FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

LIFEROOTS, INC.

June 30, 2013 and 2012

atkinson

PRECISE. PERSONAL. PROACTIVE.

C O N T E N T S

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LifeROOTS, Inc.

OFFICIAL ROSTER

June 30, 2013

Board of Directors

Catherine Salazar	Chairman
Carol Guerra	Vice-Chairman
Myron Saldyt	Treasurer
Leslie Strickler, DO	Secretary
Brad Vaughn	Director
Joan Schofield	Director
Jeanne Vigil	Director
Linda Geiszler	Director
Amy Clithero	Director

Administrative Personnel

Kathleen Cates	CEO/President

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
LifeROOTS, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of LifeROOTS, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LifeROOTS, Inc.'s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LifeROOTS, Inc.'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LifeROOTS, Inc. as of June 30, 2013, 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.

Prior Period Financial Statements

The financial statements of LifeROOTS, Inc. as of June 30, 2012, were audited by other auditors whose report dated December 27, 2012, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of LifeROOTS, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering LifeROOTS, Inc.'s internal control over financial reporting and compliance.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 20, 2013

LifeROOTS, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 238,236	$ 87,424
Accounts receivable, net of allowance for doubtful accounts of $2,997 at June 30, 2013 and $0 at June 30, 2012	353,311	328,615
Contracts receivable	307,179	538,037
Unconditional promises to give - United Way	61,030	33,525
Prepaid expenses and deposits	46,163	32,327
Total current assets	1,005,919	1,019,928
PROPERTY AND EQUIPMENT, net	2,782,107	2,859,445
INVESTMENTS	93,039	82,997
Total assets	$ 3,881,065	$ 3,962,370

LIABILITIES AND NET ASSETS

		2013		2012
CURRENT LIABILITIES				
Accounts payable	$	335,317	$	261,932
Accrued payroll and related taxes		76,395		74,099
Accrued compensated absences		105,748		104,492
Current portion of long-term debt		1,577,943		66,214
Total current liabilities		2,095,403		506,737
LONG-TERM DEBT, less current portion		32,243		1,608,696
Total liabilities		2,127,646		2,115,433
COMMITMENTS AND CONTINGENCIES		-		-
NET ASSETS				
Unrestricted net assets				
Property and equipment		1,171,921		1,184,535
Operating		520,468		628,877
Total unrestricted net assets		1,692,389		1,813,412
Temporarily restricted net assets		61,030		33,525
Total net assets		1,753,419		1,846,937
Total liabilities and net assets	$	3,881,065	$	3,962,370

The accompanying notes are an integral part of these financial statements.

LifeROOTS, Inc.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
NISH and other service contracts	$ 3,744,870	$ -	$ 3,744,870
Program services fees, net	1,816,162	-	1,816,162
NM Department of Health contracts	949,029	-	949,029
Other, net	24,069	-	24,069
Return on investments:			
Unrealized gains on investments	6,461	-	6,461
Dividends and interest	2,920	-	2,920
Realized gains on investments	1,665	-	1,665
Total revenue	6,545,176	-	6,545,176
Support:			
Contributions:			
Monetary	71,469	-	71,469
United Way allocations	-	61,030	61,030
In-kind	10,779	-	10,779
Grants	10,000	-	10,000
Total support	92,248	61,030	153,278
Total revenue and support before releases	6,637,424	61,030	6,698,454
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	33,525	(33,525)	-
EXPENSES			
Program services:			
Contracts:			
Custodial	2,965,301	-	2,965,301
Landscaping and grounds keeping	180,056	-	180,056
Children and therapy	1,459,025	-	1,459,025
Community services:			
Vocational services	604,789	-	604,789
Day habilitation	601,922	-	601,922
Literacy	49,770	-	49,770
Career discovery	46,344	-	46,344
Total program services	5,907,207	-	5,907,207
Supporting services:			
Management and general	826,133	-	826,133
Fundraising	58,632	-	58,632
Total supporting services	884,765	-	884,765
Total expenses	6,791,972	-	6,791,972
CHANGES IN NET ASSETS	(121,023)	27,505	(93,518)
Net assets at beginning of year	1,813,412	33,525	1,846,937
Net assets at end of year	$ 1,692,389	$ 61,030	$ 1,753,419

The accompanying notes are an integral part of these financial statements.

