

**VITALITY UNLIMITED**  
**(A NEVADA NONPROFIT CORPORATION)**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**  
**AND ADDITIONAL INFORMATION**

**YEAR ENDED DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE**  
**FINANCIAL INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2009)**

INDEPENDENT AUDITORS' REPORT

August 18, 2011

Board of Directors  
Vitality Unlimited  
Elko, Nevada

We have audited the accompanying statement of financial position of Vitality Unlimited as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Vitality Unlimited's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized financial information has been derived from the organization's 2009 financial statements, which were audited by our firm. Our opinion thereon, dated September 21, 2010, was unqualified, except for the exclusion of certain related entities, which are required to be consolidated with Vitality Unlimited by AICPA Statement of Position 94-3.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note L to the financial statements, related entities which are required to be consolidated with Vitality Unlimited in accordance with ASC 958 (formerly AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*), have not been included in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that related entities, which are controlled by a not-for-profit organization, be consolidated with the controlling entity. The effects of this departure are detailed in Note L.

In our opinion, except for the effects of not including the accounts of Pinion Apartments, LLC, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Vitality Unlimited as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 18, 2011 on our consideration of Vitality Unlimited's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Vitality Unlimited taken as a whole. The accompanying Schedule of Expenditures of Federal, State and County Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

*Bedinger & Company*  
Certified Public Accountants

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2009)**

	Total	
	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 60,161	\$ 6,215
Grants and accounts receivable, net of allowance for uncollectible accounts (Note E)	1,218,757	1,294,750
Prepaid expenses	9,062	9,413
Other accounts receivable	9,805	-
<b>TOTAL CURRENT ASSETS</b>	<b>1,297,785</b>	<b>1,310,378</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Net of accumulated depreciation and amortization (Note B)	4,010,217	3,882,959
<b>OTHER ASSETS:</b>		
Investment in Pinion Apartments (Note L)	(346,896)	(392,869)
<b>TOTAL ASSETS</b>	<b>\$ 4,961,106</b>	<b>\$ 4,800,468</b>

See Notes to Financial Statements

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2009)**

	Total	
	2010	2009
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses (Note C)	\$ 168,037	\$ 93,092
Bank overdraft	-	193,212
Accrued employee benefits (Note K)	38,354	95,640
Accrued interest	5,898	8,607
Lines of credit (Note G)	392,889	451,998
Due to affiliates and related parties (Note C)	160,867	79,000
Current portion of long-term debt (Note F)	998,708	75,108
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,764,753</b>	<b>996,657</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current portion (Note F)	2,251,857	2,876,659
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,251,857</b>	<b>2,876,659</b>
<b>TOTAL LIABILITIES</b>	<b>4,016,610</b>	<b>3,873,316</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes H & J)		
<b>NET ASSETS</b>		
Unrestricted	944,496	927,152
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$4,961,106</b>	<b>\$4,800,468</b>

See Notes to Financial Statements

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)**

REVENUE	Unrestricted	Temporarily Restricted	Total	
			2010	2009
<u>Revenue</u>				
Net patient service revenue (Note E)	\$1,459,500	\$ -	\$1,459,500	\$1,488,430
Grants and contracts		1,420,775	1,420,775	1,737,517
Donations	20,000		20,000	16,455
Management fees	26,285		26,285	25,260
Rental income	114,120		114,120	148,795
Other income	15,563		15,563	14,728
<b>TOTAL OPERATING REVENUES</b>	<b>1,635,468</b>	<b>1,420,775</b>	<b>3,056,243</b>	<b>3,431,185</b>
Net assets released from restrictions	1,420,775	(1,420,775)	-	-
<b>TOTAL REVENUES</b>	<b>3,056,243</b>	<b>-</b>	<b>3,056,243</b>	<b>3,431,185</b>
<b>OPERATING EXPENSES</b>				
<u>Program services</u>				
Treatment and housing	2,041,208		2,041,208	2,171,463
Substance Abuse Prevention and Treatment Agency (SAPTA)	779,036		779,036	1,156,544
<b>TOTAL PROGRAM SERVICES</b>	<b>2,820,244</b>		<b>2,820,244</b>	<b>3,328,007</b>
Supporting services				
Fundraising	14,964		14,964	-
Management and general	203,691		203,691	355,984
<b>TOTAL OPERATING EXPENSES</b>	<b>3,038,899</b>		<b>3,038,899</b>	<b>3,683,991</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>17,344</b>		<b>17,344</b>	<b>(252,806)</b>
Net assets, beginning of year	927,152	-	927,152	1,179,958
Net assets, end of year	\$ 944,496	\$ -	\$ 944,496	\$ 927,152

