

VITA-LIVING, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2010 AND 2009

VITA-LIVING, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vita-Living, Inc.
Houston, Texas

We have audited the accompanying statements of financial position of Vita-Living, Inc. (the Organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vita-Living, Inc. as of December 31, 2010 and 2009, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

David N. Miller and Company, LLP

May 19, 2011

VITA-LIVING, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and equivalents	\$ 1,112,275	\$ 842,360
Accounts receivable, net	666,581	636,312
Prepaid expenses, deposits and other assets	55,412	82,224
Advances to clients, net	18,880	20,411
Marketable investments	564,087	549,893
Property and equipment, net	<u>791,723</u>	<u>775,216</u>
 TOTAL ASSETS	 \$ <u>3,208,958</u>	 \$ <u>2,906,416</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 136,502	\$ 201,478
Accrued salaries	385,481	377,104
Deferred rent	7,598	2,901
Other accrued liabilities	<u>16,360</u>	<u>7,351</u>
	545,941	588,834
 NET ASSETS		
Unrestricted	<u>2,663,017</u>	<u>2,317,582</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>3,208,958</u>	 \$ <u>2,906,416</u>

See notes to financial statements.

VITA-LIVING, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Medicaid contracted services	\$ 6,261,952	\$ 6,050,016
Private pay and other income	435,320	479,560
Interest and dividend income	<u>28,402</u>	<u>33,244</u>
Total revenues	<u>6,725,674</u>	<u>6,562,820</u>
CLIENT CARE AND PROGRAM EXPENSES	5,062,350	5,068,164
OCCUPANCY AND TRANSPORTATION EXPENSES	974,792	951,564
GENERAL AND ADMINISTRATIVE EXPENSES	<u>874,965</u>	<u>834,341</u>
Total expenses	<u>6,912,107</u>	<u>6,854,069</u>
DEFICIENCY OF REVENUES UNDER EXPENSES FROM OPERATIONS	<u>(186,433)</u>	<u>(291,249)</u>
SUPPORT AND OTHER ITEMS		
Contributions received	501,700	498,845
Gain from sale of property and equipment, net	7,104	-
Realized and unrealized gain from marketable securities	<u>23,064</u>	<u>86,053</u>
	<u>531,868</u>	<u>584,898</u>
EXCESS OF REVENUES AND SUPPORT OVER EXPENSES AND OTHER ITEMS	<u>345,435</u>	<u>293,649</u>
UNRESTRICTED NET ASSETS		
BEGINNING OF YEAR	<u>2,317,582</u>	<u>2,023,933</u>
END OF YEAR	<u>\$ 2,663,017</u>	<u>\$ 2,317,582</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

INCREASE IN CASH AND EQUIVALENTS

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from clients and third-party payers	\$ 6,667,003	\$ 6,448,309
Cash received from contributors	501,700	489,250
Cash paid to employees and suppliers	(6,829,153)	(6,809,475)
Interest and dividend income	<u>28,402</u>	<u>33,244</u>
Net cash provided by operating activities	<u>367,952</u>	<u>161,328</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	16,229	-
Purchase of property and equipment	(123,136)	(86,120)
Proceeds from sale of marketable securities	8,870	108,961
Purchase of marketable securities, net	<u>-</u>	<u>(1,500)</u>
Net cash provided (used) by investing activities	<u>(98,037)</u>	<u>21,341</u>
NET INCREASE IN CASH	269,915	182,669
CASH AND EQUIVALENTS		
BEGINNING OF YEAR	<u>842,360</u>	<u>659,691</u>
END OF YEAR	<u>\$ 1,112,275</u>	<u>\$ 842,360</u>

