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LIFEROOTS, INC.

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017 and 2016

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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LifeROOTS, Inc.

OFFICIAL ROSTER

June 30, 2017

Board of Directors

Leslie Strickler	Chairman
Jill Tatz	Vice-Chairman
Jeanne Vigil	Treasurer
Linda Geiszler	Secretary
Brad Vaughn	Director
Joan Schofield	Director
Maggie Silva	Director
Myron Saldyt	Director
Carol Guerra	Director
Ellen Costilla	Director
Catherine Salazar	Director
Leticia Bernal	Director
Dawn Dal Porto	Director

Administrative Personnel

Kathleen Cates	CEO/President

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD
6501 AMERICAS PARKWAY NE , SUITE 700, ALBUQUERQUE, NM 87110
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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, 2017 and 2016, 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.

Auditors' 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 auditors' 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, 2017 and 2016, 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 November 9, 2017, 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, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LifeROOTS, Inc.'s internal control over financial reporting and compliance.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 9, 2017

LifeROOTS, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 164,435	$ 139,457
Restricted cash	28,000	28,000
Accounts receivable, less allowance for doubtful accounts of $7,030 in 2017 and $9,318 in 2016	410,209	402,040
Contracts receivable, less allowance for doubtful accounts of $17,989 in 2017 and $0 in 2016	332,039	317,699
Unconditional promises to give - United Way	63,375	64,000
Inventories	6,996	4,281
Prepaid expenses	75,230	83,854
Total current assets	1,080,284	1,039,331
PROPERTY AND EQUIPMENT, net	3,247,814	2,651,497
OTHER ASSETS		
Beneficial interest in charitable trusts	749,513	731,958
Agency trust deposits	32,998	14,918
Security deposits	-	2,700
Total other assets	782,511	749,576
Total assets	$ 5,110,609	$ 4,440,404

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Short-term borrowings	$ 100,000	$ -
Accounts payable	284,014	268,587
Accrued payroll and related taxes	135,385	125,614
Accrued compensated absences	110,473	112,397
Deferred revenue	853	-
Current portion of long-term debt	52,964	69,055
Current portion of capital lease obligation	9,045	8,670
Total current liabilities	692,734	584,323
LONG-TERM DEBT, less current portion and unamortized debt issuance costs	1,986,782	1,324,893
CAPITAL LEASE OBLIGATION, less current portion	15,951	24,996
Total liabilities	2,695,467	1,934,212
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted net assets	1,364,316	1,484,165
Temporarily restricted net assets	1,050,826	1,022,027
Total net assets	2,415,142	2,506,192
Total liabilities and net assets	$ 5,110,609	$ 4,440,404

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, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
SourceAmerica and other service contracts	$ 4,001,849	$ -	$ 4,001,849
Program services fees	2,004,037	-	2,004,037
New Mexico Department of Health contracts	740,008	-	740,008
Other income	64,145	-	64,145
Interest income	38	-	38
Total revenue	6,810,077	-	6,810,077
Support:			
Grants	17,500	20,000	37,500
Contributions:			
United Way allocations	-	63,745	63,745
Monetary	27,532	-	27,532
In-kind	33,211	-	33,211
Change in value of charitable trusts	-	17,555	17,555
Total support	78,243	101,300	179,543
Total revenue and support before releases	6,888,320	101,300	6,989,620
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	72,501	(72,501)	-
EXPENSES			
Program services:			
Contracts:			
Custodial	3,369,915	-	3,369,915
Landscaping and grounds keeping	73,566	-	73,566
Children and therapy	1,350,722	-	1,350,722
Community services:			
Day habilitation	645,526	-	645,526
Vocational services	411,365	-	411,365
Career discovery	94,714	-	94,714
Literacy	81,193	-	81,193
Total program services	6,027,001	-	6,027,001
Supporting services:			
Management and general	986,616	-	986,616
Fundraising	67,053	-	67,053
Total supporting services	1,053,669	-	1,053,669
Total expenses	7,080,670	-	7,080,670
CHANGES IN NET ASSETS	(119,849)	28,799	(91,050)
Net assets at beginning of year	1,484,165	1,022,027	2,506,192
Net assets at end of year	$ 1,364,316	$ 1,050,826	$ 2,415,142