See Notes to Financial Statements

VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010

	1174 SOUTH-SIDE	961 SOUTH-SIDE	CHIMNEY ROCK APARTMENTS	HIGH DESERT HOUSING	HOUSING CHDO	SAGE STREET	BUSINESS ADMINISTRATION VITALITY UNLIMITED	COTTONWOOD COUNSELING VITALITY UNLIMITED	FOOTPRINTS COUNSELING VITALITY UNLIMITED
SALARIES	\$ -	\$ -	\$ 13,500	\$ 13,500	\$ 27,000	\$ 13,500	\$ 104,560	\$ 32,192	\$ 106,378
PAYROLL TAX EXPENSE	-	-	1,033	1,033	2,066	1,033	7,999	2,483	7,978
NEW HIRE EXPENSES	-	-	-	-	-	-	50	-	55
HEALTH INSURANCE BENEFITS	-	-	1,133	1,133	-	-	5,696	-	13,854
DENTAL INSURANCE	-	-	-	-	-	-	4,105	-	2,433
VISION INSURANCE	-	-	-	-	-	-	851	537	537
SUPPLEMENTAL INSURANCE (403B)	-	-	-	-	-	375	-	375	375
NEVADA EMPLOYMENT SECURITY	-	-	256	317	-	3,432	3,432	3,432	3,432
WORKERS COMPENSATION	-	-	796	735	848	848	648	648	648
TOTAL PAYROLL EXPENSES	-	-	16,718	16,718	29,714	18,868	127,942	39,647	135,859
MEDICAL CONSULTANTS	-	-	-	-	-	-	-	-	-
DENTIST/DOCTOR	-	-	-	-	-	-	171	-	-
PRESCRIPTIONS	-	-	-	-	-	-	-	-	-
TOTAL MEDICAL EXPENSES	-	-	-	-	-	-	171	-	-
FUNDRAISING	-	-	-	-	-	-	7,300	-	-
OFFICE EXPENSE	-	-	40	-	500	40	3,244	72	716
OPERATING SUPPLIES	-	-	604	467	500	927	4,997	231	299
FOOD	518	-	-	-	-	2,006	24	-	-
PROFESSIONAL DEVELOPMENT	-	-	-	-	-	-	-	-	-
PREVENTION/EDUCATION/LITERATURE	-	-	-	-	-	-	233	-	-
CONSULTANT/CONTRACT LABOR	-	-	448	-	500	-	32,381	16,191	32,381
TRAINING	-	-	-	-	-	-	71	-	-
CLUBS AND SUBSCRIPTIONS	-	-	-	-	-	-	267	71	444
MARKETING AND ADVERTISING	52	6	484	6	-	1,000	3,623	500	1,000
LIABILITY INSURANCE	500	500	1,000	1,000	500	1,500	1,500	1,500	1,500
TRAVEL - LODGING	-	-	283	1,500	-	-	589	89	-
DOT EXPENSE	-	-	-	-	-	-	-	-	-
FUEL & MAINTENANCE	254	254	969	254	-	1,392	-	-	-
REPAIR & MAINTENANCE	5,423	65	3,736	510	-	4,126	1,799	57	-
COMPUTER REPAIR/MAINTENANCE	-	-	1,600	1,600	-	-	15,000	3,150	260
RENT	-	-	9,314	2,303	-	6,217	8,070	1,979	10,575
UTILITIES	1,312	3,592	-	-	500	-	-	-	2,080
COPY AND PRINTING CHARGES	-	-	-	-	-	-	-	-	-
OTHER RENTAL/LEASE EXPENSE	-	-	-	-	-	927	226	-	-
INTEREST EXPENSE	-	-	-	-	1,000	500	6,448	500	500
LEGAL & ACCOUNTING	-	-	44	1,286	-	1,702	-	-	-
PROFESSIONAL FEES	-	-	-	-	-	-	-	-	-
LICENSES AND FEES	-	-	-	-	-	-	-	200	500
PROPERTY TAXES	-	-	-	-	-	-	-	-	-
POSTAGE	-	-	-	-	500	250	1,087	-	250
TELEPHONE/COMMUNICATIONS	-	-	4,300	1,923	2,940	3,351	423	241	3,577
BANK CHARGES	-	-	-	8	-	-	-	-	2
DEPRECIATION EXPENSES	-	-	-	-	-	-	-	-	-
SECURITY DEPOSIT REFUND	-	-	350	-	-	-	-	-	-
TOTAL ADMINISTRATIVE EXPENSES	8,059	4,407	23,172	10,857	6,940	23,938	91,142	25,031	54,094
TOTAL OPERATING EXPENSES	\$ 8,059	\$ 4,407	\$ 39,890	\$ 27,575	\$ 36,654	\$ 42,926	\$ 218,655	\$ 64,578	\$ 189,752

See Notes to Financial Statements

VITALITY UNLIMITED (A NEVADA NONPROFIT)  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010

	RESTORATION COUNSELING	SS	VITALITY UNLIMITED, INC.	VITALITY UNLIMITED, INC.	TOTAL
	VITALITY UNLIMITED	VITALITY UNLIMITED	VITALITY UNLIMITED, INC.	VITALITY UNLIMITED	TOTAL
SALARIES	\$ 77,575	\$ 36,442	\$ 37,779	\$ 861,170	\$ 1,323,584
PAYROLL TAX EXPENSE	5,954	2,768	2,890	63,105	83,322
NEW HIRE EXPENSES	265	-	-	3,588	3,958
HEALTH INSURANCE BENEFITS	-	-	-	95,220	117,036
DENTAL INSURANCE	2,403	2,403	2,403	6,019	21,737
VISION INSURANCE	537	537	537	230	3,766
SUPPLEMENTAL INSURANCE (403B)	375	375	375	19,959	16,209
NEVADA EMPLOYMENT SECURITY	3,432	3,432	3,432	5,234	29,831
WORKERS COMPENSATION	648	648	648	15,082	21,797
TOTAL PAYROLL EXPENSES	91,169	46,625	48,064	1,055,605	1,856,248
MEDICAL CONSULTANTS	-	-	-	36,100	36,100
DENTIST/DOCTOR	-	-	-	171	171
PRESCRIPTIONS	-	-	-	6,359	6,359
TOTAL MEDICAL EXPENSES	-	-	-	42,459	42,630
FUNDRAISING	-	-	-	7,834	14,984
OFFICE EXPENSE	872	228	143	2,440	8,295
OPERATING SUPPLIES	1,018	260	380	38,201	47,884
FOOD	-	-	-	76,620	79,168
PROFESSIONAL DEVELOPMENT	-	-	-	291	281
PREVENTION/EDUCATION/LITERATURE	-	-	-	1,537	1,770
CONSULTANT/CONTRACT LABOR	32,381	32,381	32,381	126,232	304,776
TRAINING	-	-	-	167	667
DUES AND SUBSCRIPTIONS	100	-	-	1,176	1,347
MARKETING AND ADVERTISING	733	72	71	6,330	8,330
LIABILITY INSURANCE	1,000	1,000	1,000	34,284	46,387
TRAVEL - LODGING	3,030	1,550	1,550	24,546	38,958
DOT EXPENSE	-	-	-	24,164	24,842
FUEL & MAINTENANCE	-	-	-	5,988	9,122
REPAIR & MAINTENANCE	49	-	-	14,436	30,190
COMPUTER REPAIR/MAINTENANCE	463	376	-	10,680	15,109
RENT	36,696	2,700	8,000	37,157	117,488
UTILITIES	2,729	59	-	88,922	124,567
COPY AND PRINTING CHARGES	2,714	-	-	6,151	11,455
OTHER RENTAL/LEASE EXPENSE	-	-	-	2,000	2,000
INTEREST EXPENSE	-	-	-	120,633	121,786
LEGAL & ACCOUNTING	840	500	500	36,064	46,852
PROFESSIONAL FEES	-	-	-	37,490	39,820
LICENSES AND FEES	1,150	200	300	2,804	6,858
PROPERTY TAXES	79	-	-	1,913	1,892
POSTAGE	250	250	250	7,658	10,745
TELEPHONE/COMMUNICATIONS	6,060	1,433	3,416	46,483	74,147
BANK CHARGES	-	-	-	7,971	7,981
DEPRECIATION EXPENSES	-	-	-	163,061	163,061
SECURITY DEPOSIT REFUND	-	-	-	-	350
TOTAL ADMINISTRATIVE EXPENSES	90,154	41,619	47,991	982,717	1,360,821
TOTAL OPERATING EXPENSES	\$ 181,323	\$ 88,144	\$ 96,055	\$ 2,040,781	\$ 3,038,899

