6200 Uptown Blvd NE, Suite 400 Albuquerque, NM 87110 p: 505.338.0800 f: 505.338.0801 riccicpa.com

LifeROOTS, Inc.

FINANCIAL STATEMENTS

June 30, 2011

LifeROOTS, Inc.

LifeROOTS, Inc.

Official Roster
June 30, 2011

Board of Directors

Carol Guerra	Chairman
Catherine Salazar	Vice Chair
Joan Schofield	Secretary
Cathy Rypma	Treasurer
Brad Vaughn	Director
John Chimarusti, Ph.D.	Director
Leslie Strickler, DO	Director
Linda Geiszler	Director
Myron Saldyt	Director

Administrative Personnel

Kathleen Cates	Interim CEO/President
Bruce Haynes, CPA	Director of Finance

ricci & company llc
certified public accountants + business advisors

6200 Uptown Blvd NE, Suite 400
Albuquerque, NM 87110
P: 505.338.0800
F: 505.338.0801
riccicpa.com

Independent Auditor's Report

To the Board of Directors
LifeROOTS, Inc.
Albuquerque, New Mexico

We have audited the accompanying statements of financial position of LifeROOTS, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 LifeROOTS, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 our report dated October 14, 2011, on our consideration of LifeROOTS, Inc.'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.

Ricci & Company LLC

Albuquerque, New Mexico
October 14, 2011

FINANCIAL STATEMENTS

LifeROOTS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

ASSETS

		2011	2010
Current Assets			
Cash and cash equivalents	$	**173,961**	204,965
Accounts receivable		**589,483**	532,834
Contracts receivable			
NISH and other service contracts, net		**691,630**	721,124
State of New Mexico		**17,736**	16,258
Other		**468**	-
United Way - promise to give		**36,800**	57,000
Prepaid expense and deposits		**50,196**	12,381
Total current assets		**1,560,274**	1,544,562
Other Assets			
Investments		**476,790**	799,171
Property and equipment, net		**2,922,922**	2,971,193
Total other assets		**3,399,712**	3,770,364
Total assets	$	**4,959,986**	5,314,926

LIABILITIES AND NET ASSETS

		2011	2010
Current Liabilities			
Accounts payable	$	**351,983**	354,823
Accrued wages and benefits		**190,826**	206,547
Accrued compensated absences		**119,266**	136,665
Line of credit		**-**	100,000
Current portion of long-term debt		**53,455**	50,664
Total current liabilities		**715,530**	848,699
Long-term Debt		**1,633,295**	1,686,751
Total liabilities		**2,348,825**	2,535,450
Net Assets			
Unrestricted			
Property and equipment		**1,236,172**	1,233,778
Operating		**1,338,189**	1,484,727
Total unrestricted net assets		**2,574,361**	2,718,505
Temporarily restricted		**36,800**	60,971
Total net assets		**2,611,161**	2,779,476
Total liabilities and net assets	$	**4,959,986**	5,314,926

See Notes to Financial Statements.

LifeROOTS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	**Total**
Support and Revenue			
Grants	$ 5,000	-	**5,000**
United Way funding	-	36,800	**36,800**
Contributions	16,688	-	**16,688**
Program service revenue:			
NISH and other service contracts	4,560,853	-	**4,560,853**
Program service fees, net	2,684,855	-	**2,684,855**
NM Department of Health contracts	1,155,380	-	**1,155,380**
Realized gain on investments	40,254	-	**40,254**
Unrealized gain on investments	85,166	-	**85,166**
Dividends and interest	18,830	-	**18,830**
Other income	15,698	-	**15,698**
Total support, revenue and gains	8,582,724	36,800	**8,619,524**
Net assets released from restrictions	60,971	(60,971)	**-**
Expenses			
Program services	7,651,952	-	**7,651,952**
Supporting service:			
Fundraising expense	3,598	-	**3,598**
General and administration	1,132,289	-	**1,132,289**
Total expenses	8,787,839	-	**8,787,839**
Change in net assets	(144,144)	(24,171)	**(168,315)**
Net assets at beginning of year	2,718,505	60,971	**2,779,476**
Net assets at end of year	$ 2,574,361	36,800	**2,611,161**

See Notes to Financial Statements.