LifeROOTS, Inc.

STATEMENTS OF ACTIVITIES
AND CHANGES IN NET ASSETS - CONTINUED

For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
NISH and other service contracts	$ 4,139,405	$ -	$ 4,139,405
Program services fees, net	1,820,204	-	1,820,204
NM Department of Health contracts	879,164	-	879,164
Other, net	38,322	-	38,322
Return on investments:			
Dividends and interest	6,035	-	6,035
Realized gains on investments	5,409	-	5,409
Unrealized losses on investments	(41,845)	-	(41,845)
Total revenue	6,846,694	-	6,846,694
Support:			
Contributions:			
United Way allocations	-	33,525	33,525
Monetary	19,158	-	19,158
In-kind	13,363	-	13,363
Grants	15,552	-	15,552
Total support	48,073	33,525	81,598
Total revenue and support before releases	6,894,767	33,525	6,928,292
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	36,800	(36,800)	-
EXPENSES			
Program services:			
Contracts:			
Custodial	3,226,253	-	3,226,253
Console operators	240,831	-	240,831
Landscaping and grounds keeping	32,941	-	32,941
Children and therapy	1,651,792	-	1,651,792
Community services:			
Day habilitation	633,451	-	633,451
Vocational services	627,931	-	627,931
Literacy	60,077	-	60,077
Career discovery	48,325	-	48,325
Total program services	6,521,601	-	6,521,601
Supporting services:			
Management and general	919,614	-	919,614
Fundraising	126,102	-	126,102
Total supporting services	1,045,716	-	1,045,716
Total expenses	7,567,317	-	7,567,317
CHANGES IN NET ASSETS	(635,750)	(3,275)	(639,025)
Net assets at beginning of year	2,449,162	36,800	2,485,962
Net assets at end of year	$ 1,813,412	$ 33,525	$ 1,846,937

The accompanying notes are an integral part of these financial statements.

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2013

	Program				
	Contracts			Community	
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Vocational Services	Day Habilitation
Salaries and related expenses					
Salaries and wages	$ 270,820	$ 25,888	$ 668,181	$ 279,499	$ 370,049
Clients and other	772,003	75,090	-	183,769	839
Payroll taxes	177,493	11,784	94,396	71,016	53,037
Fringe benefits	213,649	(615)	46,671	22,703	25,967
Total salaries and related expenses	1,433,965	112,147	809,248	556,987	449,892
Other expenses					
Contract labor	1,151,130	12,920	517,935	-	2,953
Supplies	171,112	24,087	15,925	451	5,210
Commissions	118,803	-	-	-	-
Interest	1,903	-	16,495	6,454	27,072
Transportation services	25,284	12,145	31,688	8,580	8,669
Advertising and marketing	2,269	818	2,396	2,042	137
Repairs and maintenance	10,072	5,174	11,805	(449)	8,540
Professional fees	3,540	100	13,445	6,171	2,051
Utilities	1,844	-	6,447	2,522	15,541
Office expense	3,901	1,982	8,604	3,425	6,314
Rent	890	2,306	-	-	34,224
Insurance	905	-	7,840	3,067	-
Telephone	8,164	786	4,619	3,701	6,722
Miscellaneous	285	153	723	371	758
Dues and subscriptions	726	554	241	-	1,365
Equipment purchases	1,981	1,381	28	11	1,884
Bad debt expense	1	-	2,558	9,605	317
Employment screening	5,264	1,642	1,955	1,452	944
Postage	371	6	1,255	399	-
Bank and investment fees	-	-	-	-	-
Meetings and conferences	653	66	1,783	-	-
Total expenses before depreciation and amortization	2,943,063	176,267	1,454,990	604,789	572,593
Depreciation and amortization	22,238	3,789	4,035	-	29,329
Total expenses	$ 2,965,301	$ 180,056	$ 1,459,025	$ 604,789	$ 601,922