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
SourceAmerica and other service contracts	$ 3,943,660	$ -	$ 3,943,660
Program services fees	1,913,358	-	1,913,358
New Mexico Department of Health contracts	785,273	-	785,273
Other income	104,684	-	104,684
Return on investments:			
Unrealized gains on investments	2,619	-	2,619
Dividends and interest	360	-	360
Realized losses on investments	(4,369)	-	(4,369)
Total revenue	6,745,585	-	6,745,585
Support:			
Grants	19,270	104,530	123,800
Contributions:			
United Way allocations	-	64,000	64,000
Monetary	31,330	-	31,330
In-kind	24,214	-	24,214
Change in value of charitable trusts	-	50,825	50,825
Total support	74,814	219,355	294,169
Total revenue and support before releases	6,820,399	219,355	7,039,754
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	101,198	(101,198)	-
EXPENSES			
Program services:			
Contracts:			
Custodial	3,270,913	-	3,270,913
Landscaping and grounds keeping	117,773	-	117,773
Children and therapy	1,294,027	-	1,294,027
Community services:			
Day habilitation	654,409	-	654,409
Vocational services	403,769	-	403,769
Literacy	66,809	-	66,809
Career discovery	65,180	-	65,180
Total program services	5,872,880	-	5,872,880
Supporting services:			
Management and general	891,967	-	891,967
Fundraising	48,513	-	48,513
Total supporting services	940,480	-	940,480
Total expenses	6,813,360	-	6,813,360
CHANGES IN NET ASSETS	108,237	118,157	226,394
Net assets at beginning of year	1,375,928	903,870	2,279,798
Net assets at end of year	$ 1,484,165	$ 1,022,027	$ 2,506,192

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

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program				
	Contracts			Community	
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation	Vocational Services
Salaries and related expenses					
Salaries and wages	$ 281,506	$ 5,590	$ 544,305	$ 399,293	$ 257,682
Clients and other	952,161	22,519	-	-	79,458
Fringe benefits	294,278	1,015	40,612	14,065	14,955
Payroll taxes	177,408	3,734	58,784	46,331	40,515
Total salaries and related expenses	1,705,353	32,858	643,701	459,689	392,610
Other expenses					
Contract labor	1,274,662	8,772	599,149	2,502	-
Supplies	164,611	5,847	5,768	8,112	292
Commissions	122,154	-	-	-	-
Insurance	2,429	-	21,945	2,172	312
Interest	2,807	-	10,421	25,073	147
Repairs and maintenance	23,621	4,008	9,080	15,282	91
Professional fees	3,062	-	16,169	2,860	1,051
Transportation services	25,871	1,092	20,184	5,456	4,646
Advertising and marketing	251	-	1,008	362	218
Utilities	1,694	-	7,096	21,147	101
In-kind expenses	184	-	892	10,085	-
Miscellaneous	308	38	358	3,371	149
Bad debt expense	4,610	13,590	135	5,099	4,780
Equipment purchases	16,591	445	-	3,909	16
Office expense	2,847	258	3,442	3,108	3,391
Rent	434	1,140	68	20,148	-
Dues and subscriptions	1,074	150	463	994	25
Telephone	3,182	152	2,024	7,217	2,172
Employment screening	5,213	748	479	715	912
Meetings and conferences	1,850	-	17	-	67
Bank and investment fees	-	-	-	-	-
Postage	384	-	566	-	385
Total expenses before depreciation and amortization	3,363,192	69,098	1,342,965	597,301	411,365
Depreciation and amortization	6,723	4,468	7,757	48,225	-
Total expenses	$ 3,369,915	$ 73,566	$ 1,350,722	$ 645,526	$ 411,365

