and liquidity disclosure requirements.

Cash and cash equivalents:

For purposes of reporting the consolidated statements of cash flows, the Companies include all cash and money market accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as 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. The Companies believe they are not exposed to any significant credit risk on cash.

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

Investments:

The Companies have investments in mutual funds as further described in Note 4. Investments are reported at fair value. Dividends are recognized in income when received. Realized and unrealized gains and losses are reported in the consolidated statements of operations and changes in net assets.

Investment in Value Network IPA, LLC:

BestSelf accounts for its 25% membership in Value Network IPA, LLC (Value Network) using the equity method of accounting. Value Network was formed in 2018 to receive and distribute funds to providers and contractors. The funds will be used to prepare behavioral health providers to engage in value based payment arrangements. This will be accomplished by facilitating shared infrastructure and administrative capacity, collective quality management, clinic integration and increased cost-effectiveness. BestSelf has entered into a subcontractor agreement with Value Network to provide service under Value Network's work plan. There were no transactions under this agreement as of December 31, 2018. The investment in Value Network was not significant for 2018.

Accounts receivable:

Receivables for services provided are recorded at the amount the Companies expect to be reimbursed based on approved reimbursement rates in place at the time the service is provided. Management evaluates the collectability of accounts receivable on an ongoing basis based upon the Companies review of current accounts, historical collection experience and management evaluation and adjusts for uncollectible amounts through an allowance for doubtful accounts. Recoveries of amounts previously written off are recorded as revenue at the time such amounts are collected. Accounts receivable are reported net of an allowance for contractual adjustments and doubtful accounts of $651,558 and $824,943 as of December 31, 2018 and 2017, 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
Building and improvements	7 - 25
Leasehold improvements	10 - 15
Equipment	5 - 15
Furniture and fixtures	4 - 15
Vehicles	5 - 7

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

Property and equipment (continued):

Improvements to leased property are amortized over the life of the lease or the life of the improvements, whichever is less. Amortization of leased property is included in depreciation expense.

The Companies capitalize all property and equipment with an initial cost of $5,000 or more. Expenditures for minor equipment, maintenance and repairs are charged to expense as incurred.

Included in property, buildings and equipment are assets purchased with funds from governmental agencies that have certain restrictions as to type and term of use.

Amounts due to third-party payors:

Amounts due to third-party payors include advances from government contracts and grants where cash has been received in advance of expenses being incurred, as well as overpayments received for various Medicaid supplements.

Net assets:

The Companies are required to report information regarding their financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose.

The BestSelf's Board of Directors has designated, from assets without donor restrictions, net assets for long-term investment purposes amounting to $724,534 and $735,371 as of December 31, 2018 and 2017, respectively.

Revenue recognition:

Net patient service revenue - BestSelf has agreements with third-party payors which provide for reimbursement to BestSelf for services provided at established rates. Net patient service revenue from Medicaid and third-party insurance plans accounted for approximately 83% and 16% of net patient service revenue for the year ended December 31, 2018, respectively, and 64% and 34% of net patient service revenue for the year ended December 31, 2017, respectively. Net patient 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 - BestSelf provides certain treatment and rehabilitation services in accordance with contracts and grants including those that provide deficit funding. The contracts provide funding to BestSelf from federal, state and county governmental units to the extent that expenses exceed patient service revenue received from other sources.

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

Revenue recognition (continued):

Laws and regulations governing the Medicaid and Medicare programs are extremely 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. BestSelf continuously evaluates 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 patient service revenues or contracts and grants.

Provision for audit and retroactive adjustments by funding agencies, Medicaid 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.

BestSelf was chosen by New York State to participate in Medicaid's Certified Community Behavioral Health Clinic (CCBHC) demonstration project beginning July 1, 2017. As a CCBHC provider, BestSelf is subject to certain reporting requirements including the filing of an annual cost report for each fiscal year July 1 to June 30. The cost report for the CCBHC base year ended June 30, 2018 has been timely filed and will be used to establish future service rates and also to reconcile the 2017/2018 base year. While BestSelf has not yet been formally notified by Medicaid of specific adjustments that will result from the filing of the base year cost report for the CCBHC year ended June 30, 2018, management believes it is probable that adjustments will occur and can be estimated. Therefore, included in these financial statements is a liability for services provided from July 1, 2017 through December 31, 2018 amounting to $5,250,000. This amount is included in due to third-party payors in the 2018 statement of financial position.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by a donor. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional pledges are recognized as revenue when the stipulated conditions have been met.

