

VITA-LIVING, INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2015 AND 2014

VITA-LIVING, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Vita-Living, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses on page 17 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

David N. Miller & Company, LLA

May 20, 2016
Houston, Texas

VITA-LIVING, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 472,398	\$ 63,149
Accounts receivable, net	439,981	509,586
Receivable from related party	35,851	-
Contributions receivable	31,807	56,075
Prepaid expenses, deposits and other assets	77,888	96,713
Advances to clients, net	5,569	6,787
Property and equipment, net	345,219	319,474
TOTAL ASSETS	\$ 1,408,713	\$ 1,051,784

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 212,412	\$ 120,784
Accrued salaries	327,389	354,225
Short-term notes payable	-	250,000
Deferred rent and lease incentive	103,882	-
Other accrued liabilities	37,103	55,461
Total liabilities	680,786	780,470
NET ASSETS		
Temporarily restricted	27,500	55,000
Unrestricted	700,427	216,314
Total net assets	727,927	271,314
TOTAL LIABILITIES AND NET ASSETS	\$ 1,408,713	\$ 1,051,784

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
Medicaid contracted services	\$ 6,246,029	\$ 6,170,301
Private pay and other income	540,573	478,713
Interest and dividend income	<u>-</u>	<u>4</u>
Total revenues	<u>6,786,602</u>	<u>6,649,018</u>
EXPENSES		
Client care and program	5,368,521	5,774,993
Occupancy and transportation	1,149,083	1,176,114
General and administrative	<u>1,017,220</u>	<u>1,007,852</u>
Total expenses	<u>7,534,824</u>	<u>7,958,959</u>
DEFICIENCY OF REVENUES UNDER EXPENSES FROM OPERATIONS	<u>(748,222)</u>	<u>(1,309,941)</u>
SUPPORT AND OTHER ITEMS		
Contributions	1,228,985	869,129
Gain from disposition of property and equipment	<u>3,350</u>	<u>-</u>
Total support and other items	<u>1,232,335</u>	<u>869,129</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>484,113</u>	<u>(440,812)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	27,500	55,000
Net assets released from restrictions	<u>(55,000)</u>	<u>-</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(27,500)</u>	<u>55,000</u>
INCREASE (DECREASE) IN NET ASSETS	456,613	(385,812)
NET ASSETS		
BEGINNING OF YEAR	<u>271,314</u>	<u>657,126</u>
END OF YEAR	<u>\$ 727,927</u>	<u>\$ 271,314</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from clients and third-party payers	\$ 6,820,356	\$ 6,632,096
Cash received from contributors	1,225,753	868,054
Cash paid to employees and suppliers	(7,385,600)	(7,842,125)
Interest and dividend income	-	4
Interest paid	<u>(4,610)</u>	<u>(2,830)</u>
Net cash provided (used) by operating activities	<u>655,899</u>	<u>(344,801)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	3,350	-
Purchase of property and equipment	<u>-</u>	<u>(2,800)</u>
Net cash provided (used) by investing activities	<u>3,350</u>	<u>(2,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term note payable	-	250,000
Payments on short-term note payable	<u>(250,000)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(250,000)</u>	<u>250,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	409,249	(97,601)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>63,149</u>	<u>160,750</u>
END OF YEAR	<u>\$ 472,398</u>	<u>\$ 63,149</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2015	2014
Reconciliation of net cash used by operating activities		
Increase (decrease) in net assets	\$ 456,613	\$ (385,812)
Adjustments		
Depreciation and amortization	86,537	99,699
Gain from disposition of property and equipment	(3,350)	-
(Increase) decrease in		
Accounts receivable	69,605	(16,918)
Receivable from related party	(35,851)	-
Contributions receivable	24,268	(56,075)
Prepaid expenses, deposits and other assets	18,825	(9,594)
Advances to clients, net	1,218	2,557
Increase (decrease) in		
Accrued salaries	(26,836)	17,033
Accounts payable and other accrued liabilities	64,870	11,856
Deferred rent	-	(7,547)
Net cash provided (used) by operating activities	\$ 655,899	\$ (344,801)

SUPPLEMENTAL DISCLOSURES FOR THE YEAR ENDED DECEMBER 31, 2015

Noncash investing transactions:	
Additions to property and equipment	\$ 112,282
Property and equipment in accounts payable	(8,400)
Deferred rent/lease incentive	(103,882)
Net cash paid for property and equipment	\$ -

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. VLI's activities are primarily funded through Medicaid contracts, private pay, and contributions from foundations, corporations and individuals.