See Notes to Financial Statements



**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2009)**

	Total	
	2010	2009
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Increase (decrease) in net assets	\$ 17,344	\$ (252,806)
Adjustment to reconcile change in net assets to net cash provided <used> by operating activities:		
Depreciation	163,061	161,826
Loss on investment in Pinion Apartments	-	-
<Increase> decrease in accounts receivable	75,993	149,131
<Increase> decrease in other accounts receivable	(9,805)	-
<Increase> decrease in prepaid expenses	599	3,724
Related party <receivable> payable	81,867	29,000
Increase <decrease> in accounts payable	34,782	45,633
Increase <decrease> in bank overdraft	(193,212)	165,478
<Increase> decrease in accrued expenses	(2,709)	(78,897)
<b>NET CASH PROVIDED &lt;USED&gt; IN OPERATING ACTIVITIES</b>	<b>167,920</b>	<b>223,089</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Additions to fixed assets	(290,537)	(130,466)
Investment in Pinion Apartments	(45,973)	-
Reduction in deposits	-	2,195
<b>NET CASH PROVIDED &lt;USED&gt; BY INVESTING ACTIVITIES</b>	<b>(336,510)</b>	<b>(128,271)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Advances <payments> on line of credit	(76,232)	(19,577)
Increase <payments> on mortgages and notes payable	298,798	(69,355)
Payments on capital lease obligations	-	(1,579)
<b>NET CASH PROVIDED &lt;USED&gt; BY FINANCING ACTIVITIES</b>	<b>222,566</b>	<b>(90,511)</b>
<b>NET INCREASE &lt;DECREASE&gt; IN CASH AND CASH EQUIVALENTS</b>	<b>53,976</b>	<b>4,307</b>
CASH, beginning of year	6,215	1,908
CASH, end of year	<b>\$ 60,191</b>	<b>\$ 6,215</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	<b>\$ 121,787</b>	<b>\$ 108,307</b>

See Notes to Financial Statements

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT BUSINESS ACTIVITY**

**Organization**

Located in Elko, Nevada, Vitality Unlimited (the "Organization") was incorporated as a Nevada nonprofit corporation in February 1972. The Organization amended its articles of incorporation in July 2005, for the purpose of changing its name. The Organization was previously known as Vitality Center.

The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under 509(a)(2) of the Internal Revenue Code. The Organization is primarily supported through grants and client fees.

The Organization's mission is to create new paths to better lives by providing services and programs that promote positive life choices, improve the quality of life, and reduce the number of people dependant on alcohol and other drugs. The Organization provides drug and alcohol rehabilitation, counseling services, and low-income housing assistance in Northern Nevada.

The Organization operates counseling, transitional housing and treatment centers in Elko, Battle Mountain, Winnemucca, Las Vegas, Reno and Sun Valley, Nevada.

The Organization prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred. All rental assistance and interest subsidies are earned by meeting the requirements of the grantors to provide subsidized housing to qualified tenants and are therefore reported as unrestricted revenues.

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**Basis of Presentation**

Financial Statement Presentation follows the requirements of ASC 958 (formerly SFAS No. 117, "*Financial Statements of Not-for-Profit Organizations*") under ASC 958 the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. The Organization had no temporarily or permanently restricted net assets at December 31, 2010.

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT BUSINESS ACTIVITY**

(Continued)

**Capitalization and Depreciation:**

Land, building, and improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The estimated services lives of the assets for depreciation purposes may be different than actual economic useful lives.

Buildings	27.5 - 30 years	Straight-Line
Improvements	7 years	Straight-Line
Furniture and Equipment	5 and 7 years	Straight-Line

The Organization reviews its investment in real property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real property to the future net undiscounted cash flow expected to be generated by the rental property and the estimated proceeds from the eventual disposition of the real property. If the real property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real property exceeds the fair value of such property. There was no impairment loss recognized in 2010.

**Rental Income and Subsidized Rents:**

The Organization received rental income from its transitional housing programs. Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred until earned.

**Net Patient Service Revenue:**

Vitality Unlimited has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined.

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT BUSINESS ACTIVITY**  
(Continued)

**Income Taxes:**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Currently, the Organization engages in no activities that would be taxed as unrelated business income.

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising Expense:**

The Organization expenses advertising production costs as they are incurred and advertising communication costs the first time advertising takes place. Any costs, which meet the requirements to be capitalized, are not material.

**Cash and Cash Equivalents:**

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with maturity of six months or less to be cash equivalents.

The Organization deposits its cash in financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Organization has not experienced any losses on such accounts.

**Reclassifications**

Certain reclassifications have been made to the summarized financial information for the year ended June 30, 2010 to conform to the classification used in 2011.

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)****NOTES TO FINANCIAL STATEMENTS****YEAR ENDED DECEMBER 31, 2010****(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)****NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT BUSINESS ACTIVITY****(Continued)****Concentration of Risk:**

In 2010, the Organization received approximately 45% of its revenue under a grant from the Nevada Department of Health and Human Services Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency (SAPTA).