Services			Supporting Services		
Services					
Literacy	Career Discovery	Subtotal Program Services	Management and General	Fundraising	Total Expenses
$ 38,099	$ 31,360	$ 1,683,896	$ 448,451	$ 4,324	$ 2,136,671
-	3,501	1,035,202	-	-	1,035,202
6,039	4,991	418,756	47,708	11	466,475
434	737	309,546	26,188	773	336,507
44,572	40,589	3,447,400	522,347	5,108	3,974,855
-	-	1,684,938	33,362	-	1,718,300
199	3,985	220,969	3,218	-	224,187
-	-	118,803	-	-	118,803
952	-	52,876	42,178	-	95,054
9	990	87,365	3,608	-	90,973
-	-	7,662	5,261	53,427	66,350
434	92	35,668	19,231	-	54,899
1,076	124	26,507	27,426	-	53,933
372	134	26,860	16,484	-	43,344
39	50	24,315	17,458	-	41,773
-	-	37,420	515	-	37,935
452	-	12,264	20,049	-	32,313
-	-	23,992	8,102	-	32,094
274	-	2,564	15,134	-	17,698
-	92	2,978	11,008	97	14,083
1,071	-	6,356	8,946	-	15,302
-	-	12,481	-	-	12,481
45	209	11,511	659	-	12,170
-	-	2,031	2,115	-	4,146
-	-	-	1,720	-	1,720
-	-	2,502	(1,071)	-	1,431
49,495	46,265	5,847,462	757,750	58,632	6,663,844
275	79	59,745	68,383	-	128,128
$ 49,770	$ 46,344	$ 5,907,207	$ 826,133	$ 58,632	$ 6,791,972

The accompanying notes are an integral part of these financial statements.

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2012

	Program				
	Contracts				
	Custodial	Console Operators	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation
Salaries and related expenses					
Salaries and wages	$ 254,068	$ 38,981	$ 8,843	$ 708,686	$ 397,663
Clients and other	868,284	136,272	11,149	-	1,185
Payroll taxes	149,627	21,174	1,965	94,767	45,654
Fringe benefits	242,305	34,031	1	54,722	28,388
Total salaries and related expenses	1,514,284	230,458	21,958	858,175	472,890
Other expenses					
Contract labor	1,317,475	-	135	654,240	2,910
Supplies	190,040	-	2,067	9,641	7,543
Commissions	125,336	9,884	-	-	-
Interest	1,884	-	-	16,325	27,912
Advertising and marketing	1,539	-	-	2,543	706
Transportation services	24,708	277	3,147	27,966	8,316
Insurance	1,875	-	-	16,246	-
Professional fees	4,672	57	-	19,791	1,950
Repairs and maintenance	5,829	-	3,384	13,970	6,413
Utilities	726	-	-	6,289	14,305
Rent	677	-	127	-	38,522
Telephone	8,115	-	363	5,941	6,352
Miscellaneous	515	26	273	220	415
Office expense	3,487	40	742	10,360	6,043
Dues and subscriptions	1,035	-	559	55	974
Equipment purchases	3,239	-	-	4,573	407
Employment screening	4,898	86	186	1,088	(354)
Meetings and conferences	(828)	-	-	787	313
Postage	262	3	-	1,024	19
Bank and investment fees	-	-	-	-	-
Total expenses before depreciation and amortization	3,209,768	240,831	32,941	1,649,234	595,636
Depreciation and amortization	16,485	-	-	2,558	37,815
Total expenses	$ 3,226,253	$ 240,831	$ 32,941	$ 1,651,792	$ 633,451

Services				Supporting Services		
Community Services						
Vocational Services	Literacy	Career Discovery	Subtotal Program Services	Management and General	Fundraising	Total Expenses
$ 290,607	$ 48,878	$ 33,702	$ 1,781,428	$ 509,865	$ 33,746	$ 2,325,039
194,335	-	3,078	1,214,303	-	-	1,214,303
66,296	4,841	4,005	388,329	60,411	8,413	457,153
30,236	1,916	1,295	392,894	41,163	1,755	435,812
581,474	55,635	42,080	3,776,954	611,439	43,914	4,432,307
226	226	219	1,975,431	1,795	-	1,977,226
193	34	4,385	213,903	2,309	-	216,212
-	-	-	135,220	-	-	135,220
6,387	942	-	53,450	41,741	-	95,191
1,986	-	-	6,774	5,062	79,453	91,289
11,655	14	840	76,923	3,699	155	80,777
6,356	937	-	25,414	41,542	-	66,956
7,294	1,139	100	35,003	30,476	195	65,674
2,887	534	-	33,017	15,252	85	48,354
2,460	363	-	24,143	16,081	-	40,224
-	-	-	39,326	888	-	40,214
3,735	-	349	24,855	11,220	506	36,581
211	18	-	1,678	33,800	-	35,478
1,357	115	85	22,229	10,916	959	34,104
-	-	92	2,715	10,591	800	14,106
38	28	175	8,460	1,196	-	9,656
924	92	-	6,920	119	-	7,039
-	-	-	272	3,095	35	3,402
89	-	-	1,397	712	-	2,109
-	-	-	-	1,698	-	1,698
627,272	60,077	48,325	6,464,084	843,631	126,102	7,433,817
659	-	-	57,517	75,983	-	133,500
$ 627,931	$ 60,077	$ 48,325	$ 6,521,601	$ 919,614	$ 126,102	$ 7,567,317