Services			Supporting Services		
Services					
Career Discovery	Literacy	Subtotal Program Services	Management and General	Fundraising	Total Expenses
$ 66,010	$ 55,365	$ 1,609,751	$ 588,133	$ -	$ 2,197,884
6,388	-	1,060,526	-	-	1,060,526
991	6,440	372,356	30,039	-	402,395
8,247	6,104	341,123	55,041	-	396,164
81,636	67,909	3,383,756	673,213	-	4,056,969
-	-	1,885,085	950	-	1,886,035
5,103	564	190,297	1,968	-	192,265
-	-	122,154	-	-	122,154
260	4,189	31,307	56,380	-	87,687
3,541	1,965	43,954	26,448	-	70,402
79	1,221	53,382	16,425	-	69,807
179	2,918	26,239	38,759	-	64,998
298	12	57,559	3,758	-	61,317
-	-	1,839	4,231	47,994	54,064
84	1,355	31,477	18,228	-	49,705
250	50	11,461	10,065	11,676	33,202
7	20	4,251	19,915	7,338	31,504
1,291	362	29,867	-	-	29,867
911	(29)	21,843	7,099	-	28,942
630	98	13,774	9,503	-	23,277
-	-	21,790	534	-	22,324
-	-	2,706	17,857	-	20,563
99	-	14,846	5,461	-	20,307
188	-	8,255	909	-	9,164
-	-	1,934	3,257	45	5,236
-	-	-	2,741	-	2,741
-	-	1,335	1,184	-	2,519
94,556	80,634	5,959,111	918,885	67,053	6,945,049
158	559	67,890	67,731	-	135,621
$ 94,714	$ 81,193	$ 6,027,001	$ 986,616	$ 67,053	$ 7,080,670

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

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES - CONTINUED

For the Year Ended June 30, 2016

	Program				
	Contracts			Community	
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation	Vocational Services
Salaries and related expenses					
Salaries and wages	$ 257,954	$ 27,081	$ 497,451	$ 417,448	$ 229,211
Clients and other	886,006	47,929	-	-	84,769
Payroll taxes	194,704	11,249	58,172	52,618	42,148
Fringe benefits	285,929	3,937	40,095	22,301	10,495
Total salaries and related expenses	1,624,593	90,196	595,718	492,367	366,623
Other expenses					
Contract labor	1,292,691	281	575,430	2,416	-
Supplies	152,360	14,057	7,462	9,209	87
Commissions	122,143	-	-	-	-
Insurance	1,994	-	17,500	436	6,979
Professional fees	1,954	-	15,030	57	6,336
Interest	1,725	-	10,322	16,172	3,975
Repairs and maintenance	16,486	240	8,779	14,057	2,071
Transportation services	18,643	2,403	21,692	4,137	4,381
Rent	1,154	3,410	68	48,148	-
Advertising and marketing	354	-	203	106	2,557
Utilities	776	5	6,545	15,338	2,561
Office expense	3,361	308	6,856	3,741	3,884
Bad debt expense	5,160	-	10,000	7,519	794
Dues and subscriptions	5,370	181	103	1,027	5
In-kind expenses	200	-	3,370	7,015	-
Telephone	4,108	520	2,080	2,087	2,113
Miscellaneous	293	311	41	331	206
Equipment purchases	1,833	1,058	115	1,571	11
Meetings and conferences	432	-	4,956	-	-
Employment screening	1,595	400	798	393	844
Bank and investment fees	-	-	-	-	-
Postage	283	-	573	11	342
Total expenses before depreciation and amortization	3,257,508	113,370	1,287,641	626,138	403,769
Depreciation and amortization	13,405	4,403	6,386	28,271	-
Total expenses	$ 3,270,913	$ 117,773	$ 1,294,027	$ 654,409	$ 403,769