Financial instruments that potentially subject the Organization to credit risk are primarily patient accounts receivable. The Organization extends unsecured credit to clients. Patient accounts receivable represent amounts due for treatment services. See discussion of Net Patient Service Revenue above and Note E.

**NOTE B – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Nondepreciable:		
Land	\$242,300	\$242,300
Depreciable:		
Buildings	4,335,935	4,048,391
Improvements	38,109	38,109
Autos and Vans	86,397	86,397
Furniture and Equipment	411,945	408,951
	<u>5,114,686</u>	<u>4,824,148</u>
Less: accumulated depreciation	<u>(1,104,469)</u>	<u>(941,189)</u>
	<u>\$4,010,217</u>	<u>\$3,882,959</u>

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

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**NOTE C - TRANSACTION WITH AFFILIATES AND RELATED PARTIES AND RELATED PARTY RECEIVABLE**

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis. Except for routine transactions, it is generally not possible to determine whether a particular transactions would have taken place if the parties had not been related or, assuming it would have taken place, what the terms and manner of settlement would have been.

Vitality Unlimited is the managing member of Mountain Shadows Housing, LLC, a Nevada limited liability company that was formed on February 18, 2000, to build and operate a 24-unit affordable apartment project under Section 515(b) of the National Housing Act of 1949. Pursuant to the Management Agreement, Vitality Unlimited is entitled to annual management fees in the amount not to exceed 7% of projected rental receipts for management services. The fee is negotiated annually and subject to USDA Rural Development approval. The amounts received for the year ended December 31, 2010 was approximately \$13,985.

Vitality Unlimited sponsored construction of Winchester Senior Apartments, which is an 11-unit project located in Elko, Nevada. Winchester Senior Housing is a nonprofit corporation organized under the laws of the State of Nevada for the purpose of developing and operating Winchester Senior Apartments. Vitality Unlimited accrued \$3,780 in property management fees receivable from Winchester during 2010. Vitality Unlimited does not have a controlling economic interest in Winchester Senior Housing as defined under AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and does not include Winchester Senior Housing in its financial statements.

Vitality Unlimited is the sole shareholder of Pinion Apartment, LLC, a Nevada limited liability company that was formed on January 30, 2004, to build and operate a 25-unit affordable apartment project under Section 515(b) of the National Housing Act of 1949. Pursuant to the Management Agreement, Vitality Unlimited is entitled to annual management fees in an amount not to exceed 7% of projected rental receipts for management services. The fee is negotiated annually and subject to USDA Rural Development approval. The amounts received for the year ended December 31, 2010 was \$12,300.

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

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**NOTE C - TRANSACTION WITH AFFILIATES AND RELATED PARTIES AND RELATED PARTY RECEIVABLE** (Continued)

Related party receivables <payables> as of December 31, 2010, consisted of the following:

Sierra Recovery Center	\$143,705
Winchester Senior Housing	112,085
Mountain Shadows Housing, LLC	(299,020)
Pinion Apartments, LLC	(129,225)
Related Party Receivable <payable> net	<u>\$(172,455)</u>

During 2009, Two Roses Investment Corporation, doing business as Evergreen Management Consultants, the company hired to manage Vitality Unlimited, advanced \$79,000 to the Organization. The advance is short-term, non-interest bearing and due on demand.

**NOTE D - GRANTS RECEIVABLE**

Grants receivable as of December 31, 2010, includes amounts receivable from the Nevada Department of Health and Human Services Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency (SAPTA) and the United States Department of Housing and Urban Development (HUD).

**NOTE E - PATIENT ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUE**

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based upon its assessment of the current status of individual receivables from grants, contracts and other third-party providers. The allowance for doubtful accounts is recorded at a varying percentage of outstanding patient receivables which is based upon historical experience and the previous year's actual collection percentage.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable.

Because of the inherent uncertainties in estimating the allowance for doubtful accounts, it is at least reasonably possible that the estimates used will change within the near term. The allowance for doubtful accounts at December 31, 2010 was \$3,363,885 and \$2,245,487, respectively. Which represents approximately 75% and 67% of patient receivables.

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)****NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

**NOTE E - PATIENT ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUE (Continued)**

As discussed in Note A above, net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Net patient service revenue for the year, consisted of the following:

	<u>2010</u>	<u>2009</u>
Patient Service Revenue	\$5,101,854	\$8,675,180
Bad Debt Recovery	13,681	10,689
Bad Debt Expense	(1,118,399)	(738,828)
Insurance Contract Adjustments	(721,697)	(1,324,293)
Courtesy Billing Adjustments	(114,946)	(11,562)
Sliding Fee Scale Adjustments	(1,700,995)	(2,785,752)
In-House Collection Adjustments	0	(2,337,004)
	<u>\$1,459,500</u>	<u>\$1,488,430</u>

Vitality Unlimited uses a sliding fee scale: to determine the actual amounts their clients are expected to pay for services. Based on income and family size, the basic charges may be reduced by as much as 80% of established rates.

**NOTE F - LONG TERM DEBT**

	<u>2010</u>	<u>2009</u>
Non-Interest bearing HOME loan payable dated May 28, 2002, to the Nevada Housing Division in the original amount of \$35,182. Principal is deferred for thirty years, or until transfer of title of the project, whichever is sooner. The loan is collateralized by a deed of trust on the Phoenix IV transitional care home located at 3655 El Rancho Drive in Sun Valley, Nevada.	\$35,182	\$35,182
Note payable dated October 29, 2003, to the Washoe County HOME Consortium in the original amount of \$176,762. Per agreement with Washoe County HOME Consortium, payments have been temporarily deferred, pending restructuring of the terms of the note. The note is due June 1, 2034, and is collateralized by a deed of trust on the Phoenix IV transitional care home located at 3655 EL Rancho Drive in Sun Valley, Nevada.	174,927	174,927



**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

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**NOTE F - LONG TERM DEBT (Continued)**

