The year 2005 marked the 30-year anniversary of Horizon Health Services providing treatment and rehabilitation services to the Western New York community. This corporation was originally founded to help individuals with severe mental illness who were facing the challenges of re-entering the community after many years of residence in state hospitals.

Over these 30 years, we have witnessed major progress in our field involving changes in the kinds and scope of the care we provide, in the consumers’ role in participating and defining their care, and in the sophistication of care delivery systems. These changes have, in a large part, been permitted by scientific breakthroughs in the development of new and effective interpersonal and medication-based treatments. These changes have redefined our goal from “maintaining people in the community” to “partnering with consumers toward their recovery”.

2005 was an exciting year for treatment and recovery at Horizon. We expanded clinical capacity in all of our chemical dependency programs. We established a Continuous Quality Improvement department to provide leadership and support in the improvement of our clinical systems and the introduction of new best and evidence-based practices. We improved the core clinical programs with the implementation of several new evidence-based recovery interventions. We designed and implemented specific services to address the unique needs of women and families, including the addition of a psychiatrist to our clinical team who brings to Horizon an expertise and passion for working with women who are experiencing pregnancy-related mental health disorders. We added several new and talented individuals to our senior management team in the areas of human resources, information technology, finance, and to Horizon Village.

We are looking forward to building on these accomplishments in 2006. One major planned initiative is the establishment of outpatient chemical dependency services in Batavia, NY. This will be the first Horizon program located in Genesee County, thereby continuing the extension of our services to new markets that began with our expansion from Erie to Niagara County. We will also continue to develop specialty services for women, and to implement the use of new medications that assist individuals with addictions to opiates and other substances.

We know that our industry continues to face many challenges. We also know that our corporate security and the availability of high quality services to our consumers lies in our continued growth and change. I am confident of our future success because of our having a staff that is innovative, optimistic and energized by these challenges.

To our dedicated and talented staff and Board of Directors, my thanks for your efforts and support of our success in this past year.

Anne Constantino
President & CEO

A Message from the President

Only in growth, reform, and change, paradoxically enough, is true security to be found.
– Anne Morrow Lindbergh

OUR MISSION
Horizon provides an array of comprehensive services that assist individuals with mental health problems and/or addictions to make choices that improve their quality of life and achieve their personal recovery goals.

OUR VISION
The Horizon Group of Companies is working toward a future where the behavioral health system is providing effective treatment to anyone in WNY who needs and wants it, and where people can access the system without fear of stigma or stereotype.

In this future, individuals with behavioral health issues are included within their communities, and with the help of effective recovery and rehabilitation programs, are living renewed and productive lives.

CORE VALUES

Person-Centered Recovery: We provide recovery oriented services centered on the needs and wants of the consumer. We partner with consumers to help them to achieve their personal life visions.

Respect: We believe that every person has intrinsic dignity and unique capabilities.

Quality: We strive for the highest level of quality. Services are designed and supervised consistent with the use of proven best practices, highly professional behavior, and accountability. Everyone deserves our very best efforts. Horizon provides a consistent, high quality experience anywhere people encounter us. Even the highest expectations are met.

Integrity: Trust is built by delivering services as promised and not setting false expectations. We demonstrate honesty and integrity in all of our actions and interactions.

Personal Growth: Personal growth and development are essential for the recovery of our consumers and for the delivery of quality services. We encourage the development of each consumer and each employee to his or her fullest potential.
Innovation and Leadership

Provide services that are progressive and consistent with best and emerging practices.

Breadth of Service

Maintain and refine a broad range of behavioral and adjunct services that strike a balance between financial responsibility and meeting the recovery needs of consumers in a seamless system of care.

Growth

Maintain a model of sustainable growth of services that are consistent with our mission and that expands our capacity to serve populations in need.

Improved Quality

Make prudent investments in quality improvement by hiring and training the best staff and setting clear expectations and policies. Monitor our practices on an ongoing and timely basis and use these findings to continuously improve quality.

Recruitment and Retention

Recruit and promote top people in our major clinical fields and administrative areas who can lead the development of our new and differentiating programs.

Core Business Practices

Continuously review Horizon’s core business practices in order to ensure ongoing financial stability. Meet consumer needs in a financially sound and prudent manner by improving our processes and support systems.

Outcomes Orientation

Establish the necessary systems, processes and reporting mechanisms to demonstrate clearly the outcomes of Horizon’s service delivery and management effectiveness.

Service Environment

Create service environments that are professional, non-stigmatizing, attractive, and respectful. Service environments should be part of the healing process and should promote the integration of services around the needs of the consumer.

Entrepreneurship

Develop all aspects of Horizon’s entrepreneurial capability, turning the agency into an effective business that pursues opportunities like a for-profit company.

Fiscal Responsibility

We can only be successful in carrying out our mission through solid financial performance and by assuring that resources are used effectively as intended for the benefit of the Horizon Corporations and ultimately for our consumers and community.

Diversity

We embrace diversity as important to our mission and do not allow discrimination in hiring, promotion or service delivery.

Personal Health and Wellness

We value and encourage personal health and wellness as important to optimizing the capabilities of individuals employed by Horizon.

