

VITA-LIVING, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2017

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, 2017 and the related statements of activities and cash flows for the year 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.

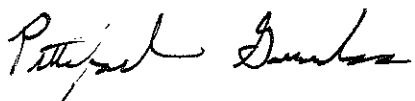
Opinion

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, 2017 and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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.



July 10, 2018
Houston, Texas

VITA-LIVING, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Cash and cash equivalents	\$ 764,369
Accounts receivable, net	363,370
Receivable from related party	1,000
Contributions receivable	57,950
Prepaid expenses, deposits and other assets	70,595
Property and equipment, net	<u>849,146</u>
TOTAL ASSETS	\$ <u>2,106,430</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 83,201
Accrued salaries	315,893
Deferred rent and lease incentive	268,732
Other accrued liabilities	<u>67,950</u>
Total liabilities	<u>735,776</u>

NET ASSETS

Temporarily restricted	57,950
Unrestricted	<u>1,312,704</u>
Total net assets	<u>1,370,654</u>

TOTAL LIABILITIES AND NET ASSETS	\$ <u>2,106,430</u>
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VITA-LIVING, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

CHANGES IN UNRESTRICTED NET ASSETS

REVENUES

Medicaid contracted services	\$ 6,048,391
Private pay and other income	539,425
Fund-raising event revenue	<u>21,550</u>
Total revenues	<u>6,609,366</u>

EXPENSES

Program	6,480,368
Fundraising	346,394
General and administrative	<u>668,458</u>
Total expenses	<u>7,495,220</u>

DEFICIENCY OF REVENUES UNDER
EXPENSES FROM OPERATIONS

(885,854)

SUPPORT AND OTHER ITEMS

Contributions	1,035,776
Gain from disposition of property and equipment	<u>8,992</u>
Total support and other items	<u>1,044,768</u>

INCREASE IN UNRESTRICTED NET ASSETS

158,914

**CHANGES IN TEMPORARILY RESTRICTED
NET ASSETS**

Temporarily restricted contributions	51,950
Net assets released from restrictions	<u>(41,050)</u>

INCREASE IN TEMPORARILY RESTRICTED NET ASSETS

10,900

INCREASE IN NET ASSETS

169,814

NET ASSETS

BEGINNING OF YEAR 1,200,840

END OF YEAR \$ 1,370,654

VITA-LIVING, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 169,814
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	175,251
Contribution of property and equipment	(19,602)
Gain from disposition of property and equipment	(8,992)
(Increase) decrease in	
Accounts receivable	27,873
Receivable from related party	9,101
Contributions receivable	(10,900)
Prepaid expenses, deposits and other assets	31,270
Increase (decrease) in	
Accrued salaries	10,285
Accounts payable and other accrued liabilities	13,423
Deferred rent	<u>(28,296)</u>
Net cash provided by operating activities	<u>369,227</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	11,700
Purchase of property and equipment	<u>(372,392)</u>
Net cash used by investing activities	<u>(360,692)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,535
CASH AND CASH EQUIVALENTS	
BEGINNING OF YEAR	<u>755,834</u>
END OF YEAR	<u>\$ 764,369</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. 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.

In February 2016, the 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.

Cash and Cash Equivalents

For purposes of the statement 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

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 1,700 volunteer hours per year from over 150 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.

Long-Lived Assets

VLI's long-lived assets are evaluated for impairment in accordance with authoritative guidance which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. No impairment was noted during the year ended December 31, 2017.

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. The most significant estimate is for depreciation.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

CASH AND CASH EQUIVALENTS

Cash and equivalents at December 31, 2017 are summarized as follows:

Cash in banks	\$ 762,902
Cash on hand	<u>1,467</u>
	<u>\$ 764,369</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 \$566,000 at December 31, 2017.

