Premier Healthcare, Inc.

Premier HealthCare

Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2017 and 2016

MARKS PANETH
ACCOUNTANTS & ADVISORS

PREMIER HEALTHCARE, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
www.markspaneth.com

MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Premier Healthcare, Inc.

We have audited the accompanying financial statements of the Premier Healthcare, Inc. ("PHC"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, 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.

Auditors' 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 PHC as of December 31, 2017 and 2016, 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.

Emphasis-of-Matter

The accompanying financial statements have been prepared assuming that PHC will continue as a going concern. As discussed in Note 12, PHC has suffered recurring losses and its unrestricted net asset balance is in a deficit position as of December 31, 2017 and 2016 that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter are also described in Note 12. Our opinion is not modified with respect to this matter.

Marks Paneth LLP

New York, NY
November 9, 2018

Morison KSi
Independent member

PREMIER HEALTHCARE, INC
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents (Notes 2C and 8)	$ 1,085,363	$ 2,630,364
Accounts receivable, net (Notes 2D and 3)	2,199,330	1,935,172
Prepaid expenses and other receivables	327,873	381,755
Property and equipment, net (Notes 2G and 4)	1,125,079	1,717,178
TOTAL ASSETS	$ 4,737,645	$ 6,664,469
LIABILITIES		
Accounts payable and accrued expenses	$ 1,034,880	$ 1,110,369
Accrued salary, vacation and benefits (Note 9)	983,383	1,031,860
Bank line of credit (Note 5)	1,282,330	1,267,734
Due to Young Adult Institute, Inc. (Note 10)	5,843,425	5,789,476
Due to funding sources (Notes 7C and 11)	2,202,186	6,202,261
Deferred rent (Note 2J)	132,831	257,368
Mortgage payable (Note 6)	-	142,477
TOTAL LIABILITIES	11,479,035	15,801,545
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET DEFICIT (Notes 2B and 12)		
Unrestricted	(6,741,390)	(9,137,076)
TOTAL NET DEFICIT	(6,741,390)	(9,137,076)
TOTAL LIABILITIES AND NET DEFICIT	$ 4,737,645	$ 6,664,469

The accompanying notes are an integral part of these financial statements.

PREMIER HEALTHCARE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUE AND SUPPORT		
Medicaid (Note 2I)	$ 17,250,807	$ 13,616,461
Medicare and client fees	1,709,097	1,901,828
Grants and other revenues	307,131	728,358
Contributions	4,701	18,000
Other income	30,922	1,208
TOTAL REVENUE AND SUPPORT	19,302,658	16,265,855
EXPENSES		
Program services	13,639,145	14,290,379
Management and general	2,588,327	2,496,785
TOTAL EXPENSES	16,227,472	16,787,164
CHANGE IN UNRESTRICTED NET DEFICIT BEFORE DEPRECIATION	3,075,186	(521,309)
Depreciation (Notes 2G and 4)	679,500	682,856
CHANGE IN UNRESTRICTED NET DEFICIT	2,395,686	(1,204,165)
Net Deficit - beginning of year	(9,137,076)	(7,932,911)
NET DEFICIT - END OF YEAR	$ (6,741,390)	$ (9,137,076)

PREMIER HEALTHCARE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 30, 2017 AND 2016

	Program Services	Management and General	Total 2017	Program Services	Management and General	Total 2016
Personnel services	$ 8,532,390	$ 571,480	$ 9,103,870	$ 8,768,946	$ 419,671	$ 9,188,617
Employee benefits and payroll taxes	1,721,600	109,865	1,831,465	1,898,421	92,488	1,990,909
Total personnel services and benefits	10,253,990	681,345	10,935,335	10,667,367	512,159	11,179,526
Contracted services	636,327	30,000	666,327	826,597	65,302	891,899
Professional fees	3,299	114,839	118,138	27,210	166,060	193,270
Program recreational and supplies	367,473	-	367,473	275,104	7,762	282,866
Food	440	-	440	786	-	786
Transportation	121,118	779	121,897	123,731	584	124,315
Office and expensed equipment	156,935	34,533	191,468	144,962	12,382	157,344
Staff development	42,838	34,029	76,867	36,319	27,879	64,198
Occupancy	1,220,156	-	1,220,156	1,355,795	1,600	1,357,395
Repairs and maintenance	242,557	28,538	271,095	284,461	2,837	287,298
Insurance	160,177	123,185	283,362	234,771	163,069	397,840
Utilities	79,660	-	79,660	72,031	-	72,031
Telephone	98,740	4,496	103,236	100,744	1,119	101,863
Information technology	200,704	4,570	205,274	12,159	219,690	231,849
Mortgage and capital interest	725	56,498	57,223	15,275	58,513	73,788
Bad debt	49,990	-	49,990	100,660	-	100,660
Miscellaneous	4,016	25,827	29,843	12,407	13,687	26,094
Support services	-	1,449,688	1,449,688	-	1,244,142	1,244,142
TOTAL EXPENSES BEFORE DEPRECIATION	13,639,145	2,588,327	16,227,472	14,290,379	2,496,785	16,787,164
Depreciation	679,113	387	679,500	248,882	433,974	682,856
TOTAL EXPENSES	$ 14,318,258	$ 2,588,714	$ 16,906,972	$ 14,539,261	$ 2,930,759	$ 17,470,020

