

VITA-LIVING, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 16 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, LLP

June 12, 2017
Houston, Texas

VITA-LIVING, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 755,834	\$ 472,398
Accounts receivable, net	389,852	439,981
Receivable from related party	10,101	35,851
Contributions receivable	47,050	31,807
Prepaid expenses, deposits and other assets	101,865	77,888
Advances to clients, net	1,391	5,569
Property and equipment, net	<u>635,111</u>	<u>345,219</u>
TOTAL ASSETS	\$ <u>1,941,204</u>	\$ <u>1,408,713</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 120,509	\$ 212,412
Accrued salaries	305,608	327,389
Deferred rent and lease incentive	297,028	103,882
Other accrued liabilities	<u>17,219</u>	<u>37,103</u>
Total liabilities	740,364	680,786
NET ASSETS		
Temporarily restricted	47,050	27,500
Unrestricted	<u>1,153,790</u>	<u>700,427</u>
Total net assets	1,200,840	727,927
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,941,204</u>	\$ <u>1,408,713</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
Medicaid contracted services	\$ 6,109,514	\$ 6,246,029
Private pay and other income	<u>591,627</u>	<u>540,573</u>
Total revenues	<u>6,701,141</u>	<u>6,786,602</u>
EXPENSES		
Client care and program	4,983,943	5,368,521
Occupancy and transportation	1,325,777	1,149,083
General and administrative	<u>1,081,422</u>	<u>1,017,220</u>
Total expenses	<u>7,391,142</u>	<u>7,534,824</u>
DEFICIENCY OF REVENUES UNDER EXPENSES FROM OPERATIONS	<u>(690,001)</u>	<u>(748,222)</u>
SUPPORT AND OTHER ITEMS		
Contributions	1,141,614	1,228,985
Gain from disposition of property and equipment	<u>1,750</u>	<u>3,350</u>
Total support and other items	<u>1,143,364</u>	<u>1,232,335</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>453,363</u>	<u>484,113</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	47,050	27,500
Net assets released from restrictions	<u>(27,500)</u>	<u>(55,000)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>19,550</u>	<u>(27,500)</u>
INCREASE IN NET ASSETS	472,913	456,613
NET ASSETS		
BEGINNING OF YEAR	<u>727,927</u>	<u>271,314</u>
END OF YEAR	<u>\$ 1,200,840</u>	<u>\$ 727,927</u>

See notes to financial statements.

VITA-LIVING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from clients and third-party payers	\$ 6,783,420	\$ 6,820,356
Cash received from contributors	1,065,721	1,225,753
Cash paid to employees and suppliers	(7,379,939)	(7,385,600)
Interest paid	<u>-</u>	<u>(4,610)</u>
Net cash provided by operating activities	<u>469,202</u>	<u>655,899</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,750	3,350
Purchase of property and equipment	<u>(187,516)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(185,766)</u>	<u>3,350</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on short-term note payable	<u>-</u>	<u>(250,000)</u>
Net cash used by financing activities	<u>-</u>	<u>(250,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	283,436	409,249
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>472,398</u>	<u>63,149</u>
END OF YEAR	<u>\$ 755,834</u>	<u>\$ 472,398</u>

See notes to financial statements.

VITA-LIVING, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2016	2015
Reconciliation of net cash provided by operating activities		
Increase in net assets	\$ 472,913	\$ 456,613
Adjustments		
Depreciation and amortization	136,822	86,537
Contribution of property and equipment	(80,200)	-
Gain from disposition of property and equipment	(1,750)	(3,350)
(Increase) decrease in		
Accounts receivable	50,129	69,605
Receivable from related party	32,150	(35,851)
Contributions receivable	(15,243)	24,268
Prepaid expenses, deposits and other assets	(23,977)	18,825
Advances to clients, net	4,178	1,218
Increase (decrease) in		
Accrued salaries	(21,781)	(26,836)
Accounts payable and other accrued liabilities	(109,787)	64,870
Deferred rent	<u>25,748</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 469,202</u>	<u>\$ 655,899</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Additions to property and equipment	\$ 426,714	\$ 112,282
Contributed property and equipment	(80,200)	-
Change in property and equipment in accounts payable	8,400	(8,400)
Deferred rent/lease incentive	<u>(167,398)</u>	<u>(103,882)</u>
Net cash paid for property and equipment	<u>\$ 187,516</u>	<u>\$ -</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 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 current 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.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which significantly amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. Among other items, ASU 2016-14 changes the classes of net assets presented on the face of the statement of financial position from three to two (with donor restrictions and without donor restrictions) and requires presentation of expenses by both natural classification and functional classification. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. VLI does not expect this amendment to have a material effect on its financial statements.

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 Health and Human Services (HHS) rules and regulations relating to Level of Need (LON) review. These rules permit HHS 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 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.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

CASH AND CASH EQUIVALENTS

Cash and equivalents at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Cash in banks	\$ 754,276	\$ 470,754
Cash on hand	<u>1,558</u>	<u>1,644</u>
	<u>\$ 755,834</u>	<u>\$ 472,398</u>

VLI maintains a cash balance at a 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 \$565,000 at December 31, 2016.