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.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions receivable are all expected to be received within one year and no allowance for doubtful receivables has been recorded.

Contributed Services

No amounts have been reflected in the financial statements for donated services. VLI generally pays for services requiring specific expertise, however, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the residents' facilities, but these services do not meet the criteria for recognition as contributed services. The Organization receives more than 5,500 volunteer hours per year from over 800 individuals.

Property and Equipment

Property and equipment are stated at cost or donated value. VLI capitalizes property and equipment over \$5,000. Lesser amounts are expensed. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, ranging from three to thirty years. Expenditures of repairs and maintenance are charged to expense as incurred.

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.

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, 2015 and 2014 are summarized as follows:

	2015	2014
Cash in banks	\$ 470,754	\$ 61,305
Cash on hand	<u>1,644</u>	<u>1,844</u>
	<u>\$ 472,398</u>	<u>\$ 63,149</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. VLI's balances at this bank exceed the insured limit by approximately \$239,000 at December 31, 2015.

ACCOUNTS RECEIVABLE

Accounts receivable includes income earned for services provided as of December 31, 2015 and 2014 and are summarized as follows:

	2015	2014
DADS		
HCS program	\$ 292,654	\$ 359,887
ICFID program	94,221	90,951
CLASS program	73,569	69,249
Private pay and other	<u>2,190</u>	<u>9,130</u>
	462,634	529,217
Allowance for uncollectible accounts	<u>(22,653)</u>	<u>(19,631)</u>
	<u>\$ 439,981</u>	<u>\$ 509,586</u>

ADVANCES TO CLIENTS

Advances to clients at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Advances	\$ 7,751	\$ 7,959
Allowance for uncollectible advances	<u>(2,182)</u>	<u>(1,172)</u>
	<u>\$ 5,569</u>	<u>\$ 6,787</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Leasehold improvement construction in progress	\$ 103,882	\$ -
Buildings and leasehold improvements	258,399	249,999
Equipment	<u>525,364</u>	<u>591,146</u>
	887,645	841,145
Less accumulated depreciation and amortization	<u>(542,426)</u>	<u>(521,671)</u>
Net property and equipment	<u>\$ 345,219</u>	<u>\$ 319,474</u>

Depreciation expense for 2015 and 2014 amounted to \$86,537 and \$99,699, respectively.

SHORT-TERM NOTES PAYABLE

Short-term notes payable consisted of the outstanding balance at December 31, 2014 of \$250,000 on a revolving line of credit loan in the amount of \$500,000 dated April 15, 2014 and maturing on April 15, 2015. The line of credit bore interest at the Prime Rate as published in the Wall Street Journal. The line is reviewed annually and is due on demand. The line of credit was collateralized by certain assets held by the Vita Living Foundation (VLF), a related party. The line of credit was repaid during 2015 and no balance is outstanding at December 31, 2015.

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2015 and 2014, all temporarily restricted net assets were due to time restrictions of certain contributions receivable.

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. VLI is also committed to certain office equipment operating leases. Additionally, VLI is committed to a seven year operating lease for office space. The office lease has a base rental escalation clause for maintenance, utilities, insurance and taxes. Under the terms of the lease, VLI will receive from the landlord a build-out allowance of \$271,280. This is considered to be a lease incentive. The lease incentive and the difference between the straight-line expense and the required lease payments is reflected as deferred rent and lease incentive in the accompanying statement of financial position. Build-out expenditures of \$103,882 have been incurred as of December 31, 2015 and are reflected in the accompanying statement of financial position as property and equipment.