LifeROOTS, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants	$ 15,125	-	15,125
United Way funding	-	57,000	57,000
Contributions	14,620	-	14,620
Program service revenue:			
NISH and other service contracts	4,348,101	-	4,348,101
Program service fees, net	2,654,552	-	2,654,552
NM Department of Health contracts	1,216,726	-	1,216,726
Realized gain on investments	71,537	-	71,537
Unrealized gain on investments	28,891	-	28,891
Dividends and interest	26,344	-	26,344
Other income	14,141	-	14,141
Total support, revenue and gains	8,390,037	57,000	8,447,037
Net assets released from restrictions	95,524	(95,524)	-
Expenses			
Program services	7,360,237	-	7,360,237
Supporting service:			
Fundraising expense	20,646	-	20,646
General and administration	1,222,983	-	1,222,983
Total expenses	8,603,866	-	8,603,866
Change in net assets	(118,305)	(38,524)	(156,829)
Net assets at beginning of year	2,836,810	99,495	2,936,305
Net assets at end of year	$ 2,718,505	60,971	2,779,476

See Notes to Financial Statements.

LifeROOTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011

	Program Services									
	Government Contracts		Community Service							
	Custodial	Console Operators	Day Habilitation	Vocational Services	Career Discovery	Literacy	Children & Therapy	Total Program	General & Administrative	**Total Expenses**
Salaries and benefits										
Salaries	$ 251,510	50,427	454,309	395,832	30,201	41,800	1,086,130	2,310,209	575,744	**2,885,953**
Clients and other	1,106,845	237,962	1,865	136,076	1,202	-	-	1,483,950	-	**1,483,950**
Employee benefits and taxes	204,115	37,351	116,138	111,195	4,408	5,740	179,944	658,891	120,325	**779,216**
Total salaries and benefits	1,562,470	325,740	572,312	643,103	35,811	47,540	1,266,074	4,453,050	696,069	**5,149,119**
Professional fees and contract labor	1,558,949	-	4,783	2,659	185	976	876,189	2,443,741	53,546	**2,497,287**
General and administration	491,041	55,518	129,180	109,578	9,150	9,561	336,975	1,141,003	(1,141,003)	**-**
Supplies	229,211	276	13,534	1,660	3,747	35	18,685	267,148	5,791	**272,939**
Utilities	-	-	15,310	-	-	-	-	15,310	23,911	**39,221**
Commissions	132,517	12,722	-	-	-	-	-	145,239	-	**145,239**
Depreciation	12,230	-	27,931	489	-	-	1,898	42,548	62,136	**104,684**
Telephone	6,074	28	7,392	5,518	287	53	10,745	30,097	20,022	**50,119**
Insurance	-	-	-	-	-	-	-	-	66,601	**66,601**
Travel and conferences	2,974	23	187	425	9	69	1,227	4,914	4,319	**9,233**
Transportation services	21,910	464	11,948	15,717	132	7	30,777	80,955	3,324	**84,279**
Interest	2,596	-	25,148	-	-	-	-	27,744	63,404	**91,148**
Miscellaneous	2,037	-	454	2,066	7	44	11,302	15,910	26,888	**42,798**
Rental and maintenance	360	-	43,456	554	-	-	13,464	57,834	27,531	**85,365**
Postage and shipping	400	57	11	104	-	-	1,247	1,819	2,486	**4,305**
Office expenses	3,635	362	8,817	1,895	158	28	35,219	50,114	21,344	**71,458**
Fundraising expense	-	-	-	-	-	-	-	-	3,598	**3,598**
Advertising and marketing	360	-	2,539	2,335	-	-	6,172	11,406	41,789	**53,195**
Dues and subscriptions	-	-	324	-	51	-	310	685	8,234	**8,919**
In-kind expense	-	-	-	-	-	-	3,438	3,438	4,894	**8,332**
Total functional expenses	$ 4,026,764	395,190	863,326	786,103	49,537	58,313	2,613,722	8,792,955	(5,116)	**8,787,839**

See Notes to Financial Statements.

LifeROOTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2010

	Program Services									
	Government Contracts		Community Service							
	Custodial	Console Operators	Day Habilitation	Vocational Services	Career Discovery	Literacy	Children & Therapy	Total Program	General & Administrative	Total Expenses
Salaries and benefits										
Salaries	$ 216,271	37,682	488,389	407,619	31,978	30,492	971,658	2,184,089	627,072	2,811,161
Clients and other	1,045,725	244,960	5,828	142,826	2,498	-	-	1,441,837	-	1,441,837
Employee benefits and taxes	184,198	38,686	128,851	115,776	5,031	4,788	177,438	654,767	125,650	780,417
Total salaries and benefits	1,446,194	321,327	623,069	666,221	39,507	35,280	1,149,096	4,280,693	752,722	5,033,415
Professional fees and contract labor	1,569,942	95	8,972	5,750	169	1,413	836,980	2,423,321	37,789	2,461,110
General and administration	567,386	55,070	131,737	107,002	11,684	9,900	356,831	1,239,611	(1,239,611)	-
Supplies	203,146	436	13,734	1,295	4,960	314	31,341	255,226	10,072	265,298
Utilities	-	-	9,316	-	-	-	-	9,316	27,712	37,027
Commissions	121,472	14,308	-	-	-	-	-	135,780	-	135,780
Depreciation	-	-	-	-	-	-	-	-	96,314	96,314
Telephone	6,924	160	7,113	10,802	471	16	14,431	39,918	22,664	62,582
Insurance	-	-	-	-	-	-	-	-	100,676	100,676
Travel and conferences	559	103	-	128	-	-	724	1,514	2,939	4,452
Transportation services	23,328	533	12,737	19,172	109	182	34,206	90,267	5,462	95,729
Interest	961	-	26,875	-	-	-	-	27,837	74,689	102,526
Miscellaneous	1,137	-	2,692	721	220	5	1,653	6,429	13,849	20,277
Rental and maintenance	7,117	197	34,539	-	170	475	7,787	50,287	14,328	64,615
Postage and shipping	422	0	16	237	-	-	2,616	3,292	1,458	4,750
Office expenses	4,148	46	6,603	3,285	117	229	14,332	28,760	24,107	52,866
Bank and investment fees	-	-	-	-	-	-	-	-	9,146	9,146
Fundraising expense	-	-	-	-	-	-	-	-	20,646	20,646
Advertising and marketing	408	-	2,101	1,008	-	-	1,703	5,219	17,735	22,954
Dues and subscriptions	1,362	-	224	-	-	-	793	2,379	11,322	13,701
Total functional expenses	$ 3,954,505	392,277	879,729	815,622	57,406	47,814	2,452,493	8,599,847	4,019	8,603,866

LifeROOTS, INC.
STATEMENTS OF CASH FLOWS
June 30, 2011 and 2010

		2011	2010
Cash Flows From Operating Activities			
Decrease in net assets	$	**(168,315)**	(156,829)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities			
Depreciation		**104,684**	96,314
Realized gains on investments		**(40,254)**	(71,537)
Unrealized gains on investments		**(85,166)**	(28,891)
Changes in assets and liabilities			
Accounts receivable		**(56,649)**	(104,126)
Contracts receivable		**27,548**	(87,103)
United Way receivable		**20,200**	27,495
Prepaid expense and deposits		**(37,815)**	17,449
Accounts payable		**(2,840)**	(22,890)
Accrued expenses		**(33,120)**	74,420
Net cash used by operating activities		**(271,727)**	(255,698)
Cash Flows From Investing Activities			
Purchase of investments		**(105,413)**	(974,817)
Proceeds from sale of investments		**553,214**	1,137,294
Purchase of property and equipment		**(56,413)**	(41,326)
Net cash provided by investing activities		**391,388**	121,151
Cash Flows From Financing Activities			
Principal payments on long-term debt		**(50,665)**	(41,983)
Proceeds from line of credit		**611,370**	484,243
Principal payments on line of credit		**(711,370)**	(459,243)
Net cash used by financing activities		**(150,665)**	(16,983)
Net decrease in cash and cash equivalents		**(31,004)**	(151,530)
Cash and cash equivalents at beginning of year		**204,965**	356,495
Cash and cash equivalents at end of year	$	**173,961**	204,965
Supplemental Noncash Financing Activities			
Assets acquired through issuance of note payable	$	-	52,800
Interest paid	$	**91,148**	102,526

See Notes to Financial Statements.

NOTE 1. ORGANIZATION

LifeROOTS, Inc. is a New Mexico not-for-profit organization (Organization) organized in 1958 to provide appropriate education, treatment, and other services for developmentally, physically, and/or emotionally disabled adults and children. LifeROOTS, Inc.'s mission is to enable children and adults with special needs to achieve their highest level of self-sufficiency. LifeROOTS, Inc. is headquartered in Albuquerque, New Mexico, and operates with locations in Albuquerque and Rio Rancho, New Mexico. In May 2011, the Organization amended its articles of incorporation changes its name to LifeROOTS, Inc. from RCI, Inc.