Non-Interest bearing HOME loan payable dated October 4, 2004, to the Nevada State Housing Division in the original amount of \$61,013. Principal is deferred for the longer of 30 years or transfer of title of the project. The loan is collateralized by a deed of trust on 961 Southside Drive, Elko, Nevada.	61,013	61,013
Non-Interest bearing HOME loan payable dated August 17, 2005, to the Nevada State Housing Division in the original amount of \$700,000 for the High Desert Housing Continuum of Care Project. Principal is deferred for the later of 20 years or transfer of title to the project. The loan is collateralized by a deed of trust on 1801 Winchester Drive, Elko, Nevada.	1,073,895	700,000
Non-Interest bearing HOME loan payable to the Nevada State Housing Division in the original amount of \$618,262 for Chimney Rock Housing in Wells, Nevada. Principal is deferred for the later of 20 years or transfer of title to the project. The loan is collateralized by a deed of trust on 676 First Street, Wells, Nevada.	618,262	618,262
Note payable dated December 7, 2007, to an individual, in the amount of \$1,090,000. The note bears interest at the rate of 8.00% per annum and is due in full on December 31, 2011. Monthly payments of principal and interest are \$12,000. The loan is collateralized by a deed of trust on 3740 Idaho Street, Elko, Nevada.	884,712	954,859
Note payable dated December 28, 2007, to a group of individuals, in the original amount of \$110,000. The note bears interest at the rate of 16.00% per annum and is due in full on December 31, 2011. Quarterly payments of principal and interest are \$4,400. The loan is collateralized by a deed of trust on 3740 Idaho Street, Elko, Nevada.	110,000	109,990

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

**NOTE F - LONG TERM DEBT (Continued)**

Note payable dated August 31, 2006, in the original amount of \$22,529 to Daimler Chrysler. The note bears interest at the rate of 7.99% and is due in full on September 15, 2011. Monthly payments of principal and interest are \$458. The note is secured by a 2006 Dodge Dakota vehicle.

3,996                      8,958

A twenty (20) year deed of restriction to the US Department of Housing and Urban Development for the High Desert Housing Continuum of Care Project. Upon completion of the 20 year deed restriction the grant for the project is considered paid in full. The deed restriction is placed on 1801 Winchester Drive, Elko, Nevada.

288,578                      288,578

Total long-term debt

\$3,250,655                      \$2,951,767

Less current maturities:

(998,708)                      (75,108)

\$2,251,857                      \$2,876,659

Total liability of the Organization under the notes is limited to the underlying value of the real estate collateral.

Aggregate maturities of long-term debt for the next five years are as follows:

<u>Year Ending December 31,</u>	
2011	988,708
2012	0
2013	0
2014	0
Thereafter	<u>2,251,947</u>
Total	<u>\$3,250,655</u>

Interest expense for the year ended December 31, 2010 was \$121,787.

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

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**NOTE G – LINES OF CREDIT**

The Organization has available a commercial line of credit with a bank for \$100,000. The line of credit has no expiration date. Borrowings under the line of credit bear interest at 6.25% per annum. The outstanding balance on the line of credit was \$100,000 at December 31, 2010.

The Organization has available a commercial line of credit with a bank for \$300,000. The line of credit was extended until December 2010. All borrowings are collateralized by all the bank accounts of the Organization. Borrowings under the line are subject to certain financial covenants and other related items. The outstanding balance on the line of credit was \$243,739 at December 31, 2010.

The Organization has available a revolving line of credit with a bank for \$28,000. The revolving line of credit has no expiration date. Borrowings under the line of credit bear interest at 9.5% per annum. The outstanding balance on the line of credit was \$17,123 at December 31, 2010.

The Organization has available a revolving line of credit with a financial institution for \$63,900. The revolving line of credit has no expiration date. Borrowings under the line of credit bear interest at the rate of 22.48% per annum. The outstanding balance on the line of credit was \$32,027 at December 31, 2010.

**NOTE H - COMMITMENTS**

In connection with financing received from the Nevada Housing Division under the Home Program for Phoenix IV, tenants assisted may not have gross incomes that exceed 60% of area median income. Rents paid by tenants may not exceed the HUD maximums for rents for a four-bedroom unit.

In connection with financing received from the Nevada Housing Division under the Home Program for 961 Southside Drive, tenants assisted may not have gross incomes that exceed 60% of area median income. Rents paid by tenants may not exceed the HUD maximums for rents for a three-bedroom unit.

In connection with financing received from the Nevada Housing Division under the Home Program for 1801 Winchester Drive, the Organization has agreed that six units will be HOME assisted units, five of which will house chronically homeless. Rents may not exceed the low-Home rent. The Organization agrees that it will not lease any portion of the affordable housing units to other than HOME-eligible tenants, as defined in the HOME Program regulations (24 CFR 92).

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

**NOTE I - SUMMARY OF GRANTS AND CONTRACTS REVENUE**

Grants and contracts revenue by funding source for the year ended December 31, 2010 and 2009 consisted of:

	<u>2010</u>	<u>2009</u>
Nevada Substance Abuse Prevention and Treatment Agency:		
Prevention and treatment of substance abuse	\$1,303,294	\$1,605,218
US Department of Housing and Urban Development		
Supportive housing	81,481	96,299
HOME program funds	<u>36,000</u>	<u>36,000</u>
Total grants and contracts revenue	<u>\$1,420,775</u>	<u>\$1,737,517</u>

**NOTE J - LEASE COMMITMENTS**

Vitality Unlimited leases space for various facilities and business offices in Elko and Reno, Nevada under the terms of non-cancelable operating leases. Rent expense is recognized on a straight-line basis, and the difference between rent expense and rent paid is recorded as deferred lease incentives. Future minimum lease payments under operating leases as of December 31, 2010 are \$0.

**NOTE K - ACCRUED EMPLOYEE BENEFITS**

Employees accumulate vacation and sick hours during the course of their employment with Vitality Unlimited and are paid one-half of any unused vacation time upon termination of employment.

Employees may participate in a tax-sheltered annuity (TSA) under Internal Revenue Code Section 403(b). The plan is funded solely by employee contributions pursuant to a salary reduction agreement.