The Companies report gifts of cash and investments as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

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

Contributions (continued):

The Companies report gifts of land, buildings and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Companies report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donor restricted contributions whose restrictions are met in the same reporting periods are reported as support without donor restrictions in the consolidated statements of operations and changes in net assets.

Income taxes:

The Companies 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, 2018 or 2017.

Management believes that the Companies are no longer subject to income tax examinations for years prior to 2016.

Methods used for allocation of expenses between program and support services:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Operating income:

The Companies follow the reporting requirement of the American Institute of Certified Public Accountants' Audit and Accounting Guide – "Health Care Entities" (the Guide). The Guide requires that the consolidated statements of operations for a not-for-profit business-oriented health care entity include a performance indicator. The Companies define their performance indicator as "operating income" in the consolidated statements of operations and changes in net assets. The Companies' operating income includes all revenues, gains, expenses and losses for the reporting period generated from the Companies' operations. Investment income and the inherent contribution due to acquisition are excluded from operating income and reported in the non-operating section of the consolidated statements of operations and changes in net assets.

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

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:

ASU 2014-09, *Revenue from Contracts with Customers,* affects virtually all aspects of an entity's revenue recognition, including determining the measurement of revenue and the timing of when it is recognized for the transfer of goods or services to customers. This ASU is effective for the Companies in the year ending December 31, 2019. Management does not expect the ASU to have a significant impact on the Companies' revenue recognition policies and, as a result, does not expect the implementation of the ASU to materially affect the opening balance of net assets or revenues reported in the 2019 financial statements.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides clarified guidance on evaluating whether transactions should be accounted for as a contribution (non-reciprocal transaction) within the scope of Topic 958 Not-for-Profit Entities, or as an exchange (reciprocal) transaction subject to other guidance, and determining whether the contribution is conditional. ASU 2018-08 will be effective for the Companies for the year ending December 31, 2019. Management does not expect the ASU to have a significant impact on the Companies' revenue recognition policies and, as a result, does not expect the implementation of the ASU to materially affect the opening balance of net assets or revenues reported in the 2019 financial statements.

ASU 2016-02, *Leases,* 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 their year ending December 31, 2020, although earlier application is permitted. As disclosed in Note 8, the Companies have entered into significant operating leases with expiration dates through 2028. The new standard will require the presentation of these leases in the statement of financial position. The Companies do not expect a material impact on the consolidated statement of operations and changes in net assets.

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.

Note 2. Liquidity Information

As part of the Companies liquidity management practice, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Companies have financial assets of $13,750,379 available within one year of the balance sheet date to meet the cash needs for general expenditure. The financial assets consist of the following:

Cash	$ 6,981,119
Investments	635,809
Receivables expected to be collected within one year	6,857,985
Less cash and investments subject to board designation	(724,534)
Total financial assets	$ 13,750,379

The Companies also have agreements with a bank for a maximum borrowing capacity of $2,000,000, which it could draw upon in the event of an unanticipated liquidity need. There were no outstanding balances at December 31, 2018 and 2017.

Note 3. Merger and Consolidation

The merger described in Note 1 was accounted for by the acquisition method whereby Lake Shore Behavioral Health, Inc. acquired the assets and assumed the liabilities of Child & Adolescent Treatment Services, Inc. (CATS). This transaction resulted in an inherent contribution received from CATS in the amount of $2,828,309. The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

Assets acquired and liabilities assumed	
Cash	$ 1,528,576
Receivables	1,204,859
Investments	173,465
Prepaid and other assets	85,628
Beneficial interest in a foundation	433,163
Fixed assets	97,444
Current liabilities	(694,826)
Inherent contribution	$ 2,828,309

The merger between Lake Shore Behavioral Health and CATS took place on June 1, 2017. Therefore, the accompanying 2017 financial statements include the activity of CATS from June 1, 2017 through December 31, 2017.

Note 4. Investments and Fair Value Measurements

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority level to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Companies have the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value 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 for assets and liabilities measured at fair value. There have been no changes in methodologies used at December 31, 2018 and 2017:

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds owned by the Companies are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The Companies deem mutual funds owned by them to be actively traded.

Government backed bonds: Valued at estimated fair value as determined by third-party pricing services and qualified appraisers.

Common stock: Stated at fair value based on quoted market prices.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Companies believe their valuation method is 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.