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

INCREASE (DECREASE) IN CASH

	<u>2010</u>	<u>2009</u>
Reconciliation of excess of revenues and support over expenses and other items to net cash provided by operating activities		
Excess of revenues and support over expenses and other items	\$ 345,435	\$ 293,649
Adjustments		
Depreciation and amortization	97,504	93,298
Donated marketable securities	-	(9,595)
Unrealized gain on marketable securities	(25,614)	(90,018)
Realized loss on sale of marketable securities	2,550	3,965
Gain on sale of equipment	(7,104)	-
(Increase) decrease in		
Accounts receivable	(30,269)	(81,267)
Prepaid expenses, deposits and other assets	26,812	(27,248)
Advances to clients, net	1,531	(7,440)
Increase (decrease) in		
Accrued salaries	8,377	(12,695)
Accounts payable and other accrued liabilities	(55,967)	9,204
Deferred rent	<u>4,697</u>	<u>(10,525)</u>
Net cash provided by operating activities	\$ <u>367,952</u>	\$ <u>161,328</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Vita-Living, Inc. (VLI) was incorporated in August 1982 as a non-profit corporation. VLI provides lifelong services and supports for children and adults with intellectual and developmental disabilities to promote personal growth toward a safe, satisfying, and meaningful life in the community.

Financial Statements

VLI presents its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 regarding accounting for Financial Statements of Not-for-Profit Organizations. Under ASC 958, VLI is required to report information on its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Support

VLI also follows the recommendations of ASC 958 regarding Accounting for Contributions Received and Contributions Made. Under ASC 958, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and nature of any donor restrictions.

Accounts Receivable and Advances

Accounts receivable are subject to certain Texas Department of Aging and Disability Services (DADS) rules and regulations relating to Level of Need (LON) review. These rules permit DADS a 364-day retroactive review of LON determinations with recoupment of payments determined to be in excess of need. VLI is paid set fees through the Texas Health and Human Service Commission based on Medicaid allowances for care and services provided to clients. Management has established an allowance for doubtful accounts for certain accounts and advances whose collectibility is uncertain.

Property and Equipment

Property and equipment are stated at cost or donated value. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Marketable Securities

VLI presents its investments in accordance with ASC 958 regarding Accounting for Certain Investments Held by Non Profit Organizations. Under ASC 958 investments in marketable securities are required to be carried at fair value. Any unrealized gains and losses from these investments are reported in the statements of activities.

Fair Value Measurements

The financial statements reflect the adoption of ASC 820 regarding Fair Value Measurements. ASC 820 establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurement. In accordance with ASC 820, VLI classifies its investments into Level 1, which refers to securities traded in an active market; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available or Level 1 securities where there is a contractual restriction; and Level 3, which refers to securities not traded in an active market and for which no significant observable market inputs are available. At December 31, 2010 and 2009, all of VLI's investments are considered Level 1.

Federal Income Taxes

VLI is a non-profit, tax exempt organization as described in Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been included in the financial statements.

Cash Flows

For purposes of the statement of cash flows, VLI considers cash and equivalents to be the amount reported in the accompanying statements of financial position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimated.

Reclassifications

Certain reclassifications have been made to the prior year information to conform to the current year presentation.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

CASH AND CASH EQUIVALENTS

Cash and equivalents at December 31, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Cash in banks	\$ 878,242	\$ 700,228
Cash in money market investment funds	227,306	135,009
Cash on hand	<u>6,727</u>	<u>7,123</u>
	<u>\$ 1,112,275</u>	<u>\$ 842,360</u>

Cash in banks includes a \$75,000 time deposit with an original maturity of three months or less. The time deposit bears interest at 0.10%.

VLI maintains a cash balance at a Texas bank which exceeds the Federally insured limits. VLI has not experienced any losses from maintaining cash accounts in excess of this limit. At December 31, 2010 VLI's balances at this bank exceeds the insured limit by approximately \$572,000.

ACCOUNTS RECEIVABLE

Accounts receivable includes income earned for services provided as of December 31, 2010 and 2009 and are summarized as follows:

	<u>2010</u>	<u>2009</u>
DADS		
HCS program	\$ 433,944	\$ 446,820
ICFMR program	112,335	91,588
CLASS program	128,515	108,208
Related party	-	1,258
Private pay and other	<u>911</u>	<u>803</u>
	675,705	648,677
Allowance for uncollectible accounts	<u>(9,124)</u>	<u>(12,365)</u>
	<u>\$ 666,581</u>	<u>\$ 636,312</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

