

VITA-LIVING, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2013 AND 2012

VITA-LIVING, INC.

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INDEPENDENT AUDITORS' REPORT

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of Vita-Living, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2013 and 2012, and the related statements of activities 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 the 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 Vita-Living, Inc. as of December 31, 2013 and 2012, 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 of America.

David N. Miller & Company, LLP

October 28, 2014
Houston, Texas

VITA-LIVING, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 160,750	\$ 800,143
Accounts receivable, net	492,668	577,391
Prepaid expenses, deposits and other assets	87,119	77,934
Advances to clients, net	9,344	11,477
Marketable investments	-	182,188
Property and equipment, net	<u>416,373</u>	<u>823,929</u>
TOTAL ASSETS	\$ <u>1,166,254</u>	\$ <u>2,473,062</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 119,818	\$ 189,219
Accrued salaries	337,192	343,091
Deferred rent	7,547	3,795
Other accrued liabilities	<u>44,571</u>	<u>118,341</u>
	509,128	654,446
NET ASSETS		
Unrestricted	<u>657,126</u>	<u>1,818,616</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,166,254</u>	\$ <u>2,473,062</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Medicaid contracted services	\$ 6,127,770	\$ 6,170,082
Private pay and other income	470,820	462,002
Interest and dividend income	<u>8,155</u>	<u>28,510</u>
Total revenues	<u>6,606,745</u>	<u>6,660,594</u>
CLIENT CARE AND PROGRAM EXPENSES	5,776,504	5,580,616
OCCUPANCY AND TRANSPORTATION EXPENSES	1,191,374	1,038,515
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,136,657</u>	<u>886,812</u>
Total expenses	<u>8,104,535</u>	<u>7,505,943</u>
DEFICIENCY OF REVENUES UNDER EXPENSES FROM OPERATIONS	<u>(1,497,790)</u>	<u>(845,349)</u>
SUPPORT AND OTHER ITEMS		
Contributions received	847,260	611,374
Contribution to related party	(1,063,000)	(700,000)
Gain (loss) from disposition of property and equipment	557,881	(2,308)
Realized and unrealized gain (loss) from marketable investments	<u>(5,841)</u>	<u>44,700</u>
	<u>336,300</u>	<u>(46,234)</u>
DEFICIENCY OF REVENUES AND SUPPORT UNDER EXPENSES AND OTHER ITEMS	<u>(1,161,490)</u>	<u>(891,583)</u>
UNRESTRICTED NET ASSETS BEGINNING OF YEAR	<u>1,818,616</u>	<u>2,710,199</u>
END OF YEAR	<u>\$ 657,126</u>	<u>\$ 1,818,616</u>

See notes to financial statements.

VITA-LIVING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from clients and third-party payers	\$ 6,683,313	\$ 6,813,708
Cash received from contributors	847,260	611,374
Cash paid to employees and suppliers	(8,161,156)	(7,346,971)
Cash donation	-	(28,560)
Interest and dividend income	<u>8,155</u>	<u>28,510</u>
Net cash provided (used) by operating activities	<u>(622,428)</u>	<u>78,061</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	15,095	-
Purchase of property and equipment	(208,407)	(181,310)
Proceeds from sale of marketable investments	176,347	95,000
Purchase of marketable investments	<u>-</u>	<u>(152,831)</u>
Net cash used by investing activities	<u>(16,965)</u>	<u>(239,141)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(639,393)	(161,080)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>800,143</u>	<u>961,223</u>
END OF YEAR	<u>\$ 160,750</u>	<u>\$ 800,143</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
Reconciliation of deficiency of revenues and support under expenses and other items to net cash provided (used) by operating activities		
Deficiency of revenues and support under expenses and other items	\$(1,161,490)	\$ (891,583)
Adjustments		
Depreciation and amortization	95,749	110,939
Contribution of marketable investments	-	671,440
Contribution to related party	1,063,000	-
Unrealized (gain) loss on marketable investments	8,010	(1,786)
Realized gain on marketable investments	(2,169)	(42,914)
(Gain) loss from disposition of property and equipment	(557,881)	2,308
(Increase) decrease in		
Accounts receivable	84,723	181,624
Prepaid expenses, deposits and other assets	(9,185)	(15,297)
Advances to clients, net	2,133	4,670
Increase (decrease) in		
Accrued salaries	(5,899)	(74,780)
Accounts payable and other accrued liabilities	(143,171)	136,149
Deferred rent	<u>3,752</u>	<u>(2,709)</u>
Net cash provided (used) by operating activities	<u>\$ (622,428)</u>	<u>\$ 78,061</u>

See notes to financial statements.