The Organization provides the following programs for the benefit of its service recipients:

Federal Contracts
Employment opportunities are provided to adults with disabilities and special needs under the federal set-aside program known as Javits Wagner O'Day (JWOD). National Institute for the Severely Handicapped (NISH) assists the Organization in contracting matters using the JWOD program, which creates employment opportunities for people with severe disabilities. Examples of these employment opportunities include console operators and custodians. In addition, other employment opportunities are created outside of the JWOD program for individuals with disabilities. Many of these employees are supported on the job through the vocational services program. As of June 30, 2011 and 2010, approximately 54 and 88 individuals with disabilities were employed under NISH and other service contracts, respectively.

Community Services
Day Habilitation - Day Habilitation serves adults with developmental disabilities by providing integrated and individualized community-based services. Individuals participate in activities such as exploration, recreation, education and community service, each customized for the individual's needs.

Vocational Services - provide opportunities in the world of work to adults with disabilities and special needs. The Organization matches individuals with employers to jobs that fit both parties' needs and abilities.

Career Discovery - is for adults who want to increase their exposure to the world of work. This includes work assessment and job coaching.

NOTE 1. ORGANIZATION (CONTINUED)

Literacy - Within the Literacy Program, time, space and equipment is provided so individuals can discover their natural gifts. Through specifically designed curriculums and within a differentiated instructional framework, individuals will clarify vocational pursuits and obtain the specific resources and employment strategies to succeed in realizing their passion in the community. The Literacy Program defines and implements a curriculum that parallels the overall mission of CAREER. Literacy is person-centered where students create, develop and manage their educational and career interests. The curriculum is designed to encourage students to learn independently, develop critical thinking skills and to participate in group activities. Students will have access to individualized instruction, computer assisted technology and vocational data bases, while preparing for employment in the workplace or individuals currently employed can maintain employment by continued studies. The Literacy program consists of three units:

- Career Readiness
- Language Arts
- Math

Children 's and Therapy Services

Child Development - Child development services provide therapeutic support for children ages birth to three by working with families to identify the needs of children who may have delays in development, uneven patterns of growth, or are at risk due to factors in their environment. Services are delivered in the child's home or at one of the Organization's locations and consist of:

- Evaluation and assessment
- Speech, occupational and physical therapies
- Therapeutic educational services
- Specialized infant program
- Service coordination

Therapy Services - Provide certified and licensed therapy for children and adults in the following areas:

- *Occupational therapy* - helps people learn practical skills and adapt to changing job environments.
- *Physical therapy* - helps with an individual's endurance, body awareness and strengthening to achieve optimal abilities.
- *Speech and language therapy* - helps people with all levels of communication realize confidence and independence.

The Organization was incorporated under the provisions of the New Mexico Nonprofit Corporation Act. A volunteer board of directors governs the Organization.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Under this method, all revenues earned and determinable in amount and receivable by the Organization are recognized. Expenses incurred but not paid as of the close of business at June 30 are accrued.

Financial Statement Presentation. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Under the standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents. For purposes of reporting cash flows, the Organization considers all unrestricted cash and other highly liquid investments available for current use with a maturity of three months or less to be cash equivalents.

Investment Securities. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. In accordance with generally accepted accounting principles, unrealized gains and losses are included in the change in net assets. Investment return consists of investment income, realized gain (loss) and unrealized gain (loss). Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment transactions are recorded as of the trade date.

The Organization has classified its investment portfolio as available-for-sale and, accordingly, has accounted for its investments, respectively, at fair market value in 2010 and 2009. The Organization adopted new accounting guidance related to fair value measurements beginning in 2009 which establishes a framework for measuring fair value and using inputs (Levels 1-3). All of the Organization's investments are considered to be Level 1, which are determined by reference to quoted market prices generated by market transactions.

Accounts and Contracts Receivable. Accounts and contracts receivable are stated at face value. Management uses historical experience applied to an aging of accounts. Accounts and contracts receivable are written off when deemed uncollectible. Receivables are considered past due if the balance is outstanding for more than 90 days. No interest is charged on late receivables. Management believes that the entire amount of receivables is collectible, and that any uncollectible amount would be insignificant.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Assets for which historical cost or fair market value at the date of donation are not known have been recorded at estimated value. Depreciation is computed using primarily the straight-line method. The Organization capitalizes all expenditures for property and equipment with a cost of $500 or more. Items with a cost of less than $500 are expensed in the year of acquisition. Repairs and maintenance expenses are charged to operations when incurred and major betterments and replacements are capitalized.