ADVANCES TO CLIENT

Advances to clients at December 31, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Advances	\$ 19,873	\$ 21,426
Allowance for uncollectible advances	<u>(993)</u>	<u>(1,015)</u>
	<u>\$ 18,880</u>	<u>\$ 20,411</u>

MARKETABLE SECURITIES

Marketable securities are carried at fair market value (FMV) at December 31, 2010 and 2009 and are summarized as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>
Fixed Income				
Corporate bonds callable or maturing after one year				
4.875% maturing 2012	97,370	94,125	97,370	81,967
4.875% maturing 2014	98,750	105,308	98,750	102,722
5.65% maturing 2015	100,178	110,815	100,178	106,973
6.15% maturing 2018	100,221	110,119	100,221	107,050
5.49% maturing 2019	<u>97,990</u>	<u>97,546</u>	<u>97,990</u>	<u>97,289</u>
Total	<u>494,509</u>	<u>517,913</u>	<u>494,509</u>	<u>496,001</u>
Equities				
Common stocks				
Consumer goods	-	-	9,595	11,256
Equity funds				
International equity funds	4,812	4,117	4,812	3,765
Small Cap equity funds	2,174	3,477	4,000	4,371
Equity mutual funds	<u>40,931</u>	<u>38,580</u>	<u>40,931</u>	<u>34,500</u>
Total	<u>47,917</u>	<u>46,174</u>	<u>59,338</u>	<u>53,892</u>
	<u>\$ 542,426</u>	<u>\$ 564,087</u>	<u>\$ 553,847</u>	<u>\$ 549,893</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

MARKETABLE SECURITIES - CONTINUED

Revenues from these investments provide an income stream for annual operations. Realized and unrealized income from marketable securities are reported in the statement of activities.

Investment return from the marketable securities is summarized as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 28,124	\$ 32,020
Realized and unrealized gains and losses	<u>23,064</u>	<u>86,053</u>
	<u>\$ 51,188</u>	<u>\$ 118,073</u>

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 122,126	\$ 122,126
Buildings and improvements	922,922	890,413
Equipment	<u>666,170</u>	<u>654,303</u>
	1,711,218	1,666,842
Less accumulated depreciation and amortization	<u>(919,495)</u>	<u>(891,626)</u>
Net property and equipment	<u>\$ 791,723</u>	<u>\$ 775,216</u>

Depreciation expense for 2010 and 2009 amounted to \$97,504 and \$93,298, respectively.

CONCENTRATIONS AND RISKS

Concentration of credit risk - A substantial portion of VLI's income is derived from its contract with DADS. Consequently, VLI's credit risk is dependent upon the future economic activities of DADS. The Organization does not obtain collateral for its receivables.

Concentration of performance risk - The ability of the issuers of certain financial instruments held by VLI to meet their obligation may be affected by economic developments, including those particular to a specific industry or region.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

COMMITMENTS

VLI is committed to several renewable annual operating leases, which provide facilities for client residences, activities and storage. VLI is also committed to other operating leases for office space and office equipment. The office lease has a base rental escalation clause for maintenance, utilities, insurance and taxes. Certain equipment leases, after the minimum term or extension, renew on a month to month basis unless the lessor is notified at least 30 days prior to the expiration of the minimum term or extension.

Future minimum lease payments consist of the following:

2011	\$ 214,750
2012	178,736
2013	125,711
2014	123,386
2015	50,932
Thereafter	<u>1,400</u>
	<u>\$ 694,915</u>

Lease expense for 2010 and 2009 amounted to \$259,900 and \$302,526, respectively.

RELATED PARTY TRANSACTIONS

VLI's board of directors created the Vita-Living Foundation (VLF) in 1996. VLI and VLF have common control because three of VLF's board of directors are also VLI directors.

VLI has executed certain operating leases with VLF. Leasing expense under these lease agreements for 2010 and 2009 amounted to \$79,200 and \$79,200, respectively. Future minimum lease payments have been included with the commitments previously reported.

Since the formation of VLF, VLI has paid various administrative expenses on behalf of VLF. Accounts receivable at December 31, 2009 from VLF \$1,258. There was no accounts receivable balance at December 31, 2010.