Services			Supporting Services		
Services					
Literacy	Career Discovery	Subtotal Program Services	Management and General	Fundraising	Total Expenses
$ 44,845	$ 42,275	$ 1,516,265	$ 525,410	$ -	$ 2,041,675
-	5,815	1,024,519	-	-	1,024,519
5,110	7,246	371,247	52,709	-	423,956
5,529	641	368,927	27,559	-	396,486
55,484	55,977	3,280,958	605,678	-	3,886,636
-	-	1,870,818	803	-	1,871,621
105	4,522	187,802	2,786	-	190,588
-	-	122,143	-	-	122,143
3,443	218	30,570	41,963	-	72,533
2,716	29	26,122	35,331	-	61,453
1,896	-	34,090	24,669	-	58,759
1,116	-	42,749	12,849	-	55,598
37	197	51,490	2,279	-	53,769
-	-	52,780	534	-	53,314
-	-	3,220	3,830	43,296	50,346
1,222	-	26,447	15,892	-	42,339
59	35	18,244	13,769	-	32,013
146	3,316	26,935	4,372	-	31,307
-	48	6,734	14,761	-	21,495
-	300	10,885	9,181	-	20,066
-	259	11,167	4,761	-	15,928
26	35	1,243	14,069	49	15,361
-	86	4,674	3,576	5,143	13,393
-	-	5,388	3,229	-	8,617
-	-	4,030	2,821	-	6,851
-	-	-	3,511	-	3,511
-	-	1,209	1,238	25	2,472
66,250	65,022	5,819,698	821,902	48,513	6,690,113
559	158	53,182	70,065	-	123,247
$ 66,809	$ 65,180	$ 5,872,880	$ 891,967	$ 48,513	$ 6,813,360

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (91,050)	$ 226,394
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	135,621	123,247
Change in value of beneficial interest in charitable trusts	(17,555)	(50,825)
Net realized losses on investments	-	4,369
Net unrealized (gains) on investments	-	(2,619)
Reinvested interest and dividends	-	(295)
Donated property	-	(3,840)
Gain on sale of assets	5,523	-
Provision for bad debts	29,867	31,307
Net changes in assets and liabilities:		
(Increase) in contracts receivable	(50,529)	(20,461)
(Increase) in accounts receivable	(1,847)	(14,903)
Decrease in unconditional promises to give	625	4,128
Decrease in beneficial interest in charitable trusts	-	25,378
(Increase) in inventories	(2,715)	(3,083)
Decrease (increase) in prepaid expenses	8,624	(49,996)
(Increase) in agency trust deposits	(18,080)	(14,918)
Decrease in security deposits	2,700	80
Increase (decrease) in accounts payable	15,427	(10,746)
Increase in accrued payroll and related taxes	9,771	32,007
(Decrease) increase in accrued compensated absences	(1,924)	1,252
Increase (decrease) in deferred revenue	853	(13,041)
Net cash flows provided by operating activities	25,311	263,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	-	24,244
Purchases of property and equipment	(301,212)	(159,854)
Proceeds from sale of property and equipment	1,251	-
Net cash flows (used in) investing activities	(299,961)	(135,610)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on long-term payable	253,761	-
Net borrowings on line-of-credit	100,000	-
Mortgage issuance costs	(11,645)	-
Principal payments on long-term debt	(33,818)	(76,252)
Principal payments on capital lease obligation	(8,670)	(8,311)
Net cash flows provided by (used in) financing activities	299,628	(84,563)
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,978	43,262
Cash and cash equivalents, beginning of year	167,457	124,195
Cash and cash equivalents, end of year	$ 192,435	$ 167,457

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

LifeROOTS, Inc.

STATEMENTS OF CASH FLOWS – CONTINUED

For the Years Ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2017	2016
Refinanced mortgage payable	$ 1,391,239	$ -
Asset acquired with long-term debt	$ 437,500	$ -
Cash paid during the year for interest	$ 70,402	$ 58,759
Donation of materials, supplies, and services	$ 33,211	$ 20,066

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

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, 2017 and 2016, respectively, approximately 43 and 34 individuals with disabilities were employed under SourceAmerica and other government service contracts.

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. LifeROOTS, Inc. services numerous federal, state, and city 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 disabilities or 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:

- Screenings and assessments, including hearing, vision and M-CHAT-R/F Autism Screen
- Developmental evaluations and services
- Activities to develop learning skills and to help social and emotional development

NOTE A - NATURE OF BUSINESS - CONTINUED

Children and Therapy Services – Continued

- Nutritional services
- Speech, occupational, and physical therapies
- Specialized infant program
- Service coordination

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

- *Occupational therapy* – helps people learn gross motor skills and adapt to changing 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.