The major classifications of property and equipment and the related depreciable lives are as follows:

Classification	Depreciable Lives
Buildings and improvements	15-39 years
Furniture and equipment	3-7 years
Vehicles	5 years

Assets donated with explicit restrictions regarding their use and contributions of cash earmarked to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Public Support and Revenue. Contributions received and unconditional promises to give are measured at their fair value and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support of future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions over the estimated useful life of the donated or acquired long-lived assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions received have been recorded as unrestricted, except for allocations from United Way. United Way typically notifies its non-profit recipients of the amount of grant funds they will receive in the upcoming fiscal year(s). The Organization has recorded this amount as temporarily restricted net assets and as United Way allocation receivable. The amount will be released to unrestricted contributions when the funds have been received and expended. Program revenues are recognized when services are rendered.

Program Services Fees. New Mexico Department of Health and New Mexico Department of Human Services revenues and certain program service fees are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

Donated Goods and Services. Donated materials and equipment are recognized as revenue at their estimated values at the date of receipt. Contributions of services are recognized as revenue at their estimated values only if the services received:

(a) create or enhance non-financial assets, or;

(b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation

A large number of volunteers have given significant amounts of their time to the Organization. However, those services do not meet the criteria described above and, therefore, no amounts have been recorded for donated services.

Functional Allocation of Expenses. The Organization allocates its expenses on a functional basis among its various programs including fundraising activities and support services. Expenses and support services that can be identified with a specific program are allocated directly according to the natural expenditure classification. Other expenses that are common to several programs are allocated, based on various relationships.

Temporarily Restricted Net Assets. Temporarily restricted net assets result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets. Permanently restricted net assets result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that cannot be removed by actions of the Organization. There were no permanent net assets held at June 30, 2011 and 2010 and, accordingly, these financial statements do not reflect any activity related to this class of net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income at June 30, 2011 and 2010.

The Organization would record a liability for uncertain tax positions when it became probable that a loss has been incurred and the amount can be reasonably estimated. Interest would be recognized and accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Management continually evaluates expiring statutes of limitations, proposed settlements, changes in tax law and new authoritative rulings. As of June 30, 2011 and 2010, no liabilities for uncertain tax positions have been recorded.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

Concentrations of Risk. Financial instruments that potentially subject the Organization to concentrations of risk consist primarily of investments in marketable securities. The Organization's investments are in high-quality securities placed with financial institutions. Management attempts to reduce risk through diversification of the investment portfolio among instruments and issuers.

The Organization maintains cash and cash equivalents with financial institutions. At times, such amounts may exceed FDIC limits. The Organization limits the amount of credit exposure with any one financial institution and believes that no significant credit risk exists with respect to cash and cash equivalents.

Advertising Costs. The Organization expensed non direct-response advertising costs in 2011 and 2010 of $53,195 and $22,954, respectively. Amounts are included in advertising and marketing expense along with other marketing expense.

Subsequent Events. The Organization has evaluated subsequent events through October 14, 2011, the date which the financial statements were available to be issued.

Reclassifications. Certain reclassifications have been made to the June 30, 2010 financials to conform to the June 30, 2011 presentation.

NOTE 3. RECEIVABLES

The Organization has several contracts receivable as a result of services rendered regarding contracts with various state and local governmental agencies. Receivables consist of Medicaid insurance payments and other monies due from clients. The following is a summary of receivables as of June 30:

		2011	2010
DD waiver	$	128,172	152,270
Medicaid		373,453	308,061
Vocational services		59,954	39,543
Mi Via		(560)	3,494
Salud and private pay		1,520	2,483
Other		26,944	26,983
	$	589,483	532,834

NOTE 4. INVESTMENTS

The Organization applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 4. INVESTMENTS (CONTINUED)

The following table presents assets that are measured at fair value on a recurring basis at June 30:

		2011	2010
Book value	$	432,770	840,317
Unrealized gain (loss)		44,020	(41,146)
Market value (Level 1)	$	476,790	799,171

The fair value of investment securities at June 30 was as follows:

		2011	
		Fair Values	Quoted Market Prices (Level 1)
Equities	$	248,875	248,875
Fixed income		178,716	178,716
Other		49,199	49,199
Total	$	476,790	476,790

		2010	
		Fair Values	Quoted Market Prices (Level 1)
Equities	$	363,813	363,813
Fixed income		354,996	354,996
Other		80,362	80,362
Total	$	799,171	799,171

The following schedule summarizes the investment gain:

		2011	2010
Dividends and interest	$	18,830	26,344
Realized gains		40,254	71,537
Net unrealized gain		85,166	28,891
Total investment gain	$	144,250	126,772

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2011	2010
Land	$ 380,000	380,000
Buildings	2,764,501	2,764,501
Equipment and furniture	322,660	266,123
Vehicles	412,673	412,673
Leasehold improvements	13,064	13,064
	3,892,898	3,836,361
Less accumulated depreciation	969,976	865,168
Net property and equipment	$ 2,922,922	2,971,193

Depreciation expense was $104,684 and $96,314 at June 30, 2011 and 2010, respectively.

NOTE 6. LINE OF CREDIT

The Organization had a $200,000 line of credit with a local bank that matured on December 30, 2010 and was not renewed. The line of credit carried a variable interest rate of .50% over the prime rate (3.25% as of June 30, 2010) as set by the lender, with a maximum rate of 6.0%. As of June 30, 2010, the effective rate was 3.75%. The line was secured by accounts receivable and chattel paper. The outstanding balance was paid in full in February 2011.

In August 2011, the Organization obtained a credit card with a maximum limit of $80,000 which replaces the line of credit aforementioned above.

NOTE 7. NOTES PAYABLE

In April 2006, the Organization signed a loan agreement with Bank of America, N.A. to finance the purchase of a building for a total value of $1,270,000. On December 31, 2006, the note was amended and increased to $1,815,000 to partially finance the construction of a Day Habilitation building adjacent to the purchased building. Significant terms of the loan are as follows:

- 8 monthly consecutive interest payments, beginning May 31, 2006, with interest calculated on the unpaid balances at an interest rate of 5.625% per annum.

- 299 consecutive monthly principal and interest payments of $11,370, beginning January 31, 2007, with interest calculated on the unpaid balance at the rate of 5.625% per annum.

NOTE 7. NOTES PAYABLE (CONTINUED)

- One final principal and interest payment of approximately $11,556 on October 31, 2031.

- The note is secured by the buildings.

In January 2010, the Organization signed a loan agreement with First Community Bank to finance the purchase of three vehicles for $52,800. Significant terms of the loan are as follows:

- 59 consecutive monthly principal and interest payments of $1,035, beginning February 7, 2010, with interest calculated on the unpaid balance at the rate of 6.5% per annum.

- One final principal and interest payment of approximately $1,035 on January 7, 2015.

- The note is secured by the three vehicles financed by this loan.

Future minimum payments on the loans are as follows:

2012	$ 53,455
2013	56,944
2014	60,377
2015	59,845
2016	56,569
Thereafter	1,399,560
	$ 1,686,750

NOTE 8. LEASING COMMITMENTS

The Organization rents the facilities for the Rio Rancho Day Habilitation under an operating lease agreement, which expires August 31, 2014, with one five-year extension. Rent is $3,000 per month, with annual increases of $150. The Organization also leases a postage meter and scale with payments due on a quarterly basis that expires June 30, 2013, with monthly payments of $99. Additionally, the Organization leases four copiers, which expire August 31, 2012 and one copier, which expires September 12, 2012, with monthly payments ranging between $473-$490.

NOTE 8. LEASING COMMITMENTS (CONTINUED)

Minimum future rental payments under these leases are as follows:

2012	$ 52,041
2013	44,700
2014	42,900
2015	7,200
	$ 146,841

NOTE 9. PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the New Mexico Department of Human Services (17% and 19% for the years ended June 30, 2011 and 2010, respectively) and the New Mexico Department of Health (27% and 28% for the years ended June 30, 2011 and 2010, respectively). Another important source of revenue is the federal contract for custodial work with Kirtland Air Force Base. This contract provided 41% and 39% of the total revenue for 2011 and 2010, respectively.

NOTE 10. CLIENT SALARIES EXPENSE

Salaries to persons with disabilities for the years ended June 30, 2011 and 2010 totaled $1,491,784 and $1,708,663, respectively.

