FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

LIFEROOTS, INC.

June 30, 2014 and 2013

atkinson

PRECISE. PERSONAL. PROACTIVE.

C O N T E N T S

LifeROOTS, Inc.

OFFICIAL ROSTER

June 30, 2014

Board of Directors

Catherine Salazar	Chairman
Carol Guerra	Vice-Chairman
Myron Saldyt	Treasurer
Leslie Strickler	Secretary
Brad Vaughn	Director
Joan Schofield	Director
Jeanne Vigil	Director
Linda Geiszler	Director
Amy Clithero	Director
Catherine Thompkins	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 statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audits. We conducted our audits 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 audits 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, 2014 and 2013, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 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
October 28, 2014

LifeROOTS, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 181,418	$ 238,236
Accounts receivable, net of allowance for doubtful accounts of $0 at June 30, 2014 and $2,997 at June 30, 2013	292,656	353,311
Contracts receivable	324,889	307,179
Unconditional promises to give - United Way	60,430	61,030
Inventory	1,196	-
Prepaid expenses and deposits	55,557	46,163
Total current assets	916,146	1,005,919
PROPERTY AND EQUIPMENT, net	2,665,856	2,782,107
INVESTMENTS	25,441	93,039
Total assets	$ 3,607,443	$ 3,881,065

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable	$ 409,353	$ 335,317
Accrued payroll and related taxes	91,686	76,395
Accrued compensated absences	116,428	105,748
Current portion of long-term debt	69,891	70,047
Total current liabilities	687,358	587,507
LONG-TERM DEBT, less current portion	1,470,258	1,540,139
Total liabilities	2,157,616	2,127,646
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted net assets		
Property and equipment, net of related debt	1,125,707	1,171,921
Operating	263,690	520,468
Total unrestricted net assets	1,389,397	1,692,389
Temporarily restricted net assets	60,430	61,030
Total net assets	1,449,827	1,753,419
Total liabilities and net assets	$ 3,607,443	$ 3,881,065

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, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
Source America and other service contracts	$ 3,587,793	$ -	$ 3,587,793
Program services fees	1,828,934	-	1,828,934
NM Department of Health contracts	900,381	-	900,381
Other	17,369	-	17,369
Return on investments:			
Realized gains on investments	13,899	-	13,899
Dividends and interest	1,373	-	1,373
Unrealized losses on investments	(2,812)	-	(2,812)
Total revenue	6,346,937	-	6,346,937
Support:			
Contributions:			
United Way allocations	400	60,430	60,830
Monetary	16,390	-	16,390
In-kind	10,253	-	10,253
Grants	17,500	-	17,500
Total support	44,543	60,430	104,973
Total revenue and support before releases	6,391,480	60,430	6,451,910
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	61,030	(61,030)	-
EXPENSES			
Program services:			
Contracts:			
Custodial	2,962,796	-	2,962,796
Landscaping and grounds keeping	139,420	-	139,420
Children and therapy	1,451,692	-	1,451,692
Community services:			
Day habilitation	647,375	-	647,375
Vocational services	499,707	-	499,707
Literacy	69,283	-	69,283
Career discovery	52,766	-	52,766
Total program services	5,823,039	-	5,823,039
Supporting services:			
Management and general	884,132	-	884,132
Fundraising	48,331	-	48,331
Total supporting services	932,463	-	932,463
Total expenses	6,755,502	-	6,755,502
CHANGES IN NET ASSETS	(302,992)	(600)	(303,592)
Net assets at beginning of year	1,692,389	61,030	1,753,419
Net assets at end of year	$ 1,389,397	$ 60,430	$ 1,449,827

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, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
Source America and other service contracts	$ 3,744,870	$ -	$ 3,744,870
Program services fees	1,816,162	-	1,816,162
NM Department of Health contracts	949,029	-	949,029
Other	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 FUNCTIONAL EXPENSES

For the year ended June 30, 2014

	Program				
	Contracts			Community	
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation	Vocational Services
Salaries and related expenses					
Salaries and wages	$ 280,051	$ 27,027	$ 662,952	$ 402,526	$ 253,478
Clients and other	814,269	52,599	-	140	132,028
Payroll taxes	191,272	11,453	90,354	59,453	57,265
Fringe benefits	229,181	2,883	54,318	19,944	11,617
Total salaries and related expenses	1,514,773	93,962	807,624	482,063	454,388
Other expenses					
Contract labor	1,083,614	3,918	521,945	2,680	-
Supplies	167,057	17,453	12,159	6,469	823
Commissions	106,975	-	-	-	-
Interest	2,793	-	15,159	26,261	5,931
Transportation services	26,211	4,933	30,351	8,679	7,819
Insurance	1,861	-	16,124	-	6,308
Advertising and marketing	340	-	550	-	2,141
Repairs and maintenance	7,825	2,753	11,135	10,063	3,282
Rent	1,080	1,669	-	45,746	-
Professional fees	1,373	-	11,980	-	4,656
Utilities	1,004	42	6,622	16,943	2,591
Miscellaneous	169	253	184	508	137
Office expense	3,990	935	6,642	5,424	2,599
Telephone	7,453	1,068	5,628	4,448	3,820
Dues and subscriptions	6,311	74	200	933	-
Bad debt expense	-	7,259	797	2,588	4,185
Equipment purchases	5,910	125	50	6,823	-
Employment screening	1,056	575	-	648	775
Bank and investment fees	-	-	-	-	-
Meetings and conferences	221	-	214	-	14
Postage	251	-	874	-	238
Total expenses before depreciation and amortization	2,940,267	135,019	1,448,238	620,276	499,707
Depreciation and amortization	22,529	4,401	3,454	27,099	-
Total expenses	$ 2,962,796	$ 139,420	$ 1,451,692	$ 647,375	$ 499,707