Adult Enrichment Services

Day Habilitation - Day Habilitation serves adults with developmental disabilities by providing integrated and individualized community-based services. Areas of focus include: assisting with self-help skills, mobility, daily living skills, community service, socialization, community integration, and pre-vocational programs.

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

Career Discovery - Provides opportunities for adults with disabilities to discover and create personalized careers. The Organization assists individuals in assessing the variety of available jobs and developing strategies needed to obtain employment in those jobs.

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 databases, while preparing for employment in the workplace; or individuals currently employed can maintain employment by continued studies. The Literacy program consists of four units:

- Career Readiness
- Language Arts
- Math
- Continued Learning

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.

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. Significant estimates included in the accompanying financial statements include the allowance for doubtful accounts, the fair value of the beneficial interest in charitable trusts and depreciation of property and equipment.

3. Concentrations of Credit Risk

LifeROOTS, Inc. maintains its cash depository accounts with various financial institutions. 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. Restricted cash is also considered a cash and cash equivalent.

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 Statements 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.

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 Contracts Receivable

Accounts and contracts receivable 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 contracts receivable. An allowance of $7,030 and $9,318 was recorded for certain accounts receivable, as of June 30, 2017 and 2016, respectively. An allowance of $17,989 and $0 was recorded for certain contracts receivable as of June 30, 2017 and 2016, respectively. Contract revenue is billed and recognized as revenue as services are rendered under the respective contract. Amounts received in advance of the services being rendered are reflected as deferred revenue.

7. Inventories

Inventories, which primarily consist of organization logo merchandise and polo shirts, 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. 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 over the estimated useful life of the donated or acquired long-lived assets. 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.

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, equipment, and services were donated to LifeROOTS, Inc. and are recorded at their estimated values of $33,211 and $24,214 for the years ended June 30, 2017 and 2016, 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Income Taxes – Continued

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, 2017 and 2016, 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 2014.

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.

14. Subsequent Events

Subsequent events have been evaluated through November 9, 2017, 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, 2017. Management believes no material subsequent events have arisen that would require adjustment or disclosure, except as discussed below.

Subsequent to June 30, 2017, the Organization was awarded a Section 5310 grant through the New Mexico Department of Transit and Rail Division of $140,195 for the purposes of purchasing vehicles used for its programs.

15. Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 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	2017	2016
Medicaid/DOH	$ 224,821	$ 232,547
NM Department of Transportation and other	99,460	76,881
Vocational Services	92,958	101,930
Less: Allowance for doubtful accounts	(7,030)	(9,318)
	$ 410,209	$ 402,040

Contracts Receivable	2017	2016
Kirtland Air Force Base	$ 234,945	$ 220,357
General Services	37,137	36,713
Horizons of New Mexico	34,477	24,361
Adelante Development Corporation	18,966	15,320
Other	14,916	7,754
National Assessment Group	5,498	5,001
UNM Hospital	4,089	8,193
Less: Allowance for doubtful accounts	(17,989)	-
	$ 332,039	$ 317,699

NOTE D - PROPERTY AND EQUIPMENT

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

	2017	2016
Buildings	$ 3,353,398	$ 2,780,185
Furniture, fixtures, and equipment	443,971	409,508
Vehicles	422,670	436,095
Leased equipment	44,670	44,670
Leasehold improvements	-	17,590
	4,264,709	3,688,048
Less accumulated depreciation and amortization	(1,521,895)	(1,416,551)
	2,742,814	2,271,497
Land	505,000	380,000
	$ 3,247,814	$ 2,651,497

Depreciation expense was $135,621 and $123,247 at June 30, 2017 and 2016, respectively.

NOTE E - FAIR VALUE MEASUREMENTS

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.

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, 2017 and 2016.