The accompanying notes are an integral part of these financial statements.

PREMIER HEALTHCARE, INC
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net deficit	$ 2,395,686	$ (1,204,165)
Adjustments to reconcile change in net deficit to net cash (used in) provided by operating activities:		
Depreciation	679,500	682,856
Bad debt	49,990	100,660
Subtotal	3,125,176	(420,649)
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Accounts receivable	(314,148)	437,730
Prepaid expenses and other receivables	53,882	(35,128)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	(75,489)	290,102
Accrued salary, vacation and benefits	(48,477)	119,176
Due to funding sources	(4,000,075)	150,982
Deferred rent	(124,537)	3,048
Net Cash (Used in) Provided by Operating Activities	(1,383,668)	545,261
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(87,401)	(71,301)
Net Cash Used in Investing Activities	(87,401)	(71,301)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of line of credit	(1,267,734)	(229,793)
Repayments of mortgage payable	(142,477)	(235,651)
Borrowings on line of credit	1,282,330	-
Increase (decrease) in due to Young Adult Institute, Inc.	53,949	(91,757)
Net Cash Used in Financing Activities	(73,932)	(557,201)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,545,001)	(83,241)
Cash and cash equivalents - beginning of the year	2,630,364	2,713,605
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 1,085,363	$ 2,630,364
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 57,223	$ 73,788

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Premier Healthcare, Inc. ("PHC") was incorporated in 1995 under the Not-for-Profit Corporation Law of New York State and commenced operations on April 1, 1997. PHC is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. PHC has an equivalent exemption from income tax at the state and local level.

PHC is an outpatient diagnostic and treatment center offering health care services to the general public with a specialty in medical services for people with developmental and learning disabilities and their families in many sites throughout the New York area. PHC, is a quality health care practice providing outpatient clinic services which include: primary health, pediatrics, internal medicine, dentistry (including desensitization), nutrition, gynecology, neurology, podiatry, psychiatry, physical therapy, occupational therapy, ophthalmology, speech pathology and psychology. PHC's primary source of revenue is patient service fees received from Medicaid, Medicare and other third-party payors. Young Adult Institute, Inc. ("YAI"), a non-profit organization is the sole member of PHC.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting and Use of Estimates -*** PHC's financial statements have been prepared on the accrual basis of accounting. PHC adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

B. ***Basis of Presentation -*** PHC maintains its net assets under the following three classes:

Unrestricted - This represents net assets not subject to donor-imposed stipulations and that have no time restrictions. Such resources are available for support of PHC's operations over which the Board of Directors has discretionary control.

Temporarily Restricted - This represents net assets subject to donor-imposed stipulations that will be met by actions of PHC or by the passage of time. When a stipulated time restriction ends or purpose restriction is accomplished, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. As of December 31, 2017 and 2016, there were no temporarily restricted net assets.

Permanently Restricted - This represents net assets subject to donor-imposed stipulations that they be maintained permanently by PHC. As of December 31, 2017 and 2016, there were no permanently restricted net assets.

C. ***Cash and Cash Equivalents*** **-** PHC considers highly liquid debt instruments with maturities of three months or less, when acquired, to be cash and cash equivalents.

D. ***Allowance for Uncollectible Receivables -*** PHC determines whether an allowance for uncollectible receivables should be provided for accounts receivable. Such estimate is based on management's assessment of the aged basis of its receivables, current economic conditions, historical experience and collections subsequent to year end. As of December 31, 2017 and 2016, PHC determined an allowance of $119,370 and $162,676, respectively, were necessary for accounts receivable.

E. ***Revenue Sources and Recognition -*** PHC records fee for service revenue based on established rates multiplied by the number of units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, PHC records a liability due to funding sources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ***Contributions and Grants -*** Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. PHC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

G. ***Property and Equipment -*** Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the useful lives of the improvements or the term of the applicable lease. Property and equipment is capitalized by PHC provided its cost is $5,000 or more and its useful life is greater than one year.