NOTE 11. DEFINED CONTRIBUTION PLAN

The Organization has a defined contribution employee benefit plan under Internal Revenue Code 403(b) covering all employees except for employees under supported employment programs, federal contracts and those who are highly compensated. The Organization contributes three percent of compensation. The Organization's contributions for the years ended June 30, 2011 and 2010 were $26, 680 and $56,139, respectively. On July 1, 2010, the plan was amended limiting the 3% employer match to those employees that are participating in the plan by deferring a portion of their compensation.

NOTE 12. TEMPORARILY RESTRICTED NET ASSETS

For the years ended June 30, 2011 and 2010, temporarily restricted net assets totaled $36,800 and $60,971, respectively, as follows:

	2011	2010
United Way - promise to give	$ 36,800	57,000
Family Fun Fiesta	-	3,971
Total	$ 36,800	60,971

NOTE 13. SUBSEQUENT EVENTS

Subsequent to year end, the Organization acquired two new contracts that are expected to generate significant revenues. Additionally, the Organization has been identified as the recipient of trust distributions that are expected to be received in early 2012. Below is a description of the future funding sources for fiscal year 2012:

City of Albuquerque	$ 270,000
DTRA	70,000
Langford-Spraggins Trust	80,000
Total	$ 420,000

In addition to the above new funding sources, the Organization is negotiating to obtain three additional contracts. Potential new funding sources that are in negotiations are not included in the Organization's 2012 fiscal year budget projections.

Ricci & Company LLC
CERTIFIED PUBLIC ACCOUNTANTS
6200 UPTOWN BLVD. NE - SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
LifeROOTS, Inc.
Albuquerque, New Mexico

We have audited the financial statements of LifeROOTS, Inc. (Organization) as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon dated October 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. Finding 2011-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors
LifeROOTS, Inc.
Albuquerque, New Mexico

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Organization in a separate letter dated October 14, 2011.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of directors, audit committee and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Ricci & Company LLC

Albuquerque, New Mexico
October 14, 2011

LifeROOTS, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	______ Yes __X__ No
• Significant deficiency(s) identified that are not considered to be material weakness(es)?	__X__ Yes ______
Noncompliance material to financial statements noted?	______ Yes __X__ No

B. FINDING AND QUESTIONED COST FINANCIAL STATEMENT AUDIT

2011-1 OVERSTATED ACCOUNTS PAYABLE AND EXPENSES

CRITERIA

Proper accounting in accordance with generally accepted accounting principles requires reconciling subsidiary ledgers in a timely manner to identify errors and to address old outstanding items.

CONDITION

During our review of the Aged Payables report, we noted two balances that were over 90 days outstanding. After further review, we identified that these balances were recorded in 2010 to accrue a payroll and to accrue the mortgage payment. The accruals were recorded, with offsetting expenses; however, when the payroll and mortgage was paid, the payables were not reversed but were taken to expense again. This resulted in overstated payables and expenses at June 30, 2011.

CAUSE

Management did not adjust accounts payable at June 30, 2011 to properly reflect that the mortgage and wages had been paid and should no longer be included in payables.

EFFECT

Accounts payable, salaries expense and interest expense are overstated as a result of the posting of the original accrual posting and subsequent posting of the payment.

RECOMMENDATION

We recommend that management review subsidiary ledgers at least monthly and address any old outstanding items (stale) to ensure that balances are accurate and reflect current activity.

RESPONSE

While LifeROOTS has put into place procedures during the closing process to review expenses since the new finance director was hired, the payroll in question occurred prior to that time. The monthly review of expenses that is currently done would have uncovered the overstatement of payroll if the transaction occurred now.

One of the major goals for the finance department during fiscal year 11-12 is to clean up activity from previous years that cannot be identified. As part of the process, older items in the subsidiary ledgers will be written off the books. This applies to other areas as well such as receivables and fixed assets. Completing this process and then maintaining a monthly review of subsidiary ledgers to the general ledger should resolve this issue.

Another goal of the finance department is to receive better training on the Peachtree system to understand how it works and improve the reconciliation process. Three of the five current employees in finance have been at LifeROOTS for one year or less and the other two have not been given an opportunity to fully learn their areas within the system. Improved training will assist in finding and fixing errors as they occur instead of leaving items on the books without knowing where they belong.

Completion of these steps listed should prevent overstated items from occurring in subsidiary ledgers in the future. It will also assist in making sure items are posted in the correct area as well.

C. PRIOR YEAR AUDIT FINDINGS

None