Assets Held in Charitable Trusts: Valued at fair value obtained from the third-party trustee.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017 and 2016:

Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Charitable trusts	$ -	$ 749,513	$ -	$ 749,513
Total	$ -	$ 749,513	$ -	$ 749,513

Assets at Fair Value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
Charitable trusts	$ -	$ 731,958	$ -	$ 731,958
Total	$ -	$ 731,958	$ -	$ 731,958

NOTE F - AVAILABLE CREDIT

The Organization has obtained several credit cards with a maximum aggregate limit of $146,000. The outstanding balances on credit cards was $17,269 and $9,553 in total at June 30, 2017 and 2016, respectively, and are included in accounts payable in the accompanying financial statements. The credit cards bear interest at rates ranging from 9.24% to 14.99% 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 October 2018. The Organization terminated its lease for the office space in November 2016 with no penalty. Rental expense for those leases was $22,324 and $53,314 for the years ended June 30, 2017 and 2016, respectively.

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

2018	$ 299
2019	76
	$ 375

NOTE H - CAPITAL LEASE OBLIGATION

LifeROOTS, Inc. leases office equipment under a capital lease expiring in 2020. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is amortized over the life of the lease. Amortization of the asset under the capital lease is included in depreciation expense.

Following is a summary of property held under capital lease:

Office equipment	$ 44,670
Accumulated depreciation	(20,846)
	$ 23,824

Minimum future lease payments under the capital lease as of June 30, 2017, were as follows:

2018	$ 9,930
2019	9,930
2020	6,620
Net minimum lease payments	26,480
Amount representing interest	(1,484)
Present value of net minimum lease payments	$ 24,996

NOTE I - LINE-OF-CREDIT

During 2016, the Organization obtained a bank line-of-credit for any amount up to $200,000. The line-of-credit is secured by the Organization's inventory, chattel paper, accounts, equipment, and other properties. Draws on the line-of-credit bear interest at the bank's prime rate plus .50% (4.00% at June 30, 2017 and June 30, 2016). As of June 30, 2017 and 2016 the outstanding balance on the line-of-credit was $100,000 and $0, respectively. The line-of-credit has no stated maturity date, however, it is due on demand.

NOTE J - LONG-TERM DEBT

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

	2017	2016
Mortgage note payable to a bank, due in monthly installments of $8,771 and one final installment of $1,187,452, including principal and interest at 3.780%, maturing October 2026, net of unamortized issuance costs of $8,174. The monthly installments may be discounted using the auto payment feature offered by the bank. The effective interest rate does not differ significantly from the stated interest rate. This note is secured by the buildings.	$ 1,610,827	$ -
Mortgage note payable to a bank, due in monthly installments of $2,113 and one final installment of $348,113, including principal and interest at 3.780%, maturing October 2026, net of unamortized issuance costs of $3,471. The monthly installments may be discounted using the auto payment feature offered by the bank. The effective interest rate does not differ significantly from the stated interest rate. The note is secured by the buildings.	428,919	-
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. This mortgage note payable was refinanced in 2017.	-	1,391,239
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.	-	1,357
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.	-	1,352
	2,039,746	1,393,948
Less current portion	(52,964)	(69,055)
Total	$ 1,986,782	$ 1,324,893

NOTE J - LONG-TERM DEBT – CONTINUED

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

2018	$ 52,964
2019	55,031
2020	56,975
2021	59,400
2022	61,716
Thereafter	1,753,660
	$ 2,039,746

Effective July 1, 2017, the Organization adopted the Accounting Standards Update (ASU) 2015-03 *Interest - Imputation of Interest* for the presentation of debt issuance costs and related amortization. Debit issuance costs are now reported on the Statements of Financial Position as a direct deduction from the face amount of the debt. The Organization did not have previous debt issuance costs that required reclassification. The Organization reflects amortization of the debt issuance costs as interest expense in accordance with ASU 2015-03. The adoption of this ASU had no effect on previously reported net assets or change in net assets.

NOTE K - PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the New Mexico Department of Human Services (16% for both years ended June 30, 2017 and 2016) and the New Mexico Department of Health (23% and 22% for the years ended June 30, 2017 and 2016, respectively). Another important source of revenue is the federal contract for custodial work with Kirtland Air Force Base. This contract provided 39% of the total revenue for both 2017 and 2016. A change in these funding sources would require a change in operations.

