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Proactive.

# LIFEROOTS, INC.

## FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018 and 2017

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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LifeROOTS, Inc.

## OFFICIAL ROSTER

June 30, 2018

### Board of Directors

| | |
|---|---|
| Leslie Strickler | Chairman |
| Jeanne Vigil | Vice Chairman/Treasurer |
| Linda Geiszler | Secretary |
| Maggie Silva | Director |
| Myron Saldyt | Director |
| Carol Guerra | 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
PO BOX 25246, ALBUQUERQUE, NM 87125
T 505 843 6492 F 505 843 6817 ATKINSONCPA.COM

# 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, 2018 and 2017, 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, 2018 and 2017, 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 23, 2018, 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
October 23, 2018

LifeROOTS, Inc.

## STATEMENTS OF FINANCIAL POSITION

June 30,

### ASSETS

| | 2018 | 2017 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 123,649 | $ 164,435 |
| Restricted cash | - | 28,000 |
| Accounts receivable, less allowance for doubtful accounts of $519 in 2018 and $7,030 in 2017 | 311,857 | 410,209 |
| Contracts receivable, less allowance for doubtful accounts of $5,745 in 2018 and $17,989 in 2017 | 326,762 | 332,039 |
| Unconditional promises to give - United Way | - | 63,375 |
| Inventories | 7,386 | 6,996 |
| Prepaid expenses | 48,647 | 75,230 |
| Total current assets | 818,301 | 1,080,284 |
| INVESTMENTS | 7,826 | - |
| PROPERTY AND EQUIPMENT, net | 3,401,036 | 3,247,814 |
| OTHER ASSETS | | |
| Beneficial interest in charitable trusts | 746,980 | 749,513 |
| Agency trust deposits | 23,085 | 32,998 |
| Total other assets | 770,065 | 782,511 |
| Total assets | $ 4,997,228 | $ 5,110,609 |

## LIABILITIES AND NET ASSETS

| | 2018 | 2017 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Line-of-credit | $ 65,000 | $ 100,000 |
| Accounts payable | 274,615 | 284,014 |
| Accrued payroll and related taxes | 150,774 | 135,385 |
| Accrued compensated absences | 121,839 | 110,473 |
| Deferred revenue | 865 | 853 |
| Current portion of long-term debt | 55,031 | 52,964 |
| Current portion of capital lease obligation | 9,436 | 9,045 |
| Total current liabilities | 677,560 | 692,734 |
| LONG-TERM DEBT, less current portion and unamortized debt issuance costs | 1,935,261 | 1,986,782 |
| CAPITAL LEASE OBLIGATION, less current portion | 6,516 | 15,951 |
| Total liabilities | 2,619,337 | 2,695,467 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| NET ASSETS | | |
| Unrestricted net assets | 1,269,419 | 1,364,316 |
| Temporarily restricted net assets | 1,108,472 | 1,050,826 |
| Total net assets | 2,377,891 | 2,415,142 |
| Total liabilities and net assets | $ 4,997,228 | $ 5,110,609 |

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, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| REVENUE AND SUPPORT | | | |
| Revenue: | | | |
| Program service revenue: | | | |
| SourceAmerica and other service contracts | $ 4,143,557 | $ - | $ 4,143,557 |
| Program services fees | 2,033,168 | - | 2,033,168 |
| New Mexico Department of Health contracts | 915,870 | - | 915,870 |
| Other income | 70,033 | - | 70,033 |
| Investment loss, net | (1,641) | - | (1,641) |
| Interest income | 223 | - | 223 |
| Total revenue | 7,161,210 | - | 7,161,210 |
| Support: | | | |
| Grants | 9,500 | 140,195 | 149,695 |
| Contributions: | | | |
| Monetary | 55,820 | - | 55,820 |
| In-kind | 34,102 | - | 34,102 |
| Change in value of charitable trusts | - | (2,533) | (2,533) |
| Total support | 99,422 | 137,662 | 237,084 |
| Total revenue and support before releases | 7,260,632 | 137,662 | 7,398,294 |
| Net assets released from restrictions: | | | |
| Restrictions satisfied by time and expenditures | 80,016 | (80,016) | - |
| EXPENSES | | | |
| Program services: | | | |
| Contracts: | | | |
| Custodial | 3,525,445 | - | 3,525,445 |
| Landscaping and grounds keeping | 62,195 | - | 62,195 |
| Children and therapy | 1,350,071 | - | 1,350,071 |
| Community services: | | | |
| Day habilitation | 696,503 | - | 696,503 |
| Vocational services | 474,833 | - | 474,833 |
| Career discovery | 121,818 | - | 121,818 |
| Literacy | 102,057 | - | 102,057 |
| Total program services | 6,332,922 | - | 6,332,922 |
| Supporting services: | | | |
| Management and general | 1,034,410 | - | 1,034,410 |
| Fundraising | 68,213 | - | 68,213 |
| Total supporting services | 1,102,623 | - | 1,102,623 |
| Total expenses | 7,435,545 | - | 7,435,545 |
| CHANGES IN NET ASSETS | (94,897) | 57,646 | (37,251) |
| Net assets at beginning of year | 1,364,316 | 1,050,826 | 2,415,142 |
| Net assets at end of year | $ 1,269,419 | $ 1,108,472 | $ 2,377,891 |