H. Functional Expenses - The costs of providing program and supporting services of PHC have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

I. Prior Period Revenue - There are occasions when funding source reimbursements for prior years are adjusted in the current year. Such adjustments may be due to retroactive rate adjustments, funding source audit findings, additional monies available over and above original contract amounts, rate appeal results, etc. As of December 31, 2017 and 2016, increases of approximately $4,797,000 and $454,000, respectively, of prior year revenues relating to such adjustments are included in Medicaid revenue.

J. ***Deferred Rent -*** PHC leases real property under various operating leases. The leases include rent escalations. Since the rent increases over time, PHC records an adjustment to rent expense each year to reflect its straight-lining policy. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent liability in the accompanying statement of financial position. As of December 31, 2017 and 2016, this amounted to $132,831 and $257,368, respectively.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of December 31, 2017 and 2016*:*

	2017	2016
Due from Medicaid	$ 1,729,541	$ 974,672
Due from Medicare	359,210	631,955
Due from private pay	4,769	6,024
Due from other sources	225,180	485,197
Subtotal	2,318,700	2,097,848
Less: Allowance for doubtful accounts	(119,370)	(162,676)
	$ 2,199,330	$ 1,935,172

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2017 and 2016:

	2017	2016	Estimated Useful Lives
Leasehold improvements	$ 3,387,133	$ 3,344,760	5-25 years
Medical equipment	719,503	719,503	5 years
Office equipment	407,414	407,414	5 years
Furniture and fixtures	194,954	194,954	5 years
Computer software	2,107,563	2,092,030	3-5 years
Work in Progress	29,495	-	
	6,846,062	6,758,661	
Less accumulated depreciation and amortization	(5,720,983)	(5,041,483)	
	$ 1,125,079	$ 1,717,178	

Depreciation and amortization expense amounted to $679,500 and $682,856 for the years ended December 31, 2017 and 2016. PHC wrote off fully depreciated assets of $0 and $161,535 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, construction in progress primarily consisted of architect fees incurred for the renovation of a clinic in New York City. The total project cost is estimated to be approximately $174,000. The amounts will be paid by a grant from Dormitory Authority of the State of New York. The project will fully start upon the finalization of the grant.

NOTE 4 – BANK LINE OF CREDIT

On November 3, 2017, PHC received a $3 million uncommitted discretionary line of credit from a bank. It will be due on November 3, 2019. PHC had borrowed $1,282,330 and $1,267,734 as of December 31, 2017 and 2016, respectively. The line has an interest rate of one half percent above prime rate (amounting to an interest rate of 5.0% and 4.25% as of December 31, 2017 and 2016, respectively). Borrowings were guaranteed by YAI. PHC must comply with certain administrative and financial covenants, which it has done. Interest expense for the years ended December 31, 2017 and 2016 amounted to $56,498 and $58,513, respectively. The outstanding balance as of November 9, 2018 is $1,282,330.

NOTE 6 – MORTGAGE PAYABLE

The mortgage payable bearing an interest rate of 4.541% per annum is secured by property located at 3060 Tremont Avenue, Bronx, New York and matured on June 30, 2017. In January 2017, the loan was paid off. As of December 31, 2017 and 2016, the loan balance was $0 and $142,477, respectively. Interest expense for the years ended December 31, 2017 and 2016 amounted to $725 and $15,275, respectively.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

A. PHC has several operating lease agreements. The difference between straight lining the rental charge and actual payments is reported as deferred rent in the accompanying statements of financial position. Annual future minimum rentals payable for real property, principally under long-term noncancellable operating leases expiring at varying dates through 2027, are as follows:

2018	$ 1,205,679
2019	1,243,289
2020	1,001,430
2021	895,096
2022	835,808
Thereafter	2,468,610
	$ 7,649,912

NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)

Rent expenses for the years ended December 31, 2017 and 2016 amounted to $1,046,409 and $1,167,372, respectively.

B. PHC believes it has no uncertain tax positions as of December 31, 2017 and 2016 in accordance with Accounting Standard Codification ("ASC") Topic 740, "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

C. PHC receives a significant portion of its revenue for services provided from third-party reimbursement through government agencies and Medicaid. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the government. PHC, when appropriate, records an estimated liability to governmental agencies for any excess reimbursement over allowable costs and underspending of interim rates.