GOALS

The Best Quality and Measurable Outcomes

Everyone associated with Horizon will have a commitment to excellence and professionalism. Customer service and achievement of consumer goals define our success. We will be accountable for our clinical and service outcomes.

Recovery

Every person served by Horizon will have an opportunity to achieve his or her personal recovery goals.

Seamless, Person-Centered Services

Horizon’s integrated service delivery system will empower consumers and support their pursuing their hopes and dreams for recovery. Consumers will become true partners in selecting and implementing their care from among high quality services that are accessible and responsive to their needs and desires.

Human Resource Development

The most capable and responsible individuals will be attracted to Horizon’s professional atmosphere, the opportunities for career advancement, and the potential for making an important contribution to the success of Horizon and the people we serve.

DRIVING STRATEGIES

Innovation and Leadership

Provide services that are progressive and consistent with best and emerging practices.

HIGHLIGHTS AND ACCOMPLISHMENTS 2005

Operating Plan

• Paid off all long-term debt in the amount of $1.2 million.
• Secured one-time mental health deficit funding from the Niagara County Department of Mental Health for $100,000.
• Implemented the Brief Strategic Family Therapy program, a new and expanded service component for families, with a $111,000 grant from the Peter & Elizabeth C. Tower Foundation.
• Expanded the Erie County contract by $120,000 per year to include two additional positions for Mental Health Court.
• Expanded treatment capacity in our Addiction Program by adding several new counseling positions.
• Screened 8,093 individuals for services in 2005. Of that, we admitted 5,343 new clients or 66% of individuals who were screened.
• Major Referral Sources and number of clients referred:
  • Courts 1,750
  • Self/Family 2,500
  • Other Criminal Justice 1,000
  • Hospitals/Doctors 1,050

Administrative/Other

• Established new department for Continuous Quality Improvement.
• Completed construction and program development for women’s specific services at Horizon Village.
• Appointed new Director for Horizon Village.
• All outpatient facilities and properties went smoke free effective January 2005.
• A review of state and national data indicated that Horizon met or exceeded the standards for similar organizations on the parameters of cost per unit of service, administration and overhead costs and clinical outcomes.
• Hired new full-time psychiatrist with expertise in women’s treatment.
• Completed significant renovations to several facilities as per our capital plan.
2005 FINANCIAL REPORT

The following summarizes the overall Horizon Corporation results for the 2005 year as well as some other key information:

PROFIT/(LOSS)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>Variance</th>
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</thead>
<tbody>
<tr>
<td>HHS</td>
<td>426,648</td>
<td>567,844</td>
<td>(141,196)</td>
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<tr>
<td>HV</td>
<td>32,887</td>
<td>56,644</td>
<td>(23,757)</td>
</tr>
<tr>
<td>HMG</td>
<td>16,233</td>
<td>21,604</td>
<td>(5,371)</td>
</tr>
<tr>
<td><strong>Total Surplus</strong></td>
<td><strong>$475,768</strong></td>
<td><strong>$646,092</strong></td>
<td><strong>($170,324)</strong></td>
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REVENUES

Total revenues for 2005 were $14,942,261 compared to $14,126,351 for 2004, which represents a 5.8% increase. Addictions and mental health volume increases, combined with a partial offset by reductions in CTD revenue, account for the individual patient services growth as compared to 2004.

Contracts/Grants increased as a result of a Strategic Planning and Niagara County grant.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>Variance</th>
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<tbody>
<tr>
<td>Individual Patient Services</td>
<td>11,118,853</td>
<td>10,523,045</td>
<td>595,808</td>
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<tr>
<td>Contracts/Grants</td>
<td>3,671,773</td>
<td>3,536,472</td>
<td>135,301</td>
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<tr>
<td>Other</td>
<td>151,635</td>
<td>66,834</td>
<td>84,801</td>
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<td><strong>Total</strong></td>
<td><strong>$14,942,261</strong></td>
<td><strong>$14,126,351</strong></td>
<td><strong>$815,910</strong></td>
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</table>

EXPENSES

Total expenses for 2005 were $14,466,493 compared to $13,480,259 for 2004, which represents a 7.3% increase. New hires in mental health and addictions, general wage increases and new physicians account for a majority of the increase. Other expenses decreased because of a lower interest expense from the HMG mortgage pay-off and a negotiated lease discount at 699 Hertel Avenue.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel/Fringe Benefits</td>
<td>10,614,558</td>
<td>9,531,783</td>
<td>1,082,775</td>
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<tr>
<td>Supplies and Materials</td>
<td>794,075</td>
<td>683,397</td>
<td>110,678</td>
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<tr>
<td>Consultants</td>
<td>664,564</td>
<td>705,680</td>
<td>(41,116)</td>
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<tr>
<td>Insurance/Utilities</td>
<td>607,030</td>
<td>604,317</td>
<td>2,713</td>
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<td>Depreciation</td>
<td>494,155</td>
<td>467,339</td>
<td>26,816</td>
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<tr>
<td>Miscellaneous</td>
<td>160,743</td>
<td>213,557</td>
<td>(52,814)</td>
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<tr>
<td>Other</td>
<td>1,131,368</td>
<td>1,274,166</td>
<td>(142,818)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,466,493</strong></td>
<td><strong>$13,480,259</strong></td>
<td><strong>$986,234</strong></td>
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