Note 4. Investments and Fair Value Measurements (Continued)

The following tables set forth the Companies assets at fair value, by level, within the fair value hierarchy at December 31, 2018 and 2017:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual Fund – Short-term Bond Fund	**$ 544,989**	**$ -**	**$ -**	**$ 544,989**
Common Stocks	**90,820**	**-**	**-**	**90,820**
Total	**$ 635,809**	**$ -**	**$ -**	**$ 635,809**

	2017			
	Level 1	Level 2	Level 3	Total
Mutual Fund – Short-term Bond Fund	$ 672,443	$ -	$ -	$ 672,443
Government Backed Bonds	-	39,922	-	39,922
Common Stocks	99,833	-	-	99,833
Total	$ 772,276	$ 39,922	$ -	$ 812,198

Investments had a cost of $654,891 and $815,970 as of December 31, 2018 and 2017, respectively. Investment income consists primarily of interest and dividend income for both 2018 and 2017 and is offset by changes in the market.

Investments 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 the investment balances in the consolidated statements of financial position.

Note 5. Property and Equipment

Property and equipment consists of the following as of December 31, 2018 and 2017:

	2018	2017
Land and improvements	**$ 507,908**	$ 110,408
Building and improvements	**5,099,429**	1,195,907
Leasehold improvements	**3,261,370**	2,367,026
Equipment	**1,213,288**	1,015,905
Furniture and fixtures	**555,396**	555,396
Vehicles	**1,240,145**	1,152,842
	11,877,536	6,397,484
Less accumulated depreciation	**4,737,510**	4,309,868
	$ 7,140,026	$ 2,087,616

Note 6. Long-Term Debt

The companies entered into a mortgage note payable to a bank in the amount of $3,000,000. The note requires payments of interest at the prime rate through April 1, 2020, at which time the principal will be due.

Note 7. Employee Benefit Plan

BestSelf sponsors a defined contribution retirement plan (the Plan) that covers substantially all employees and provides for a safe-harbor contribution of not less than 3% of eligible compensation and a discretionary amount. Total employer contribution expense related to the Plan amounted to $1,427,800 and $680,574 for the years ended December 31, 2018 and 2017, respectively.

Note 8. Leases

BestSelf leases certain office space under noncancelable operating leases expiring at various times through 2028. Rent expense for noncancelable operating leases for the years ended December 31, 2018 and 2017 amounted to $2,268,880 and $1,650,393, respectively. Future minimum payments, by year and in the aggregate, under the operating leases consist of the following at December 31, 2018:

Years ending December 31,	
2019	$ 2,206,796
2020	1,697,529
2021	1,553,299
2022	1,570,385
2023	5.490,154
Total	$ 12,518,163

Note 9. Support from Governmental Units

BestSelf receives the majority of its 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 BestSelf's programs and activities.

Note 10. Professional Liability Insurance

BestSelf purchases professional liability insurance to cover medical incident claims. The occurrence basis policy is subject to renewal and a retrospective premium adjustment each year and covers incidents that occurr during the term of the policy regardless of when a claim is made. Management is not aware of any medical incidents outstanding under this policy as of December 31, 2018 and 2017.

Note 11. Related Party Disclosure

The President of BestSelf is on the Board of Directors of Health Homes of Upstate New York (HHUNY). Additionally, BestSelf is a member of Chhuny, LLC (CHHUNY). These agencies were established by Medicaid designed to bring together different care providers and services such as doctors, clinics, counseling and social service programs. BestSelf is also a provider of services to clients referred by HHUNY and CHHUNY. Medicaid revenue for services referred to BestSelf by HHUNY and CHHUNY amounted to $5,177,725 and $3,496,362 for the years ended December 31, 2018 and 2017, respectively.

The balance receivable from HHUNY and CHHUNY for these services amounted to $994,851 and $362,638 as of December 31, 2018 and 2017, respectively.

BestSelf is also reimbursed by HHUNY for certain costs approximating $213,000 and $161,000 for the years ended December 31, 2018 and 2017, respectively.

BestSelf is the designated lead agency under a grant from the New York State Office of Mental Health and Office of Alcohol and Substance Abuse Services to Value Network (Note 1). As lead agency, BestSelf receives funding as an agent and for the benefit of Value Network which is passed through to Value Network. No amounts are recorded in the financial statements related to these transactions as an agent.

Note: 12. Subsequent Events

During 2019, BestSelf purchased a building in North Collins, New York in the amount of $275,000. BestSelf anticipates making improvements to the building amounting to approximately $400,000 during 2019.

Subsequent events have been evaluated through May 23, 2019, which is the date the consolidated financial statements were available to be issued.

* * * * *