The accompanying notes are an integral part of these financial statements.

LifeROOTS, Inc.

STATEMENTS OF CASH FLOWS

For the years ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (93,518)	$ (639,025)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	128,128	133,500
Net realized (gains) on investments	(1,665)	(5,409)
Net unrealized (gains) losses on investments	(6,461)	41,845
Reinvested interest and dividends	(2,705)	(5,846)
Gain on sale of assets	(733)	-
Provision for bad debts	12,481	-
Net changes in assets and liabilities:		
Decrease (increase) in grants and contracts receivable	227,860	(135,944)
(Increase) decrease in accounts receivable	(34,179)	443,410
(Increase) decrease in unconditional promises to give	(27,505)	3,275
(Increase) decrease in prepaid expenses and deposits	(13,836)	17,869
Increase (decrease) in accounts payable	73,385	(90,051)
Increase (decrease) in accrued payroll and related taxes	2,296	(116,727)
Increase (decrease) in accrued compensated absences	1,256	(14,774)
Net cash flows provided by (used in) operating activities	264,804	(367,877)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(81,780)	(461,020)
Proceeds from sale and maturities of investments	82,569	824,223
Purchases of property and equipment	(50,057)	(21,005)
Net cash flows (used in) provided by investing activities	(49,268)	342,198
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(64,724)	(60,858)
Net cash flows (used in) financing activities	(64,724)	(60,858)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	150,812	(86,537)
Cash and cash equivalents, beginning of year	87,424	173,961
Cash and cash equivalents, end of year	$ 238,236	$ 87,424

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	$ 95,054	$ 95,191
Donation of materials, supplies, and services	$ 10,779	$ 13,363
Assets acquired through issuance of note payable	$ -	$ 49,018

NOTE A - NATURE OF BUSINESS

LifeROOTS, Inc. (the Organization) is a New Mexico not-for-profit 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 to change its name to LifeROOTS, Inc. from RCI, Inc.

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

The Organization provides services through three divisions as follows:

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 custodial, landscaping and grounds keeping positions, and console operators (discontinued in 2012). 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, 2013 and 2012, approximately 36 and 45 individuals with disabilities were employed under NISH and other government service contracts, respectively.

Landscaping and grounds keeping service contracts were started in May of 2012, with a majority of the start-up costs occurring in fiscal year 2012-13. Like all of LifeROOTS, Inc. Contract services, these contracts maintain a minimum of 75% of direct labor performed by employees with disabilities who cannot maintain employment without LifeROOTS, Inc.'s support. This program has increased the number of paid labor hours offered to the community served. At the end of fiscal year 2012-13 LifeROOTS, Inc. serviced four federal, state, and university contracts as well as numerous residential grounds keeping contracts.

Children and Therapy Services

Children Services - The majority of services through this division are through Early Intervention. Early Intervention 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

NOTE A - NATURE OF BUSINESS - CONTINUED

Children and Therapy Services - Continued

Therapy Services - Provide certified and licensed therapy 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.

Community Services

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.

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.

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

LifeROOTS, Inc. is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of LifeROOTS, Inc. and changes therein are classified and reported as follows:

Unrestricted Net Assets – represent net assets that are not subject to donor-imposed stipulations. Although not required, the Organization has elected to report its unrestricted net assets that represent amounts related to property and equipment (net of associated long-term debt) and amounts related to ongoing operating activities.

Temporarily Restricted Net Assets – represent net assets subject to donor-imposed stipulations that will be met either by actions of LifeROOTS, Inc. and / or the passage of time.

Permanently Restricted Net Assets – represent net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. LifeROOTS, Inc. does not have any permanently restricted net assets.