Services			Supporting Services		
Services					
Literacy	Career Discovery	Subtotal Program Services	Management and General	Fundraising	Total Expenses
$ 46,957	$ 38,043	$ 1,711,034	$ 501,752	$ -	$ 2,212,786
-	2,961	1,001,997	-	-	1,001,997
5,589	5,568	420,954	52,000	-	472,954
4,545	1,036	323,524	22,731	-	346,255
57,091	47,608	3,457,509	576,483	-	4,033,992
-	-	1,612,157	1,740	-	1,613,897
50	3,992	208,003	3,539	-	211,542
-	-	106,975	-	-	106,975
2,830	-	52,974	36,806	-	89,780
11	859	78,863	3,232	-	82,095
3,010	-	27,303	39,148	-	66,451
-	-	3,031	6,911	48,331	58,273
1,566	-	36,624	20,367	-	56,991
-	-	48,495	4,474	-	52,969
2,222	-	20,231	28,891	-	49,122
1,236	-	28,438	16,078	-	44,516
-	-	1,251	34,771	-	36,022
40	137	19,767	13,025	-	32,792
-	-	22,417	8,214	-	30,631
-	-	7,518	13,894	-	21,412
835	-	15,664	-	-	15,664
-	12	12,920	912	-	13,832
-	-	3,054	1,290	-	4,344
-	-	-	3,742	-	3,742
-	-	449	2,947	-	3,396
-	-	1,363	1,343	-	2,706
68,891	52,608	5,765,006	817,807	48,331	6,631,144
392	158	58,033	66,325	-	124,358
$ 69,283	$ 52,766	$ 5,823,039	$ 884,132	$ 48,331	$ 6,755,502

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

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES - CONTINUED

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
Equipment purchases	1,981	1,381	28	11	1,884
Dues and subscriptions	726	554	241	-	1,365
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
1,071	-	6,356	8,946	-	15,302
-	92	2,978	11,008	97	14,083
-	-	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 CASH FLOWS

For the years ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (303,592)	$ (93,518)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	124,358	128,128
Net realized (gains) on investments	(13,899)	(1,665)
Net unrealized losses (gains) on investments	2,812	(6,461)
Reinvested interest and dividends	(915)	(2,705)
Gain on sale of assets	(2,000)	(733)
Provision for bad debts	15,664	12,481
Net changes in assets and liabilities:		
Decrease in grants and contracts receivable	44,991	227,860
(Increase) in accounts receivable	(17,710)	(34,179)
Decrease (increase) in unconditional promises to give	600	(27,505)
(Increase) in inventories	(1,196)	-
(Increase) in prepaid expenses and deposits	(9,394)	(13,836)
Increase in accounts payable	74,036	73,385
Increase in accrued payroll and related taxes	15,291	2,296
Increase in accrued compensated absences	10,680	1,256
Net cash flows (used in) provided by operating activities	(60,274)	264,804
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(80,000)	(81,780)
Proceeds from sale and maturities of investments	159,600	82,569
Purchases of property and equipment	(8,107)	(50,057)
Proceeds from sale of property and equipment	2,000	-
Net cash flows provided by (used in) investing activities	73,493	(49,268)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(70,037)	(64,724)
Net cash flows (used in) financing activities	(70,037)	(64,724)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,818)	150,812
Cash and cash equivalents, beginning of year	238,236	87,424
Cash and cash equivalents, end of year	$ 181,418	$ 238,236

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

	2014	2013
Cash paid during the year for interest	$ 89,780	$ 95,054
Donation of materials, supplies, and services	$ 10,253	$ 10,779

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). SourceAmerica, formerly 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. 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, 2014 and 2013, approximately 42 and 36 individuals with disabilities were employed under SourceAmerica 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 2013-14 LifeROOTS, Inc. serviced numerous federal, state, and university contracts with a growing number of 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 are 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 $0 and $2,997 were recorded for certain accounts and contract receivables as of June 30, 2014 and 2013, respectively. Contract revenue is billed and recognized as revenue as services are rendered under the respective contract.

7. Inventories

Inventories, which primarily consist of organization logo merchandise, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. 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.

9. 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.

10. 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

11. 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 $10,253 and $10,779 for the years ended June 30, 2014 and 2013, respectively.

12. 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, 2014 and 2013, 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 2011.

13. 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.

