

VITA-LIVING, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2011 AND 2010

VITA-LIVING, INC.

INDEX

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF CASH FLOWS	6 - 7
NOTES TO FINANCIAL STATEMENTS	8 - 15
SUPPLEMENTARY INFORMATION	16
INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENSES	17
SCHEDULE OF EXPENSES	18

DAVID N. MILLER & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

David N. Miller
Janet G. Martin
Martin D. Belasco

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, 2011 and 2010, 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, 2011 and 2010, 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 & Company, LLP

May 30, 2012

VITA-LIVING, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and equivalents	\$ 961,223	\$ 1,112,275
Accounts receivable, net	759,015	666,581
Prepaid expenses, deposits and other assets	62,637	55,412
Advances to clients, net	16,147	18,880
Marketable investments	751,097	564,087
Property and equipment, net	<u>755,866</u>	<u>791,723</u>
TOTAL ASSETS	\$ <u>3,305,985</u>	\$ <u>3,208,958</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 151,151	\$ 136,502
Accrued salaries	417,871	385,481
Deferred rent	6,504	7,598
Other accrued liabilities	<u>20,260</u>	<u>16,360</u>
	595,786	545,941
NET ASSETS		
Unrestricted	<u>2,710,199</u>	<u>2,663,017</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,305,985</u>	\$ <u>3,208,958</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Medicaid contracted services	\$ 6,093,072	\$ 6,261,952
Private pay and other income	442,712	435,320
Interest and dividend income	<u>32,053</u>	<u>28,402</u>
Total revenues	<u>6,567,837</u>	<u>6,725,674</u>
CLIENT CARE AND PROGRAM EXPENSES	5,252,457	5,062,350
OCCUPANCY AND TRANSPORTATION EXPENSES	1,010,522	974,792
GENERAL AND ADMINISTRATIVE EXPENSES	<u>861,354</u>	<u>874,965</u>
Total expenses	<u>7,124,333</u>	<u>6,912,107</u>
DEFICIENCY OF REVENUES UNDER EXPENSES FROM OPERATIONS	<u>(556,496)</u>	<u>(186,433)</u>
SUPPORT AND OTHER ITEMS		
Contributions received	610,121	501,700
Gain from sale of property and equipment	8,230	7,104
Realized and unrealized gain (loss) from marketable securities	<u>(14,673)</u>	<u>23,064</u>
	<u>603,678</u>	<u>531,868</u>
EXCESS OF REVENUES AND SUPPORT OVER EXPENSES AND OTHER ITEMS	<u>47,182</u>	<u>345,435</u>
UNRESTRICTED NET ASSETS BEGINNING OF YEAR	<u>2,663,017</u>	<u>2,317,582</u>
END OF YEAR	<u>\$ 2,710,199</u>	<u>\$ 2,663,017</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

INCREASE (DECREASE) IN CASH AND EQUIVALENTS

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from clients and third-party payers	\$ 6,443,350	\$ 6,667,003
Cash received from contributors	610,121	501,700
Cash paid to employees and suppliers	(6,968,931)	(6,829,153)
Interest and dividend income	<u>32,053</u>	<u>28,402</u>
Net cash provided by operating activities	<u>116,593</u>	<u>367,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	8,230	16,229
Purchase of property and equipment	(74,192)	(123,136)
Proceeds from sale of marketable securities	48,864	8,870
Purchase of marketable securities	<u>(250,547)</u>	<u>-</u>
Net cash used by investing activities	<u>(267,645)</u>	<u>(98,037)</u>
NET INCREASE (DECREASE) IN CASH	(151,052)	269,915
CASH AND EQUIVALENTS		
BEGINNING OF YEAR	<u>1,112,275</u>	<u>842,360</u>
END OF YEAR	<u>\$ 961,223</u>	<u>\$ 1,112,275</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

INCREASE (DECREASE) IN CASH AND EQUIVALENTS

	<u>2011</u>	<u>2010</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		
Adjustments	\$ 47,182	\$ 345,435
Depreciation and amortization	110,049	97,504
Unrealized (gain) loss on marketable securities	15,436	(25,614)
Realized (gain) loss on sale of marketable securities	(763)	2,550
Gain on sale of equipment	(8,230)	(7,104)
(Increase) decrease in		
Accounts receivable	(92,434)	(30,269)
Prepaid expenses, deposits and other assets	(7,225)	26,812
Advances to clients, net	2,733	1,531
Increase (decrease) in		
Accrued salaries	32,390	8,377
Accounts payable and other accrued liabilities	18,549	(55,967)
Deferred rent	(1,094)	4,697
Net cash provided by operating activities	<u>\$ 116,593</u>	<u>\$ 367,952</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, 2011 and 2010, 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 Company's cash accounts plus its money market accounts with original maturities of three months or less.

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.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

CASH AND CASH EQUIVALENTS

Cash and equivalents at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Cash in banks	\$ 817,247	\$ 878,242
Cash in money market investment funds	137,249	227,306
Cash on hand	<u>6,727</u>	<u>6,727</u>
	<u>\$ 961,223</u>	<u>\$ 1,112,275</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%.