2. Use of Estimates

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

3. Concentrations of Credit Risk

LifeROOTS, Inc. maintains its cash depository accounts and investment accounts with various financial institutions and brokerage firms. Balances in the accounts may at times exceed Federal or other insurance limits. LifeROOTS, Inc. has not experienced, and believes it is not exposed to, significant credit risk from these deposits.

4. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, LifeROOTS, Inc. considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Promises to Give, Contributions, and Public Support

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 and Changes in Net Assets 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.

Contributions received have been recorded as unrestricted, except for allocations from United Way. United Way typically notifies 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 an unconditional promise to give. The amount will be released to unrestricted contributions when the funds have been received and expended. Program revenues are recognized when services are rendered.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

6. Accounts and Contract Receivable

Accounts and contract receivables are recorded at net realizable value and are evaluated for collectability by using historical experience applied to an aging of the 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. LifeROOTS, Inc. utilizes the allowance method to provide a valuation for estimated uncollectible accounts and contract receivables. An allowance of $2,997 and $0 were recorded for certain accounts and contract receivables as of June 30, 2013 and 2012, respectively. Contract revenue is billed and recognized as revenue as services are rendered under the respective contract.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Investments

Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded on a specific identification method upon the sale of investment assets. Realized and unrealized gains and losses on investments are included in return on investments in the accompanying Statements of Activities and Changes in Net Assets. Investment income and gains (losses) restricted by donors are reported as increases (decreases) in unrestricted net assets unless donor-imposed restrictions have not been met in the reporting period in which the income and gains are recognized. The fair market value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition may differ than the amounts reported in these financial statements.

8. Property and Equipment

All acquisitions of property and equipment in excess of $500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over useful lives ranging from three to thirty-nine years.

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	3-15 years
Vehicles	5-10 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.

9. Program 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Donated Services and Materials

A substantial number of volunteers have donated time to LifeROOTS, Inc.'s programs and administration. As these services do not qualify for recognition as donated services in accordance with generally accepted accounting principles, they are not recorded as revenues and expenses in the accompanying financial statements. Supplies, materials, and services were donated to LifeROOTS, Inc. and are recorded at their estimated values of $10,779 and $13,363 for the years ended June 30, 2013 and 2012, respectively.

11. Income Taxes

LifeROOTS, Inc. is a non-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, its normal activities do not result in any income tax liability. LifeROOTS, Inc. is classified as other than a private foundation.

LifeROOTS, Inc. applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Income Taxes* (FASB ASC 740). FASB ASC 740 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions in an enterprise's financial statements. Uncertain income tax positions must meet a more-likely-than-not recognition threshold to be recognized. LifeROOTS, Inc.'s policy is to classify income tax penalties and interest according to their natural classification rather than as income tax expense. As of June 30, 2013 and 2012, management does not believe LifeROOTS, Inc. has any uncertain tax positions that would require financial statement recognition, measurement, or disclosure under FASB ASC 740. Due to statutes of limitation, LifeROOTS, Inc.'s tax returns are no longer subject to examinations by tax authorities for fiscal years before 2010.

12. Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

13. Advertising

LifeROOTS, Inc. expenses advertising costs as incurred. Such expenses are shown in the Statements of Functional Expenses; no amounts of advertising are carried as assets except when expenses are paid in advance. These are recorded as prepaid expenses until services are rendered.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Subsequent Events

Subsequent events have been evaluated through December 20, 2013, the date the financial statements were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2013. Management believes no material subsequent events have arisen that would require adjustment or disclosure, except as discussed in Note H.

15. Reclassifications

Certain reclassifications have been made to the June 30, 2012 financial statements to conform to the June 30, 2013 presentation.