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, 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.

LifeROOTS, Inc.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

| | Program | | | | |
|---|---|---|---|---|---|
| | Contracts | | | Community | |
| | Custodial | Landscaping and Grounds Keeping | Children and Therapy | Day Habilitation | Vocational Services |
| Salaries and related expenses | | | | | |
| Salaries and wages | $ 363,130 | $ 31,362 | $ 620,584 | $ 445,278 | $ 307,870 |
| Clients and other | 1,008,750 | 10,652 | - | - | 63,079 |
| Payroll taxes | 188,174 | 3,036 | 67,216 | 65,780 | 49,372 |
| Fringe benefits | 308,470 | 82 | 38,495 | 16,509 | 20,488 |
| Total salaries and related expenses | 1,868,524 | 45,132 | 726,295 | 527,567 | 440,809 |
| Other expenses | | | | | |
| Contract labor | 1,279,860 | - | 514,268 | 3,222 | - |
| Supplies | 163,838 | 5,402 | 5,230 | 7,199 | 773 |
| Commissions | 123,591 | - | - | - | - |
| Insurance | 1,474 | - | 21,565 | 1,228 | 733 |
| Interest | 3,349 | - | 11,657 | 27,325 | 393 |
| Transportation services | 30,526 | 3,541 | 18,634 | 6,368 | 16,568 |
| Professional fees | 1,489 | - | 17,372 | 2,600 | 1,390 |
| Repairs and maintenance | 17,094 | 1,388 | 10,263 | 13,972 | 268 |
| Advertising and marketing | 58 | 8 | 126 | 20 | 1,083 |
| Utilities | 1,874 | - | 7,143 | 22,884 | 243 |
| Miscellaneous | 235 | 169 | 33 | 1,974 | 44 |
| In-kind expenses | 2,500 | - | 63 | (164) | 70 |
| Equipment purchases | 9,164 | 2,579 | 1,448 | 2,167 | 1,426 |
| Dues and subscriptions | 1,054 | 73 | 205 | 1,616 | 20 |
| Telephone | 3,047 | 224 | 2,198 | 8,401 | 2,004 |
| Office expense | 1,851 | 81 | 3,246 | 3,048 | 3,564 |
| Bad debt expense | 5,745 | 1,350 | 19 | 6,422 | 3,126 |
| Employment screening | 4,437 | 902 | 2,081 | 1,729 | 1,984 |
| Meetings and conferences | 1,847 | - | 586 | 33 | - |
| Postage | 243 | - | 376 | - | 335 |
| Bank and investment fees | - | - | - | - | - |
| Rent | 111 | 37 | 68 | 148 | - |
| Total expenses before depreciation and amortization | 3,521,911 | 60,886 | 1,342,876 | 637,759 | 474,833 |
| Depreciation and amortization | 3,534 | 1,309 | 7,195 | 58,744 | - |
| Total expenses | $ 3,525,445 | $ 62,195 | $ 1,350,071 | $ 696,503 | $ 474,833 |