The balance of employee benefits payable as of December 31, 2010 and 2009, consisted of:

	<u>2010</u>	<u>2009</u>
Accrued vacation	\$24,678	\$49,609
Accrued sick time	13,676	46,031
Accrued employee benefits	<u>\$38,354</u>	<u>\$95,640</u>

**VITALITY UNLIMITED (A NEVADA NONPROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**  
**(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)**

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**NOTE L - CERTAIN RELATED ENTITIES ARE NOT CONSOLIDATED**

AICPA Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations, requires the consolidation of related for-profit entities in which the Organization has a controlling financial interest. Vitality Unlimited has a controlling financial interest in Pinion Apartments, LLC. As a result of this interest, the accounts of Pinion Apartments, LLC should be included in the financial statements of Vitality Unlimited. The management of the Organization has elected not to consolidate Pinion Apartments in their financial statements, rather they have recorded an Investment in Pinion Apartments, LLC under the equity method of accounting for an investment whereby the net activity is recorded as a gain or loss in the income statement of the controlling entity. The effect of this departure from accounting principles generally accepted in the United States of America is to record a decrease to both total assets and total net assets by \$346,896 and to record a loss on investment of \$118,069 in the statement of nets assets of the Organization rather than the detail income, expenses, assets, liabilities and equity that would have been recorded had the related entity been consolidated in accordance with Statement of Position 94-3.

**NOTE M – SUSEQUENT EVENTS**

Management has evaluated subsequent events through August 18, 2011, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

**SIERRA RECOVERY CENTER**  
**(dba VITALITY LAKE TAHOE)**  
**(A NONPROFIT PUBLIC BENEFIT CORPORATION)**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS AND**  
**ADDITIONAL INFORMATION**

**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2010)**

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INDEPENDENT AUDITORS' REPORT

August 12, 2011

Board of Directors  
Sierra Recovery Center  
(dba Vitality Lake Tahoe)  
South Lake Tahoe, California

We have audited the accompanying statement of financial position of Sierra Recovery Center (dba Vitality Lake Tahoe) as of June 30, 2011, and the related statements of activities, changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Sierra Recovery Center (dba Vitality Lake Tahoe)'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated August 17, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sierra Recovery Center (dba Vitality Lake Tahoe) as of June 30, 2011, and the changes in its net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 12, 2011 on our consideration of Sierra Recovery Center (dba Vitality Lake Tahoe)'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that



Board of Directors  
Sierra Recovery Center (dba Vitality Lake Tahoe)  
South Lake Tahoe, California  
Continued Two

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Sierra Recovery Center (dba Vitality Lake Tahoe) taken as a whole. The accompanying Schedule of Federal, State and County Financial Assistance, is presented for the purpose 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 audit 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.

*Bedinger & Company*  
Certified Public Accountants

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2011**  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2010)

	Total	
	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note C)	\$ 44,683	\$ 57,350
Accounts receivable	35,650	25,834
<b>TOTAL CURRENT ASSETS</b>	<b>80,333</b>	<b>83,184</b>
<b>PROPERTY AND EQUIPMENT (Note D)</b>		
Net of accumulated depreciation and amortization	1,804,690	1,859,121
	<b>\$ 1,885,023</b>	<b>\$ 1,942,305</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses (Note G)	\$ 37,145	\$ 70,310
Current portion of long-term debt (Note F)	44,258	43,517
Line of credit (Note E)	93,585	98,585
Due to related entity (Note K)	143,705	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>318,693</b>	<b>212,412</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt (Note F)	1,052,374	1,096,631
<b>TOTAL LIABILITIES</b>	<b>1,371,067</b>	<b>1,309,043</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes H & J)		
<b>NET ASSETS</b>		
Unrestricted	308,956	428,262
Temporarily restricted (Note I)	205,000	205,000
<b>TOTAL NET ASSETS</b>	<b>513,956</b>	<b>633,262</b>
	<b>\$ 1,885,023</b>	<b>\$ 1,942,305</b>

See Notes to Financial Statements

SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2011  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)

SUPPORT AND REVENUE	Unrestricted	Temporarily Restricted	Total	
			Year Ended June 30, 2011	2010
<u>Revenue</u>				
Government Grants				
Federal		\$ 25,780	\$ 25,780	\$ 43,800
State		343,655	343,655	318,862
County		15,252	15,252	13,060
Program service fees	\$ 372,614		372,614	327,047
Rental	-		-	3,424
Investment income	84		84	346
	<u>372,698</u>	<u>384,687</u>	<u>757,385</u>	<u>706,539</u>
<u>SUPPORT</u>				
Grants			-	-
Donations	2,000		2,000	4,720
United Way	-		-	16,252
Other	32,248		32,248	146
	<u>34,248</u>		<u>34,248</u>	<u>21,118</u>
	406,946	384,687	791,633	727,657
Net assets released from restriction	<u>384,687</u>	<u>(384,687)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>791,633</u>	<u>-</u>	<u>791,633</u>	<u>727,657</u>
<u>EXPENSES</u>				
Personnel and benefit costs	611,638		611,638	630,935
Operating expenses	283,968		283,968	435,031
Outside services	15,333		15,333	34,676
Fundraising	-		-	-
	<u>910,939</u>		<u>910,939</u>	<u>1,100,642</u>
Change in net assets	<u>(119,306)</u>	<u>-</u>	<u>(119,306)</u>	<u>(372,985)</u>
Net assets, beginning of year	428,262	205,000	633,262	1,006,247
Net assets, end of year	<u>\$ 308,956</u>	<u>\$ 205,000</u>	<u>\$ 513,956</u>	<u>\$ 633,262</u>