NOTE C - ACCOUNTS AND CONTRACTS RECEIVABLE

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

Accounts Receivable	2013	2012
Medicaid	$ 203,745	$ 202,523
Vocational Services	152,544	126,073
Other	19	19
	356,308	328,615
Allowance for doubtful accounts	(2,997)	-
	$ 353,311	$ 328,615

Contracts Receivable	2013	2012
Kirtland Airforce Base	$ 197,251	$ 369,645
General Services	35,424	69,417
Adelante Development Corporation	29,356	14,441
Horizons of New Mexico	24,285	-
National Assessment Group	10,002	4,883
UNM Hospital	9,346	7,192
Other	1,515	51,107
New Mexico Abilities	-	21,352
	$ 307,179	$ 538,037

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at June 30, consisted of the following:

	2013	2012
Buildings	$ 2,773,720	$ 2,764,501
Vehicles	374,589	421,830
Furniture, fixtures, and equipment	361,343	343,666
Leasehold improvements	13,064	13,064
	3,522,716	3,543,061
Less accumulated depreciation and amortization	(1,120,609)	(1,063,616)
	2,402,107	2,479,445
Land	380,000	380,000
	$ 2,782,107	$ 2,859,445

Depreciation expense was $128,128 and $133,500 at June 30, 2013 and 2012, respectively.

NOTE E - INVESTMENTS

Generally accepted accounting principles establish a framework for measuring fair value. The framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include: Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE E - INVESTMENTS - CONTINUED

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2013:

Assets at Fair Value as of June 30, 2013

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity funds	$ 37,544	$ -	$ -	$ 37,544
Domestic fixed income fund	28,247	-	-	28,247
Asset allocation fund	9,888	-	-	9,888
International equity funds	8,900	-	-	8,900
International fixed income funds	8,460	-	-	8,460
Total	$ 93,039	$ -	$ -	$ 93,039

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2012:

Assets at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity funds	$ 35,726	$ -	$ -	$ 35,726
Domestic fixed income fund	29,289	-	-	29,289
Asset allocation fund	8,043	-	-	8,043
International equity funds	6,105	-	-	6,105
International fixed income funds	3,834	-	-	3,834
Total	$ 82,997	$ -	$ -	$ 82,997

NOTE F - AVAILABLE CREDIT

In August 2011, the Organization obtained a credit card with a maximum limit of $80,000 which replaced the line-of-credit that the Organization had in 2010. The balance on the credit card was $0 at June 30, 2013 and 2012. The credit card bears interest at a rate of 2.99% on any past due amounts and no collateral is required.

NOTE G - OPERATING LEASE OBLIGATIONS

LifeROOTS, Inc. has several non-cancelable operating leases, primarily for equipment and office space that expire at various dates through August 2017. Rental expense for those leases was $50,157 and $48,045 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows for the years ending June 30:

2014	$ 58,396
2015	56,066
2016	51,252
2017	48,000
2018	4,000
	$ 217,714

NOTE H - LONG-TERM DEBT

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

	2013	2012
Mortgage note payable to a bank, due in monthly installments of $11,370, including principal and interest at 5.625%, maturing December 2031. The note is secured by the buildings.	$ 1,556,798	$ 1,602,996
Note payable to a bank, due in monthly installments of $1,035 including principal and interest at 6.50%, maturing January 2015. The note is secured by related vehicles.	19,520	31,083
Note payable to Ford Credit, due in monthly installments of $456 including principal and interest at 4.24%, maturing November 2016. The note is secured by related vehicles.	16,970	20,459
Note payable to Ford Credit, due in monthly installments of $454 including principal and interest at 4.24%, maturing November 2016. The note is secured by related vehicles.	16,898	20,372
	1,610,186	1,674,910
Less current portion	(1,577,943)	(66,214)
Total	$ 32,243	$ 1,608,696

NOTE H - LONG-TERM DEBT - CONTINUED

Maturities on long-term debt are as follows for the years ending June 30:

2014	$ 1,577,943
2015	18,125
2016	10,520
2017	3,598
	$ 1,610,186

The Organization is required to comply with certain financial covenants and provisions in connection with the mortgage note payable. The requirements include maintaining a debt service coverage ratio of 1:25 to 1 and submitting audited financial statements to the bank within 120 days of fiscal year-end. For the fiscal year ended June 30, 2013, the Organization was not in compliance with these covenants and provisions. The financial institution holding the note payable did not issue a waiver for the noncompliance. Therefore, the entire note payable is classified as current as of June 30, 2013. The Organization is in compliance with all of the other provisions of the mortgage note payable, including timely submission of all monthly principal and interest payments. As of the date of these financial statements, management of the Organization is seeking alternative financing options to refinance this debt with another bank. Similar financial covenants and provisions exist with the bank debt collateralized with a certain vehicle, however, the bank associated with this debt has waived the requirements for the fiscal year ended June 30, 2013.