14. 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

15. Subsequent Events

Subsequent events have been evaluated through October 28, 2014, 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, 2014. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

16. Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the June 30, 2014 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	2014	2013
Medicaid/DOH	$ 183,221	$ 203,745
Vocational Services	108,623	152,544
Other	812	19
	292,656	356,308
Allowance for doubtful accounts	-	(2,997)
	$ 292,656	$ 353,311

Contracts Receivable	2014	2013
Kirtland Airforce Base	$ 202,105	$ 197,251
General Services	35,424	35,424
Adelante Development Corporation	29,742	29,356
Horizons of New Mexico	23,585	24,285
National Assessment Group	10,002	10,002
UNM Hospital	17,486	9,346
Other	6,545	1,515
	$ 324,889	$ 307,179

NOTE D - PROPERTY AND EQUIPMENT

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

	2014	2013
Buildings	$ 2,773,720	$ 2,773,720
Furniture, fixtures, and equipment	364,583	361,343
Vehicles	355,853	374,589
Leasehold improvements	15,590	13,064
	3,509,746	3,522,716
Less accumulated depreciation and amortization	(1,223,890)	(1,120,609)
	2,285,856	2,402,107
Land	380,000	380,000
	$ 2,665,856	$ 2,782,107

Depreciation expense was $124,358 and $128,128 at June 30, 2014 and 2013, 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, 2014 and 2013.

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, 2014:

Assets at Fair Value as of June 30, 2014

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity funds	$ 11,877	$ -	$ -	$ 11,877
Domestic fixed income funds	7,461	-	-	7,461
Asset allocation funds	3,899	-	-	3,899
International equity funds	1,481	-	-	1,481
International fixed income funds	723	-	-	723
Total	$ 25,441	$ -	$ -	$ 25,441

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 funds	28,247	-	-	28,247
Asset allocation funds	9,888	-	-	9,888
International equity funds	8,900	-	-	8,900
International fixed income funds	8,460	-	-	8,460
Total	$ 93,039	$ -	$ -	$ 93,039

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 $624 and $0 at June 30, 2014 and 2013, respectively. 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 $62,088 and $50,157 for the years ended June 30, 2014 and 2013, respectively.

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

2015	$ 56,066
2016	54,504
2017	51,252
2018	4,000
	$ 165,822

NOTE H - LONG-TERM DEBT

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

	2014	2013
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.	$ 1,507,896	$ 1,556,798
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.	12,132	16,970
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.	12,080	16,898
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.	8,041	19,520
	1,540,149	1,610,186
Less current portion	(69,891)	(70,047)
Total	$ 1,470,258	$ 1,540,139

NOTE H - LONG-TERM DEBT - CONTINUED

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

2015	$	69,891
2016		65,089
2017		61,599
2018		61,386
2019		64,980
Thereafter		1,217,204
	$	1,540,149

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, 2014, the Organization was able to obtain a waiver from the financial institution holding the note payable for the debt service coverage ratio and is in compliance with all other covenants and provisions. As of the date of these financial statements, management of the Organization is seeking alternative financing options to refinance this debt with another bank as the waiver has only been granted for fiscal year 2014. 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 years ended June 30, 2014.

NOTE I - PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the New Mexico Department of Human Services (18% for the years ended June 30, 2014 and 2013) and the New Mexico Department of Health (24% and 23% for the years ended June 30, 2014 and 2013, respectively). Another important source of revenue is the federal contract for custodial work with Kirtland Air Force Base. This contract provided 37% and 36% of the total revenue for 2014 and 2013, respectively. A change in these funding sources would require a change in operations.

NOTE J - CLIENT SALARIES EXPENSE

Salaries to persons with disabilities, not including payroll taxes and employee benefits, for the years ended June 30, 2014 and 2013 totaled $1,001,997 and $1,035,202, 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. Therefore, no contributions were made to the plan by the Organization for the years ended June 30, 2014 and 2013.

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 and $3.50 per hour for the years ended June 30, 2014 and 2013, respectively. Amounts contributed by LifeROOTS, Inc. into the plan totaled $215,846 and $198,569 for the years ended June 30, 2014 and 2013, respectively.

NOTE L - TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Restricted for time:		
United Way	$ 60,430	$ 61,030
	$ 60,430	$ 61,030

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:

	2014	2013
Time restriction accomplished:		
United Way	$ 61,030	$ 33,525
	$ 61,030	$ 33,525

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.

NOTE O - NEW ACCOUNTING STANDARD

The FASB has recently issued Accounting Standards Update (ASU) 2014-09, *(Topic 606): Revenue from Contracts with Customers* that was designed to develop a common revenue standard for U.S. GAAP and international standards. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Steps to apply the core principle are as follows:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied

Several new disclosures will also be required to include sufficient information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for annual periods beginning after December 15, 2017.

As of the date of these financial statements, management has not determined the impact this new ASU will have on future reporting periods.

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, 2014, 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, and have issued our report thereon dated October 28, 2014.

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 or other matters 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
October 28, 2014

LifeROOTS, Inc.

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2014

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

None

LifeROOTS, Inc.

IDENTIFICATION OF AUDIT PRINCIPAL

For the year ended June 30, 2014

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, 2014
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