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 developmental disabilities while promoting personal growth toward a satisfying, safe, and meaningful life in the community.

Financial Statements

VLI presents its financial statements in accordance with authoritative guidance regarding accounting for Financial Statements of Not-for-Profit Organizations. Under the guidance, 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

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, VLI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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 Investments

Marketable investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

Fair Value Measurements

The fair value measurements accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority. VLI uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, VLI measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available. At December 31, 2013 and 2012, all of VLI's investments are considered Level 1.

Federal Income Taxes

VLI is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

VLI's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they were filed.

Estimates

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

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

CASH AND CASH EQUIVALENTS

Cash and equivalents at December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash in banks	\$ 72,242	\$ 594,555
Cash in money market investment funds	81,531	198,861
Cash on hand	<u>6,977</u>	<u>6,727</u>
	<u>\$ 160,750</u>	<u>\$ 800,143</u>

VLI maintains a cash balance at a Texas bank which may, at times, exceed the Federally insured limits. VLI has not experienced any losses from maintaining cash accounts in excess of this limit. At December 31, 2013, there was no FDIC exposure.

ACCOUNTS RECEIVABLE

Accounts receivable includes income earned for services provided as of December 31, 2013 and 2012 and are summarized as follows:

	<u>2013</u>	<u>2012</u>
DADS		
HCS program	\$ 360,222	\$ 397,246
ICFMR program	77,759	90,812
CLASS program	69,642	69,162
Private pay and other	<u>12,689</u>	<u>32,787</u>
	520,312	590,007
Allowance for uncollectible accounts	<u>(27,644)</u>	<u>(12,616)</u>
	<u>\$ 492,668</u>	<u>\$ 577,391</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

ADVANCES TO CLIENTS

Advances to clients at December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Advances	\$ 10,077	\$ 13,861
Allowance for uncollectible advances	<u>(733)</u>	<u>(2,384)</u>
	<u>\$ 9,344</u>	<u>\$ 11,477</u>

MARKETABLE INVESTMENTS

Level 1 Fair Value Measurements

The fair value of mutual funds is based on quoted net asset values of the shares held by VLI at year-end. The fair value of corporate bonds are based on the closing price reported on the active market where the individual securities are traded. At December 31, 2013, VLI did not hold any marketable investments.

Marketable investments are carried at fair market value (FMV) at 2012 and are summarized as follows:

	<u>2012</u>	
	<u>Cost</u>	<u>FMV</u>
Fixed Income		
Mutual Funds:		
Vanguard Short-term		
Investment Grade Fund #539	\$ 25,188	\$ 25,387
Total	<u>25,188</u>	<u>25,387</u>
Corporate bonds:		
4.875% maturing 2014	98,750	104,240
2.65% maturing 2017	<u>50,240</u>	<u>52,561</u>
Total	<u>148,990</u>	<u>156,801</u>
Total fixed income	<u>\$ 174,178</u>	<u>\$ 182,188</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

MARKETABLE INVESTMENTS - CONTINUED

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

Investment return from the marketable investments is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 8,155	\$ 28,482
Realized and unrealized gains and losses	<u>(5,841)</u>	<u>44,700</u>
	<u>\$ 2,314</u>	<u>\$ 73,182</u>

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ -	\$ 122,126
Buildings and leasehold improvements	261,335	993,932
Equipment	<u>623,945</u>	<u>669,792</u>
	885,280	1,785,850
Less accumulated depreciation and amortization	<u>(468,907)</u>	<u>(961,921)</u>
Net property and equipment	<u>\$ 416,373</u>	<u>\$ 823,929</u>

Depreciation expense for 2013 and 2012 amounted to \$95,749 and \$110,939, respectively.

In January 2013, VLI transferred ownership of certain owned residential properties to the Vita Living Foundation (VLF), a related party. VLF is now responsible for the properties and VLI leases the properties for its residential operations. The properties were transferred at their fair market value of \$1,063,000 and a gain was recognized on the transfer of \$549,578, which is included in the statement of activities as gain from disposition of property and equipment.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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.