VLF has elected to make annual contributions to VLI of at least five percent of the FMV of VLF's marketable investments. VLF's contribution for the years ended December 31, 2010 and 2009 amounted to \$61,030 and \$71,440, respectively. Additionally, during the years ended December 31, 2010 and 2009, VLF contributed \$79,200 and \$72,600, respectively, to VLI for operating expenses.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

RETIREMENT PLAN

VLI has a 403 (b) plan that covers some of its employees. The plan covers all employees who have attained the age of twenty-one. VLI did not contribute any amounts to this plan during 2010 and 2009.

FINANCIAL INSTRUMENTS

The estimated fair value of VLI's financial instruments are as follows:

Cash - VLI considers the estimated fair value of cash and cash equivalents to equal the carrying amount recognized in the statements of financial position.

Marketable investments - VLI considers the estimated fair value of marketable securities to be the carrying amount recognized in the statements of financial position.

INCOME TAX UNCERTAINTIES

VLI has reviewed its filing positions on its current income tax return, as well as all open tax years. VLI adopted the policy of recognizing interest and penalties, if any, related to unrecognized tax positions as income tax expense. VLI did not have any unrecognized tax positions or benefits from tax positions that do not meet the more likely than not criterion. Accordingly, there was no effect on the VLI's financial condition or results of operations for the year ended December 31, 2010. The Federal tax returns of VLI for 2010, 2009 and 2008 are subject to examination by the Internal Revenue Service.

GENERAL BUSINESS ENVIRONMENT

Since 2008 and continuing into 2011, the financial markets experienced considerable stress and credit continues to tighten for some businesses and households. In addition, the State of Texas is operating at a deficit. This prevailing economic uncertainty, along with the credit crises, the contraction in housing, and higher unemployment, have marked a decline in donations for local causes. If the current crisis continues for an extended period of time, or worsens, VLI may experience insufficient liquidity to meet its operational needs in the future.

Additionally, the Texas Legislature has proposed rate cuts for Medicaid Programs ranging from 1% to 3%. As of May 31, 2011, this bill has not been enacted by the State of Texas regarding these cuts for the Medicaid Programs. Any Medicaid Program rate cuts enacted could have a detrimental consequence on VLI's operations.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 31, 2011, which is the date the financial statements were available to be issued. Based on the evaluation, no adjustments to the accompanying financial statements were required.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENSES

Board of Directors
Vita-Living, Inc.
Houston, Texas

Our report on our audits of the basic financial statements of Vita-Living, Inc. for December 31, 2010 and 2009 appears on page 3. These audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

David N. Miller and Company, LLP

May 19, 2011

VITA-LIVING, INC.
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CLIENT CARE AND PROGRAM EXPENSES		
Wages	\$ 3,305,142	\$ 3,428,901
Fringe benefits	640,687	589,759
Consultants	439,194	389,038
Food	158,131	165,003
Client training	459,509	440,725
Medical and dental expenses	52,653	44,764
Activities	<u>7,034</u>	<u>9,974</u>
Total client care and program expenses	<u>\$ 5,062,350</u>	<u>\$ 5,068,164</u>
OCCUPANCY AND TRANSPORTATION EXPENSES		
Leases	\$ 259,900	302,526
Transportation	138,902	128,652
Utilities	182,346	144,588
Maintenance and repairs	166,411	154,738
Depreciation and amortization	97,504	93,298
Insurance	85,463	91,840
Housekeeping	43,564	34,855
Taxes, real estate and other	<u>702</u>	<u>1,067</u>
Total occupancy and transportation expenses	<u>\$ 974,792</u>	<u>\$ 951,564</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages	\$ 556,825	\$ 566,453
Professional fees	114,543	104,691
Fringe benefits	81,027	72,032
Miscellaneous	54,734	34,791
Office and postage	37,189	35,150
Employee training	13,059	5,801
Insurance	5,125	3,043
Dues and licenses	<u>12,463</u>	<u>12,380</u>
Total general and administrative expenses	<u>\$ 874,965</u>	<u>\$ 834,341</u>