NOTE L - CLIENT SALARIES EXPENSE

Salaries to persons with disabilities, not including payroll taxes and employee benefits, for the years ended June 30, 2017 and 2016, totaled $1,060,526 and $1,024,519, respectively.

NOTE M - 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, 2017 and 2016.

NOTE M - EMPLOYEE BENEFIT PLANS – CONTINUED

LifeROOTS, Inc. also sponsors a health and welfare plan under US Code Title 29 CFR 4.165-4.175 and Internal Revenue Code 401(a) 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 $4.27 per hour for the years ended June 30, 2017 and 2016. Amounts contributed by LifeROOTS, Inc. into the plan totaled $272,062 and $270,163 for the years ended June 30, 2017 and 2016, respectively.

NOTE N - TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Restricted for time:		
Charitable trusts	$ 749,513	$ 731,958
Transportation program	166,029	172,760
United Way	63,745	64,000
Restricted for purpose:		
Transportation program	71,539	53,309
	$ 1,050,826	$ 1,022,027

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:

	2017	2016
Time restriction accomplished:		
United Way	$ 64,000	$ 68,128
Transportation program	6,731	7,001
Charitable trusts	-	25,378
Purpose restriction accomplished:		
Transportation program	1,770	691
	$ 72,501	$ 101,198

NOTE O - 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 in amounts, if any, 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 P - RELATED PARTY TRANSACTIONS

The Board of Directors and certain employees contribute various amounts in general support of LifeROOTS, Inc. A certain Board of Directors member is also an officer of a bank with which LifeROOTS, Inc. maintains its operating cash account on deposit. Another Board 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 $214,700, which is paid to the respective insurance carriers.

NOTE Q - CHARITABLE TRUSTS

The Organization has a 40% beneficiary share of a certain irrevocable trust. Upon the death of the last income beneficiaries, the trust terminates and the assets of the trust are distributed in full to the principal beneficiaries. The value of the trust at June 30, 2017 and 2016, was $1,262,660 and $1,241,819, of which the Organization's 40% share of the assets is $504,375 and $496,726, respectively. The Organization presently has no management authority regarding how the trust is invested.

The Organization has a beneficiary share of a certain trust. The trust created two trusts - Trust A and Trust B. Upon the death of the last income beneficiary, Trust A terminates and the assets of the trust are distributed in full to the principal beneficiaries. The value of Trust A at June 30, 2017 and 2016 was $1,225,688 and $1,176,151, respectively, of which the Organization's 20% share of the assets is $245,138 and $235,230, respectively. Upon the death of the last Trustor, the assets of Trust B were distributed according to the agreement. The Organization's share was 4%. During fiscal year 2016, the assets of the Trust B were distributed in full. The Organization presently has no management authority regarding how the remaining trust is invested.

NOTE R - NEW ACCOUNTING STANDARDS

1. The Financial Accounting Standards Board (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.

NOTE R - NEW ACCOUNTING STANDARDS - CONTINUED

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, 2018.

2. In February 2016, the FASB issued ASU 2016-02 *Leases* (FASB Codification Topic 842) which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB Codification Topic 840. With this update, GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2019.

3. In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (FASB Codification Topic 958) to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU are as follows:

A. Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a non-for-profit will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.

B. Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item A) rather than that of the currently required three classes. A non-for-profit would continue to report the currently required amount of the change in total net assets for the period.

C. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

NOTE R - NEW ACCOUNTING STANDARDS – CONTINUED

D. Provide the following enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements.
- Method(s) used to allocate costs among program and support functions.
- Underwater endowment funds, which include required disclosures of (1) a not-for-profit's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

E. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.

F. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from *net assets with donor restrictions* to *net assets without donor restrictions* for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

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

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' 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 statements of financial position as of June 30, 2017 and 2016, 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, and have issued our report thereon dated November 9, 2017.

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
November 9, 2017

LifeROOTS, Inc.

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2017

I. Summary of Auditors' 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

IDENTIFICATION OF AUDIT PRINCIPAL

For the Year Ended June 30, 2017

Audit Principal:	Barbara A. Lewis, CPA, CCIFP
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, 2017
Telephone Number:	(505) 843-6492
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