ACCOUNTS RECEIVABLE

Accounts receivable includes income earned for services provided as of December 31, 2017 and is summarized as follows:

HHS	
HCS program	\$ 208,939
ICFID program	105,430
CLASS program	60,814
Private pay and other	<u>8,187</u>
	383,370
Allowance for uncollectible accounts	<u>(20,000)</u>
	<u>\$ 363,370</u>

CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2017 are expected to be collected as follows:

2018	\$ 56,950
2019	<u>1,000</u>
	<u>\$ 57,950</u>

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 are summarized as follows:

Leasehold improvements	949,751
Equipment	<u>557,620</u>
	1,507,371
Less accumulated depreciation and amortization	<u>(658,225)</u>
Net property and equipment	<u>\$ 849,146</u>

Depreciation expense for 2017 amounted to \$175,251.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017, 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 the Department of Aging and Disability Services (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 was 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.

Future minimum lease payments as of December 31, 2017 consist of the following:

2018	\$ 708,376
2019	715,159
2020	717,890
2021	715,102
2022	319,319
2023	<u>134,227</u>
	<u>\$ 3,310,073</u>

Lease expense for 2017 amounted to \$664,514.

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 matured on April 15, 2017 and was extended through April 15, 2019. 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, 2017.

VITA-LIVING, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

RELATED PARTY TRANSACTIONS

VLF was created 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. Additionally, VLI provides certain management and accounting services to VLF for which VLI incurs the cost.

VLI has executed certain operating leases with VLF. Leasing expense under these lease agreements for 2017 amounted to \$359,432. These leases expire in 2021 and once expired, continue on a month to month basis. Future minimum lease payments have been included with the commitments previously reported.

During 2017, VLI paid for certain reimbursed expenses on one of the leased residential houses on behalf of VLF. At December 31, 2017, \$1,000 is included in receivable 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, which totaled \$95,642 for the year ended December 31, 2017. VLF also contributed \$331,802 during 2017 toward VLI's residential operating activities and \$6,944 for the educational enhancement of VLI employees.

Effective April 15, 2017, VLI renewed its \$500,000 line of credit agreement with a Texas bank to be used for working capital purposes. The marketable investments and other assets of VLF are 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 contributed \$48,311 to the plan for the year ended December 31, 2017 as a discretionary 100% match of each eligible employee's first 6% of contributions.

FINANCIAL INSTRUMENTS

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, 2017. The Federal tax returns of VLI for the last three years are subject to examination by the Internal Revenue Service.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 10, 2018, 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 June 1, 2018, VLI established a nonqualified retirement plan for certain executive employees. Plan participants will be able to make tax-deferred payroll contributions to the Plan and VLI may make discretionary tax-deferred contributions to the Plan on behalf of Plan participants. VLI maintains ownership of all Plan assets and liabilities until distribution to the participants. As of July 10, 2018, Plan assets and liabilities were zero and VLI has made no commitment for future contributions.

SUPPLEMENTARY INFORMATION

VITA-LIVING, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Salaries	\$ 3,617,493	\$ 191,565	\$ 329,420	\$ 4,138,478
Employee benefits and payroll taxes	604,876	30,201	66,871	701,948
Lease expense	557,161	5,015	102,338	664,514
Consultants	601,335	-	-	601,335
Food and dietary supplies	248,326	-	-	248,326
Maintenance and repairs	181,710	36	52,325	234,071
Depreciation and amortization	141,479	-	33,772	175,251
Utilities	150,185	798	14,409	165,392
Insurance	104,916	-	18,896	123,812
Professional fees	69,556	95,542	24,416	189,514
Transportation	61,564	447	1,342	63,353
Housekeeping	40,148	-	-	40,148
Office and postage	6,117	18,175	9,223	33,515
Dues and licenses	13,427	30	291	13,748
Client activities	13,086	-	-	13,086
Medical and dental expenses	31,475	-	-	31,475
Bad debts	35,436	-	-	35,436
Other miscellaneous	<u>2,078</u>	<u>4,585</u>	<u>15,155</u>	<u>21,818</u>
	<u>\$ 6,480,368</u>	<u>\$ 346,394</u>	<u>\$ 668,458</u>	<u>\$ 7,495,220</u>

See notes to financial statements.