ACCOUNTS RECEIVABLE

Accounts receivable includes income earned for services provided as of December 31, 2011 and 2010 and are summarized as follows:

	<u>2011</u>	<u>2010</u>
DADS		
HCS program	\$ 511,263	\$ 433,944
ICFMR program	98,604	112,335
CLASS program	124,384	128,515
Private pay and other	<u>33,356</u>	<u>911</u>
	767,607	675,705
Allowance for uncollectible accounts	<u>(8,592)</u>	<u>(9,124)</u>
	<u>\$ 759,015</u>	<u>\$ 666,581</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

ADVANCES TO CLIENTS

Advances to clients at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Advances	\$ 18,313	\$ 19,873
Allowance for uncollectible advances	<u>(2,166)</u>	<u>(993)</u>
	<u>\$ 16,147</u>	<u>\$ 18,880</u>

MARKETABLE SECURITIES

Marketable securities are carried at fair market value (FMV) at December 31, 2011 and 2010 and are summarized as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>
Fixed Income				
Investment Funds				
Vanguard Short-term				
Investment Grade Fund #39	\$ 200,363	\$ 198,406	\$ -	\$ -
Total	<u>200,363</u>	<u>198,406</u>	<u>-</u>	<u>-</u>
Corporate bonds callable or				
maturing after one year				
4.875% maturing 2012	97,370	96,000	97,370	94,125
4.875% maturing 2014	98,750	104,307	98,750	105,308
2.00% to 5.65% maturing 2015	150,178	162,984	100,178	110,815
6.15% maturing 2018	100,221	103,209	100,221	110,119
5.49% maturing 2019	<u>97,990</u>	<u>86,191</u>	<u>97,990</u>	<u>97,546</u>
Total	<u>544,509</u>	<u>552,691</u>	<u>494,509</u>	<u>517,913</u>
Total fixed income	744,872	751,097	494,509	517,913
Equities				
Equity funds				
International equity funds	-	-	4,812	4,117
Small Cap equity funds	-	-	2,174	3,477
Equity mutual funds	<u>-</u>	<u>-</u>	<u>40,931</u>	<u>38,580</u>
Total equity funds	<u>-</u>	<u>-</u>	<u>47,917</u>	<u>46,174</u>
	<u>\$ 744,872</u>	<u>\$ 751,097</u>	<u>\$ 542,426</u>	<u>\$ 564,087</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>2011</u>	<u>2010</u>
Interest and dividend income	\$ 31,978	\$ 28,124
Realized and unrealized gains and losses	<u>(14,673)</u>	<u>23,064</u>
	<u>\$ 17,305</u>	<u>\$ 51,188</u>

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 122,126	\$ 122,126
Buildings and improvements	951,373	922,922
Equipment	<u>642,175</u>	<u>666,170</u>
	1,715,674	1,711,218
Less accumulated depreciation and amortization	<u>(959,808)</u>	<u>(919,495)</u>
Net property and equipment	<u>\$ 755,866</u>	<u>\$ 791,723</u>

Depreciation expense for 2011 and 2010 amounted to \$110,049 and \$97,504, 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:

2012	\$ 195,536
2013	142,511
2014	140,186
2015	67,732
2016	<u>2,800</u>
	<u>\$ 548,765</u>

Lease expense for 2011 and 2010 amounted to \$252,342 and \$259,900, respectively.

RELATED PARTY TRANSACTIONS

VLI's board of directors created the Vita-Living Foundation (VLF) in 1996. Two 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 2011 and 2010 amounted to \$79,200 and \$79,200, respectively. Future minimum lease payments have been included with the commitments previously reported.

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, 2011 and 2010 amounted to \$65,057 and \$61,030, respectively. Additionally, during the years ended December 31, 2011 and 2010, VLF contributed \$79,200 and \$79,200, respectively, to VLI for operating expenses.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

RETIREMENT PLAN

VLI has a 403 (b) plan for its employees. All employees who have attained the age of twenty-one are eligible to participate in the plan. VLI did not contribute any amounts to this plan during 2011 and 2010.

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, 2011. The Federal tax returns of VLI for 2011, 2010 and 2009 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 experiencing tight budget constraints. 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.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 11, 2012, 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

DAVID N. MILLER & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

David N. Miller
Janet G. Martin
Martin D. Belasco

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, 2011 and 2010 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 & Company, LLP

May 30, 2012

VITA-LIVING, INC.

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CLIENT CARE AND PROGRAM EXPENSES		
Wages	\$ 3,444,788	\$ 3,305,142
Fringe benefits	654,127	640,687
Consultants	487,586	439,194
Food	157,570	158,131
Client training	462,491	459,509
Medical and dental expenses	34,590	52,653
Activities	<u>11,305</u>	<u>7,034</u>
Total client care and program expenses	<u>\$ 5,252,457</u>	<u>\$ 5,062,350</u>
OCCUPANCY AND TRANSPORTATION EXPENSES		
Leases	\$ 252,342	259,900
Transportation	164,037	138,902
Utilities	175,449	182,346
Maintenance and repairs	181,803	166,411
Depreciation and amortization	110,049	97,504
Insurance	84,617	85,463
Housekeeping	41,185	43,564
Taxes, real estate and other	<u>1,040</u>	<u>702</u>
Total occupancy and transportation expenses	<u>\$ 1,010,522</u>	<u>\$ 974,792</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages	\$ 543,754	\$ 556,825
Professional fees	113,599	114,543
Fringe benefits	103,340	81,027
Miscellaneous	42,894	54,734
Office and postage	27,467	37,189
Employee training	8,871	13,059
Insurance	5,521	5,125
Dues and licenses	<u>15,908</u>	<u>12,463</u>
Total general and administrative expenses	<u>\$ 861,354</u>	<u>\$ 874,965</u>