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:

2014	\$ 294,640
2015	144,136
2016	14,404
2017	<u>10,536</u>
	<u>\$ 463,716</u>

Lease expense for 2013 and 2012 amounted to \$415,848 and \$271,679, respectively.

RELATED PARTY TRANSACTIONS

VLI's board of directors created the Vita-Living Foundation (VLF) in 1996. VLF is a non-profit organization that works to ensure the long-term financial security of VLI. One of VLF's board of directors is also a VLI director.

VLI has executed certain operating leases with VLF. Leasing expense under these lease agreements for 2013 and 2012 amounted to \$223,850 and \$90,000, respectively. Future minimum lease payments have been included with the commitments previously reported.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

RELATED PARTY TRANSACTIONS - CONTINUED

During 2013, VLF received insurance proceeds of \$10,000 for building damages that had been repaired and paid for by VLI. This amount is included in accounts receivable at December 31, 2013.

During 2013, VLI transferred ownership of certain owned residential properties to VLF. VLF is now responsible for the properties and VLI leases the properties for its residential operations. The properties were transferred at their fair market value of \$1,063,000, which is recorded as a contribution in the statement of activities.

VLF has elected to make annual contributions to VLI of at least five percent of the fair market value of VLF's marketable investments. VLF's contribution for the years ended December 31, 2013 and 2012 amounted to \$57,658 and \$61,540, respectively. Additionally, during the years ended December 31, 2013 and 2012, VLF contributed \$223,850 and \$90,000, respectively, to VLI for operating expenses.

During 2012, VLI contributed marketable securities with a fair market value of \$671,440 and cash of \$28,560 to VLF for a total contribution of \$700,000.

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 2013 and 2012.

FINANCIAL INSTRUMENTS

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

Cash and cash equivalents - 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 investments to be the carrying amount recognized in the statements of financial position.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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 VLI's financial condition or results of operations for the year ended December 31, 2013. The Federal tax returns of VLI for 2013, 2012 and 2011 are subject to examination by the Internal Revenue Service.

GENERAL BUSINESS ENVIRONMENT

Since 2008 and continuing into 2014, the State of Texas has reduced its funding for Medicaid programs. In response, VLI has relied more upon donations from foundations and individuals to fund its operations. For the years ended December 31, 2013 and 2012, VLI incurred a deficiency of revenues and support under its expenses and other items. In addition, during the year ended December 31, 2013, VLI incurred negative cash flow from operations. VLI does have the support of VLF, however, if these trends continue for an extended period of time, VLI may experience insufficient liquidity to meet its operational needs in the future.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 28, 2014, 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.

In March 2014, VLI entered into a \$500,000 line of credit with a Texas bank to be used for working capital purposes. Interest on outstanding balances under the line of credit accrue at Prime Rate. The line of credit matures on April 15, 2015. The marketable investments and other assets of VLF are held as collateral on the line of credit.

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, 2013 and 2012 appears on pages 3-4. 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

October 28, 2014

VITA-LIVING, INC.

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CLIENT CARE AND PROGRAM EXPENSES		
Wages	\$ 3,778,969	\$ 3,659,945
Fringe benefits	740,255	696,378
Consultants	544,462	535,366
Food	178,188	166,122
Client training	463,501	465,153
Medical and dental expenses	60,760	45,828
Activities	<u>10,369</u>	<u>11,824</u>
Total client care and program expenses	<u>\$ 5,776,504</u>	<u>\$ 5,580,616</u>
OCCUPANCY AND TRANSPORTATION EXPENSES		
Leases	\$ 415,848	\$ 271,679
Transportation	160,118	174,470
Utilities	188,965	174,085
Maintenance and repairs	180,134	172,312
Depreciation and amortization	95,749	110,939
Insurance	109,026	92,773
Housekeeping	41,534	41,272
Taxes, real estate and other	<u>-</u>	<u>985</u>
Total occupancy and transportation expenses	<u>\$ 1,191,374</u>	<u>\$ 1,038,515</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages	\$ 682,485	\$ 538,553
Professional fees	166,873	109,152
Fringe benefits	117,323	93,072
Miscellaneous	96,428	82,592
Office and postage	39,115	32,581
Employee training	13,496	9,397
Insurance	7,681	6,715
Dues and licenses	<u>13,256</u>	<u>14,750</u>
Total general and administrative expenses	<u>\$ 1,136,657</u>	<u>\$ 886,812</u>