See Notes to Financial Statements

SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2011

	BUSINESS ADMINISTRATION	DUI COUNSELING	1187 EMERALD BAY ROAD	MEN'S RESIDENTIAL TREATMENT (REEVES STREET)	MEN'S TRANSITIONAL TREATMENT (MACINAW STREET)	WOMEN'S RESIDENTIAL TREATMENT (MACINAW STREET)	948 INCLINE	TOTAL
<b>PERSONNEL EXPENDITURES</b>								
Payroll expenses	\$ 25,178	\$ 75,524	\$ 201,399	\$ 75,524	\$ 25,174	\$ 75,524	\$ 25,174	\$ 503,494
Payroll taxes - FICA/Medicare	1,928	5,778	15,405	5,778	1,928	5,778	1,928	38,517
Payroll expenses - UI/EDD Expense	1,916	5,748	15,327	5,748	1,915	5,746	1,915	38,310
Payroll expenses - Workers Comp	963	2,951	7,968	2,951	984	2,951	984	18,873
Payroll expenses - Health Benefits	542	1,827	4,883	1,827	542	1,827	542	10,848
Payroll expenses - New Hire	28	85	248	85	25	83	-	550
Payroll expenses - Other	12	37	123	37	12	37	-	246
<b>TOTAL PERSONNEL</b>	<b>30,581</b>	<b>91,746</b>	<b>245,254</b>	<b>91,746</b>	<b>30,586</b>	<b>91,746</b>	<b>29,899</b>	<b>611,638</b>
<b>OUTSIDE SERVICES</b>								
Contract M.D.	-	225	825	225	-	225	-	1,500
Contract Audit	1,400	985	6,485	1,985	225	1,985	225	13,300
Counselor/Consultant	-	61	202	61	20	61	-	405
Outside Services - Other	-	19	65	19	6	19	-	128
<b>TOTAL OUTSIDE SERVICES</b>	<b>1,400</b>	<b>1,300</b>	<b>7,557</b>	<b>2,300</b>	<b>251</b>	<b>2,300</b>	<b>225</b>	<b>15,333</b>
<b>OPERATING EXPENSE - GENERAL</b>								
Utilities	6,102	5,936	19,685	5,936	1,978	5,936	-	38,574
Telephone	2,317	1,403	3,356	1,403	468	403	-	9,350
Equipment	1,146	637	1,380	637	212	287	-	4,248
Maintenance	1,225	2,350	7,607	2,349	783	1,350	-	15,664
Office Supplies	2,818	1,252	1,293	1,252	417	1,252	64	8,348
Operating Supplies	1,281	463	281	463	154	463	-	3,085
Depreciation Expense	-	8,165	33,873	1,744	6,986	3,883	-	54,431
Credit Card Fees	-	648	2,373	648	-	648	-	4,317
Bank Service Charges	-	90	287	90	-	80	-	527
Postage and Shipping	442	210	328	210	-	210	-	1,400
Printing-Copy Expense	1,767	1,464	2,553	1,464	-	1,464	1,051	9,763
Advertising Expense/Marketing Expens	81	84	218	84	-	84	-	581
Client Refund	284	312	847	312	-	312	-	2,077
Insurance Expense	-	3,588	12,875	3,538	-	3,538	-	23,989
Tax & Licenses	-	388	1,342	366	-	366	-	2,440
Professional development	-	66	242	66	-	66	-	440
Travel Expense	10	25	87	25	-	25	-	172
DUI Tax/License Expenses	2,889	1,200	6,385	-	-	-	-	10,478
PC-1000 Tax/License/Supplies	-	4	22	-	-	-	-	28
PC-1000 Urine Toxicology	192	289	533	-	-	-	-	1,014
Interest Expense	1,906	11,084	59,781	6,828	1,200	-	-	73,861
Food Expense	-	-	-	-	-	6,628	-	13,256
Client Urine Toxicology	284	650	3,446	-	-	-	-	4,330
Client Care Supplies/Medication	-	-	330	54	-	54	-	108
Memberships/Subscriptions	-	-	72	-	-	-	-	330
Vehicle Expense	-	72	144	144	48	144	-	478
<b>TOTAL OPERATING EXPENSES</b>	<b>22,984</b>	<b>40,288</b>	<b>138,080</b>	<b>27,403</b>	<b>12,245</b>	<b>27,123</b>	<b>1,115</b>	<b>283,898</b>
<b>TOTAL ALL EXPENSES</b>	<b>\$ 54,675</b>	<b>\$ 133,354</b>	<b>\$ 405,891</b>	<b>\$ 121,449</b>	<b>\$ 43,062</b>	<b>\$ 121,169</b>	<b>\$ 31,339</b>	<b>\$ 910,839</b>

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2010)**

	Total	
	Year Ended June 30,	
	2011	2010
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Change in net assets	\$ (119,306)	\$ (372,985)
Adjustment to reconcile change in net assets to net cash provided <used> by operating activities:		
Depreciation	54,431	64,234
	(64,875)	(308,751)
<b>CHANGES IN CURRENT ASSETS AND CURRENT LIABILITIES:</b>		
<Increase> decrease in accounts receivable	(9,816)	114,741
<Increase> decrease in prepaid expenses	-	11,717
Increase <decrease> in accounts payable and advances	110,540	12,190
<Increase> decrease in deposits	-	9,000
<b>NET CASH PROVIDED &lt;USED&gt; BY OPERATING ACTIVITIES</b>	<b>35,849</b>	<b>(161,103)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Reduction in line of credit	(5,000)	73,286
Repayment of debt	(43,516)	(47,228)
<b>NET CASH PROVIDED &lt;USED&gt; BY FINANCING ACTIVITIES</b>	<b>(48,516)</b>	<b>26,058</b>
<b>NET INCREASE &lt;DECREASE&gt; IN CASH</b>	<b>(12,667)</b>	<b>(135,045)</b>
CASH, beginning of year	57,350	192,395
CASH, end of year	<u>\$ 44,683</u>	<u>\$ 57,350</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	<u>\$ 73,951</u>	<u>\$ 80,887</u>

See Notes to Financial Statements

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

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**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

Sierra Recovery Center (dba Vitality Lake Tahoe) (the Organization) is a California nonprofit public benefit corporation incorporated in 1976 to provide alcoholism and drug prevention treatment programs and rehabilitation services to recovering alcohol and drug abusers through residency and outpatient services.

**Property and Equipment**

Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation, and depreciated using the straight-line method over the estimated useful lives of the respective assets: Building - 39 years; Furniture and Equipment - 5 years; Leasehold Improvements – life of the lease.

**Accrual Basis**

The Organization maintains its accounting records on the accrual basis of accounting.

**Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for the various programs are classified for accounting and reporting according to the activities and objectives specified by donors, grantors, officials and governing boards. Separate accounts are maintained for each program.