D. PHC is subject to legal proceedings and claims which have arisen in the ordinary course of its business and which have not been fully adjudicated. Management does not believe there will be a material adverse effect on the financial position of PHC.

NOTE 8 – CONCENTRATIONS

Cash and cash equivalents that potentially subject PHC to a concentration of credit risk include cash and short-term investment accounts with five banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Cash and short-term investment accounts are insured up to $250,000 per depositor. As of December 31, 2017 and 2016, there was approximately $709,900 and $2,154,000 of cash and cash equivalents held by the banks that exceeded FDIC limits.

NOTE 9 – RETIREMENT PLAN

A. PHC has a defined contribution retirement plan covering all full-time employees who have completed one full year of service, working at least 1,000 hours. Participant balances are vested based on completed years of service, fully vested after seven years. Contributions and cost to this plan are based on amounts determined in accordance with the Internal Revenue Service Code Section 415. This plan was terminated in March 2016. For the year ended December 31, 2016, $0 was contributed to the plan.

B. On July 1, 2015, PHC adopted the YAI Network Affiliates 401(a) Plan. Employees are eligible to participate in the plan upon completion of one year of service after July 1, 2015, and of which the employee worked at least 1,000 hours. Contributions and costs of the plan are based on amounts determined in accordance with the Internal Revenue Service Code Section 415 on an annual basis. For the years ended December 31, 2017 and 2016, there were employer contributions to the plan of $16,372 and $168,746, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

PHC has a management agreement with YAI to provide management services which include, but are not limited to, accounting and financial operations, administrative and program support, human resources, education and training, information technology and general management. For the years ended December 31, 2017 and 2016, PHC incurred management fee expenses amounting to $1,449,688 and $1,244,142, respectively. The total amount outstanding as of December 31, 2017 and 2016 was $5,843,425 and $5,789,476. For the years ended December 31, 2017 and 2016, PHC received rental income from YAI amounted to $100,800 and $50,400, respectively. PHC entered an amendment of sublease with YAI on March 1, 2008. PHC subleased two properties from YAI. The rent expense is 34% and 37% of base rent that YAI is liable for as of December 31, 2017 and 2016, respectively. The sublease amendment will expire on February 28, 2020. For the years ended December 31, 2017 and 2016, the sublease rent expense amounted to $564,105 and $594,068, respectively.

NOTE 11 – DUE TO MEDICAID

As required by statute, the New York State Department of Health ("DOH") has begun transitioning Medicaid payments to diagnostic and treatment centers licensed under Article 28 of the New York Public Health Law ("D&TCs") to the Ambulatory Patient Group ("APG") payment methodology. On February 25, 2013, PHC along with other D&TCs, received notice from DOH that the capital component of PHC's Medicaid payment rate for the period September 1, 2009 through December 31, 2012 had been retroactively rebased, purportedly in accordance with annual D&TC cost reports submitted by PHC for successive years. In the same notice, DOH advised PHC that it intended to commence a take-back equal to 15 percent of PHC's Medicaid remittances to recoup payments received during that period in excess of PHC's recalculated rate. During 2017, DOH agreed to reduce the amount due resulting in a decrease of the liability of approximately $4.1 million. The amount outstanding as of December 31, 2017 and 2016 was $2,202,186 and $6,202,261, respectively.

NOTE 12 – DEFICIT NET ASSETS

As of December 31, 2017 and 2016, PHC has a deficit unrestricted net asset balance of $6,741,390 and $9,137,076, respectively. This deficit is an accumulation of losses incurred by PHC in prior years. These deficits were covered by YAI, as the fiscal agent of PHC, resulting in the liability to YAI amounting to $5,843,425 and $5,789,476 as of December 31, 2017 and 2016, respectively. There is no guarantee that YAI will not demand repayment of the outstanding liability in the near term.

For the year ended December 31, 2016, PHC had a decrease in unrestricted net assets amounting to approximately $1,200,000, and a decrease in cash from operations amounting to approximately $83,000. For the year ended December 31, 2017, PHC had an increase in unrestricted net assets amounting to approximately $2,400,000 and a decrease in cash from operations amounting to approximately $1,545,000. Management expects that during the year ended December 31, 2018, cash flow will be sufficient to cover operating costs and other needs enabling PHC to continue as a going concern. PHC has implemented changes to operations with the goal of improving financial performance and ensuring short-term and long-term financial stability. As the financial performance continues to improve, PHC will work with YAI on a repayment plan through a series of revenue enhancing activities and operational efficiencies.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated, for potential accrual or disclosure, events subsequent to the date of the statement of financial position through November 9, 2018, the date the financial statements were available to be issued.