Future minimum lease payments as of December 31, 2015 consist of the following:

2016	\$ 549,881
2017	630,825
2018	619,671
2019	551,563
2020	307,105
Thereafter	<u>766,084</u>
	<u>\$3,425,129</u>

Lease expense for 2015 and 2014 amounted to \$453,988 and \$408,880, respectively.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

RELATED PARTY TRANSACTIONS

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

VLI has executed certain operating leases with VLF. Leasing expense under these lease agreements for 2015 and 2014 amounted to \$280,512 and \$233,476, respectively. Future minimum lease payments have been included with the commitments previously reported.

During 2015, VLI paid \$35,851 related to the renovation of one of the houses owned by VLF and rented by VLI. This amount is included in receivables from related party at December 31, 2015.

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, 2015 and 2014 amounted to \$103,853 and \$100,973, respectively. Additionally, during the years ended December 31, 2015 and 2014, VLF contributed \$280,512 and \$233,476, respectively, to VLI for operating expenses. For the years ended December 31, 2015 and 2014, VLF also contributed \$6,994 and \$6,159, respectively, to VLI for educational enhancement of VLI employees. During the year ended December 31, 2015, VLF contributed \$100,000 to VLI to assist in repayment of the short-term note payable.

In March 2014, VLI entered into a \$500,000 line of credit with a Texas bank to be used for working capital purposes. The marketable investments and other assets of VLF were held as collateral on the line of credit.

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 2015 and 2014.

FINANCIAL INSTRUMENTS

The estimated fair values 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.

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, 2015. The Federal tax returns of VLI for the last three years are subject to examination by the Internal Revenue Service.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which is a comprehensive new lease standard that amends various aspects of existing accounting guidance for leases. It will require recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The update will be effective January 1, 2019. Early adoption is permitted. VLI is evaluating the impact that this new guidance will have on the Financial Statements and related Note disclosures.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 20, 2016, 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.

Effective March 14, 2016, the build-out of the additional leased space at its corporate office location was completed and VLI opened its Activity Center. Future minimum lease payments for this additional space are included in the Commitments footnote disclosure above.

Effective April 15, 2016, VLI renewed its \$500,000 line of credit agreement with a Texas bank to be used for working capital purposes. Interest on outstanding balances under the line of credit agreement accrue at Prime Rate. The line of credit matures on April 15, 2017. The marketable investments and other assets of VLF are held as collateral on the line of credit.

SUPPLEMENTARY INFORMATION

VITA-LIVING, INC.

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CLIENT CARE AND PROGRAM EXPENSES		
Wages	\$ 3,542,705	\$ 3,774,001
Fringe benefits	650,012	750,556
Consultants	535,269	546,607
Food	169,967	186,935
Client training	427,607	463,359
Medical and dental expenses	39,077	43,136
Activities	<u>3,884</u>	<u>10,399</u>
Total client care and program expenses	<u>\$ 5,368,521</u>	<u>\$ 5,774,993</u>
OCCUPANCY AND TRANSPORTATION EXPENSES		
Leases	\$ 453,988	\$ 408,880
Transportation	103,749	150,957
Utilities	168,606	182,507
Maintenance and repairs	178,337	164,958
Depreciation and amortization	86,537	99,699
Insurance	118,502	116,919
Housekeeping	<u>39,364</u>	<u>52,194</u>
Total occupancy and transportation expenses	<u>\$ 1,149,083</u>	<u>\$ 1,176,114</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages	\$ 683,587	\$ 621,039
Professional fees	167,154	108,291
Fringe benefits	74,307	125,531
Miscellaneous	32,335	81,652
Office and postage	27,546	38,747
Employee training	2,625	7,176
Insurance	9,366	7,947
Interest	4,610	2,830
Other miscellaneous taxes	568	2,800
Dues and licenses	<u>15,122</u>	<u>11,839</u>
Total general and administrative expenses	<u>\$ 1,017,220</u>	<u>\$ 1,007,852</u>

See notes to financial statements.