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)

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NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Support and Revenue

The Organization receives contributions and grants primarily from corporations, governmental entities, charitable organizations and individuals.

The provisions of ASC 958 (formerly Statement of Financial Accounting Standard No. 116 "*Accounting for Contributions Received and Contributions Made*") require the Organization to recognize contributions and grants as either temporarily or permanently restricted support, if they are received with donor stipulations that limit the use of the contribution or grant. When a temporary restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

All other contributions are recognized upon receipt. Support arising from services and donated assets contributed by certain businesses and individuals has been recognized in the accompanying financial statements at the fair value of the services performed or assets contributed. Performance revenue is recognized as earned. Amounts received (advances) but not yet earned are reported as deferred revenue.

Financial Statement Presentation

In conforming with ASC 958 (formerly Statement of Financial Accounting Standard No. 116 "*Accounting for Contributions Received and Contributions Made*") the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. The Organization has no permanently restricted net assets at this time.

Cash and Cash Equivalents

Cash and cash equivalents include monies in banks and petty cash accounts with maturity dates of less than one year. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Functional Allocation of Expenses

The costs for providing the various programs and activities have been summarized on a functional basis based upon detailed estimates prepared by management.

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

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**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Summarized Financial Information**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**Reclassifications**

Certain reclassifications have been made to the summarized financial information for the year ended June 30, 2010 to conform to the classification used in 2011.

**In-Kind Donations**

Donated items and services are included in revenue and expenditures at their estimated values at the date of receipt or performance.

**NOTE B - INCOME TAXES**

Sierra Recovery Center (dba Vitality Lake Tahoe) has received exempt status under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the State of California Revenue and Taxation Code.

**NOTE C - CONCENTRATION OF CREDIT**

The Organization's cash and cash equivalents at June 30, 2011 do not exceed the insurance provided by the Federal Deposit Insurance Corporation (FDIC).



**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

**NOTE D - PROPERTY AND EQUIPMENT**

Property and Equipment at June 30, 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Land	\$432,703	\$432,703
Building and improvements	1,669,937	1,669,937
Vehicles	170,078	170,078
Furniture and equipment	218,275	218,275
Leasehold improvements	<u>41,280</u>	<u>41,280</u>
	2,532,273	2,532,273
Less: Accumulated depreciation and Amortization	<u>&lt;727,583&gt;</u>	<u>&lt;673,152&gt;</u>
	<u>\$1,804,690</u>	<u>\$1,859,121</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$54,431 and \$64,235, respectively.

**NOTE E – LINE OF CREDIT**

The organization has a line of credit with a bank with a maximum availability of \$100,000. The interest rate fluctuates with the prime lending rate and was approximately 5.0% at June 30, 2011 and 2010. The balance at June 30, 2011 and 2010 was \$93,585 and \$98,585, respectively.

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

**NOTE F – LONG-TERM DEBT**

Long-term debt at June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Mortgage note payable, secured by real property, due in monthly installments of \$2,460 including interest at 3%.	\$149,512	\$174,147
Mortgage note payable, secured by real property, to RCAC, with interest only payments at 7.14%, until January 1, 2033, when all outstanding principle and interest is due.	947,120	964,696
Vehicle lease, at gross capitalized cost, due in monthly lease payments of approximately \$670 for a period of 36 months commencing in September 2010	0	1,306
Less: Current portion	<u>(44,258)</u>	<u>(43,517)</u>
	<u>\$1,052,374</u>	<u>\$1,096,631</u>

Interest expense for the year ended June 30, 2011 and 2010 was \$73,961 and \$80,887, respectively.

Installments on the above obligations are due as follows:

<u>Year Ended June 30</u>	
2012	\$44,258
2013	46,422
2014	48,713
2015	51,139
2016 and thereafter	906,100

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

**NOTE G – ACCRUED VACATION PAYABLE**

The Organization accrues vacation and other benefits for full-time employees. The liability for accrued paid time off at June 30, 2011 and 2010 was \$6,420 and \$10,758, respectively.

**NOTE H - COMMITMENTS**

The Organization conducts some of its operations on short-term leased premises. In 2007 the Organization purchased a facility that encompasses the majority of operations that were previously being provided on short-term leased premises. Total rent expense for the year ended June 30, 2011 and 2010 was \$0 and \$17,564.

**NOTE I – TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2011 and 2010 temporarily restricted net assets consisted of:

	<u>2011</u>	<u>2010</u>
Temporarily restricted lien	<u>\$205,000</u>	<u>\$205,000</u>
	<u>\$205,000</u>	<u>\$205,000</u>

The Organization acquired a building in 2008 with a loan from the Rural Community Assistance Corporation, which also included a lien for \$205,000. The lien is for 25 years to ensure that the property is used for a health related purposes and owned and operated by a non-profit corporation. At the end of 25 years, the contingency and lien may be removed.

**NOTE J – CONTINGENCIES**

Grant awards require the fulfillment of certain conditions as set forth in the instruments of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Agency deems this contingency remote since by accepting the grants and their terms it has accommodated the objectives of the Agency to the provisions of the grants. Management is of the opinion that the Agency has complied with the terms of all grants.

**SIERRA RECOVERY CENTER (dba VITALITY LAKE TAHOE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

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**NOTE K – MANAGEMENT AGREEMENT**

In May 2011, Sierra Recovery Center (dba Vitality Lake Tahoe) (SRC) entered into a management agreement with Two Roses Investments, Inc. dba Evergreen Management Consultants (Consultant) whereby Consultant shall commence rendition of services to SRC relating to or affecting management of the business location and day-to-day operations of SRC including, but not limited to advice, consultation, signature authority and other management services. At June 30, 2011, the Organization owed \$143,705 to Vitality Unlimited, which is also managed by Evergreen Management Consultants. The advance does not bear interest.

**NOTE L – EMPLOYEE BENEFIT PLAN**

The Organization has an employee benefit plan organized under Section 403(b). All employees are eligible to contribute to the plan after six months of full time employment. Employers can match the employee's contribution, however for the year ended June 30, 2011 there were no matching contributions.

**NOTE M – SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through August 12, 2011, the date which the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.