NOTE I - PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the New Mexico Department of Human Services (18% and 17% for the years ended June 30, 2013 and 2012, respectively) and the New Mexico Department of Health (23% and 22% for the years ended June 30, 2013 and 2012, respectively). Another important source of revenue is the federal contract for custodial work with Kirtland Air Force Base. This contract provided 36% and 39% of the total revenue for 2013 and 2012, respectively.

NOTE J - CLIENT SALARIES EXPENSE

Salaries to persons with disabilities, not including payroll taxes and employee benefits, for the years ended June 30, 2013 and 2012 totaled $1,035,202 and $1,214,303, respectively.

NOTE K - EMPLOYEE BENEFIT PLANS

LifeROOTS, Inc. has a defined contribution pension 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. LifeROOTS, Inc. amended the plan on February 23, 2012 to not permit employer matching contributions. Previous to this amendment, LifeROOTS, Inc. contributed three percent of covered compensation to the plan to those employees that are participating in the plan. LifeROOTS, Inc.'s contributions totaled $0 and $15,345 for the years ended June 30, 2013 and 2012, respectively.

LifeROOTS, Inc. also sponsors a health and welfare plan covering certain employees that perform services under contracts that LifeROOTS, Inc. enters into with certain government agencies or similar entities. LifeROOTS, Inc. is obligated to provide certain fringe benefits under these contracts. The fringe benefit amount is $3.71 per hour. Amounts contributed by LifeROOTS, Inc. into the plan totaled $198,569 and $250,345 for the years ended June 30, 2013 and 2012, respectively.

NOTE L - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

	2013	2012
Restricted for time:		
United Way	$ 61,030	$ 33,525
	$ 61,030	$ 33,525

Temporarily restricted net assets are released from donor restrictions as expenses are incurred to satisfy the restricted purpose, or due to the passage of time, as follows:

	2013	2012
Time restriction accomplished:		
United Way	$ 33,525	$ 36,800
	$ 33,525	$ 36,800

NOTE M - CONTINGENCIES

The grants and contracts operated by LifeROOTS, Inc. are subject to a closing audit process by federal granting agencies subsequent to the end of a grant period. At this time, no reasonable estimate can be made as to adjustments, if any, in amounts due to or from grantors that may result from the closing process. Actual costs reported in the accompanying Statements of Activities and Changes in Net Assets, and for prior years since inception of ongoing grants, exceeded billed costs, and management believes no material reimbursements to granting agencies are due.

NOTE N - RELATED PARTY TRANSACTIONS

The Board of Directors and certain employees contribute various amounts in general support of LifeROOTS, Inc. A certain Board of Director member is also an officer of a bank with which LifeROOTS, Inc. maintains a cash account on deposit. LifeROOTS, Inc. also has an outstanding vehicle loan with this same bank (see Note H). Another certain Board of Director member is the owner of an insurance agency that LifeROOTS, Inc. utilizes to obtain various lines of insurance. The approximate amount of premiums associated with these policies is $65,000, which is paid to the respective insurance carriers.

SUPPLEMENTARY INFORMATION

atkinson

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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*

Board of Directors
LifeROOTS, Inc.

We have audited 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, the financial statements of LifeROOTS, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LifeROOTS, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LifeROOTS, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LifeROOTS, Inc.'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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 20, 2013

LifeROOTS, Inc.

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2013

I. Summary of Auditor's Results

A. An unmodified opinion was issued on the financial statements of LifeROOTS, Inc.

B. No instances of noncompliance with laws and regulations or the provisions of contracts and grant agreements that are material to the financial statements were disclosed during the audit.

C. Internal control over financial reporting:

- Material weaknesses identified — Yes ____ No __X__
- Significant deficiencies identified — Yes ____ None Reported __X__

II. Financial Statement Audit Findings

None

III. Financial Statement Audit Findings – Prior year

2012-1 Accounting processes and procedures – Resolved

LifeROOTS, Inc.

IDENTIFICATION OF AUDIT PRINCIPAL

For the year ended June 30, 2013

Audit Principal:	Barbara A. Lewis, CPA
Name and address of independent accounting firm:	Atkinson & Co., Ltd. 6501 Americas Parkway NE Suite 700 Albuquerque, New Mexico 87110
Audit period:	Year ended June 30, 2013
Telephone Number:	(505) 843-6492
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