ACCOUNTS RECEIVABLE

Accounts receivable includes income earned for services provided as of December 31, 2016 and 2015 and are summarized as follows:

	2016	2015
HHS		
HCS program	\$ 234,284	\$ 292,654
ICFID program	102,170	94,221
CLASS program	64,976	73,569
Private pay and other	<u>5,429</u>	<u>2,190</u>
	406,859	462,634
Allowance for uncollectible accounts	<u>(17,007)</u>	<u>(22,653)</u>
	<u>\$ 389,852</u>	<u>\$ 439,981</u>

CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2015 were all collected in 2016. Contributions receivable at December 31, 2016 are expected to be collected as follows:

2017	\$ 41,050
2018	5,000
2019	<u>1,000</u>
	<u>\$ 47,050</u>

ADVANCES TO CLIENTS

Advances to clients at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Advances	\$ 4,384	\$ 7,751
Allowance for uncollectible advances	<u>(2,993)</u>	<u>(2,182)</u>
	<u>\$ 1,391</u>	<u>\$ 5,569</u>

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Leasehold improvement construction in progress	\$ 3,000	\$ 103,882
Leasehold improvements	723,793	258,399
Equipment	521,896	525,364
	1,248,689	887,645
Less accumulated depreciation and amortization	(613,578)	(542,426)
Net property and equipment	\$ 635,111	\$ 345,219

Depreciation expense for 2016 and 2015 amounted to \$136,822 and \$86,537, respectively.

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, all temporarily restricted net assets were due to time restrictions of certain contributions receivable.

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

Leases

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 an 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 received 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 \$460,133 and \$103,882 have been incurred as of December 31, 2016 and 2015, respectively, and are reflected in the accompanying statement of financial position as property and equipment.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

COMMITMENTS - CONTINUED

Future minimum lease payments as of December 31, 2016 consist of the following:

2017	\$ 690,573
2018	701,591
2019	702,373
2020	705,105
2021	321,940
2022-2023	<u>453,546</u>
	<u>\$ 3,575,128</u>

Lease expense for 2016 and 2015 amounted to \$578,497 and \$453,988, respectively.

Line of credit agreement

On April 15, 2016, VLI renewed a \$500,000 line of credit agreement with a Texas bank to be used for working capital. Interest on any outstanding balance under the line of credit agreement accrues at Prime Rate. The line of credit matures on April 15, 2017. The assets of the Vita Living Foundation (VLF), a related party, are held as collateral on the line of credit. There was no balance outstanding on the line of credit at December 31, 2016.

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 2016 and 2015 amounted to \$269,838 and \$280,512, respectively. Future minimum lease payments have been included with the commitments previously reported.

During 2016 and 2015, VLI paid \$27,126 and \$35,851, respectively, related to renovations of houses owned by VLF and rented by VLI. These amounts were to be reimbursed by VLF. At December 31, 2016 and 2015, \$10,101 and \$35,851, respectively, remained outstanding and are included in receivables from related party in the statements of financial position.

VLF has elected to make annual contributions to VLI of at least five percent of the fair market value of VLF's marketable investments, totaling \$92,495 and \$103,853 for the years ended December 31, 2016 and 2015, respectively. VLF also contributed \$269,838 and \$280,512 during 2016 and 2015, respectively, toward VLI's residential operating activities. Additionally, VLF contributed funds for the educational enhancement of VLI employees, which totaled \$6,730 and \$6,994 for the years ended December 31, 2016 and 2015, respectively. During 2016, VLF contributed \$101,916 toward the construction and start-up of the VLI Activity Center, which opened in March, 2016. During 2015, VLF contributed \$100,000 to VLI to assist in repayment of the short-term note payable.

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 contributed \$23,924 to the plan for the year ended December 31, 2016 as a discretionary 100% match of each employee's first 6% of contributions. VLI did not contribute any amounts to this plan for the year ended December 31, 2015.

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.

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, 2016. 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 June 12, 2017, 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 April 15, 2017, VLI renewed its \$500,000 revolving 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, 2019. 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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CLIENT CARE AND PROGRAM EXPENSES		
Wages	\$ 3,463,995	\$ 3,542,705
Fringe benefits	593,884	650,012
Consultants	506,248	535,269
Food	213,874	169,967
Client training	161,641	427,607
Medical and dental expenses	34,502	39,077
Activities	<u>9,799</u>	<u>3,884</u>
Total client care and program expenses	<u>\$ 4,983,943</u>	<u>\$ 5,368,521</u>
OCCUPANCY AND TRANSPORTATION EXPENSES		
Leases	\$ 578,497	\$ 453,988
Transportation	70,484	103,749
Utilities	172,507	168,606
Maintenance and repairs	208,095	178,337
Depreciation and amortization	136,822	86,537
Insurance	113,880	118,502
Housekeeping	<u>45,492</u>	<u>39,364</u>
Total occupancy and transportation expenses	<u>\$ 1,325,777</u>	<u>\$ 1,149,083</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages	\$ 692,279	\$ 683,587
Professional fees	179,758	167,154
Fringe benefits	76,673	74,307
Miscellaneous	48,373	32,335
Office and postage	53,092	27,546
Employee training	7,453	2,625
Insurance	10,203	9,366
Interest	-	4,610
Other miscellaneous taxes	2,100	568
Dues and licenses	<u>11,491</u>	<u>15,122</u>
Total general and administrative expenses	<u>\$ 1,081,422</u>	<u>\$ 1,017,220</u>

See notes to financial statements.