| Services | | | Supporting Services | | |
|---|---|---|---|---|---|
| Services | | | | | |
| Career Discovery | Literacy | Subtotal Program Services | Management and General | Fundraising | Total Expenses |
| $ 83,948 | $ 72,710 | $ 1,924,882 | $ 640,613 | $ - | $ 2,565,495 |
| 6,865 | - | 1,089,346 | - | - | 1,089,346 |
| 10,007 | 7,772 | 391,357 | 61,513 | - | 452,870 |
| 1,423 | 6,040 | 391,507 | 26,406 | - | 417,913 |
| 102,243 | 86,522 | 3,797,092 | 728,532 | - | 4,525,624 |
| - | - | 1,797,350 | 2,368 | - | 1,799,718 |
| 5,873 | 393 | 188,708 | 3,281 | - | 191,989 |
| - | - | 123,591 | - | - | 123,591 |
| 256 | 4,117 | 29,373 | 55,888 | - | 85,261 |
| 10,135 | 2,208 | 55,067 | 29,979 | - | 85,046 |
| 427 | 43 | 76,107 | 2,788 | 30 | 78,925 |
| 276 | 3,166 | 26,293 | 39,518 | - | 65,811 |
| 87 | 1,402 | 44,474 | 19,025 | - | 63,499 |
| - | - | 1,295 | 2,871 | 53,701 | 57,867 |
| 85 | 1,364 | 33,593 | 18,513 | - | 52,106 |
| 74 | 44 | 2,573 | 18,918 | 3,782 | 25,273 |
| 1,250 | 110 | 3,829 | 11,158 | 9,500 | 24,487 |
| 152 | 975 | 17,911 | 4,869 | 86 | 22,866 |
| - | - | 2,968 | 18,055 | 720 | 21,743 |
| 253 | - | 16,127 | 5,325 | - | 21,452 |
| 184 | 1,219 | 13,193 | 6,526 | 125 | 19,844 |
| 22 | - | 16,684 | 1,052 | - | 17,736 |
| 236 | 112 | 11,481 | 958 | - | 12,439 |
| 4 | 4 | 2,474 | 1,604 | 269 | 4,347 |
| - | - | 954 | 1,282 | - | 2,236 |
| - | - | - | 1,422 | - | 1,422 |
| - | - | 364 | 534 | - | 898 |
| 121,557 | 101,679 | 6,261,501 | 974,466 | 68,213 | 7,304,180 |
| 261 | 378 | 71,421 | 59,944 | - | 131,365 |
| $ 121,818 | $ 102,057 | $ 6,332,922 | $ 1,034,410 | $ 68,213 | $ 7,435,545 |

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

LifeROOTS, Inc.

## STATEMENTS OF FUNCTIONAL EXPENSES – CONTINUED

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 CASH FLOWS**

For the Years Ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | $ (37,251) | $ (91,050) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 131,365 | 135,621 |
| Change in value of beneficial interest in charitable trusts | 2,533 | (17,555) |
| Donated stock | (11,569) | - |
| Donated furniture and equipment | (2,540) | - |
| Net unrealized loss on investments | 3,743 | - |
| Loss on sale of assets | 4,397 | 5,523 |
| (Recovery) provision for bad debts | (17,736) | 29,867 |
| (Increases) decreases in operating assets: | | |
| Contracts receivable | 5,277 | (50,529) |
| Accounts receivable | 116,088 | (1,847) |
| Unconditional promises to give | 63,375 | 625 |
| Inventories | (390) | (2,715) |
| Prepaid expenses | 26,583 | 8,624 |
| Agency trust deposits | 9,913 | (18,080) |
| Security deposits | - | 2,700 |
| Increases (decreases) in operating liabilities: | | |
| Accounts payable | (9,399) | 15,427 |
| Accrued payroll and related taxes | 15,389 | 9,771 |
| Accrued compensated absences | 11,366 | (1,924) |
| Deferred revenue | 12 | 853 |
| Net cash flows provided by operating activities | 311,156 | 25,311 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (286,444) | (301,212) |
| Proceeds from sale of property and equipment | - | 1,251 |
| Net cash flows (used in) investing activities | (286,444) | (299,961) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net (payments) borrowings on line-of-credit | (35,000) | 100,000 |
| Borrowings on long-term payable | - | 253,761 |
| Mortgage issuance costs | - | (11,645) |
| Principal payments on long-term debt | (49,454) | (33,818) |
| Principal payments on capital lease obligation | (9,044) | (8,670) |
| Net cash flows (used in) provided by financing activities | (93,498) | 299,628 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (68,786) | 24,978 |
| Cash and cash equivalents, beginning of year | 192,435 | 167,457 |
| Cash and cash equivalents, end of year | $ 123,649 | $ 192,435 |

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**

| | 2018 | 2017 |
|---|---|---|
| Cash paid during the year for interest | $ 85,046 | $ 70,402 |
| Donation of materials, supplies, and services | $ 34,102 | $ 33,211 |
| Refinanced mortgage payable | $ - | $ 1,391,239 |
| Asset acquired with long-term debt | $ - | $ 437,500 |

## 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. provides people with disabilities and their families the resources and support they need to empower their lives and shape their futures. 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 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 AbilityOne program, which creates employment opportunities for people with severe disabilities. Examples of these employment opportunities include custodial, landscaping and grounds keeping, and package and assembly positions. In addition, other employment opportunities are created outside of the federal AbilityOne program for individuals with disabilities. Many of these employees are supported on the job through the vocational services program. As of June 30, 2018 and 2017, respectively, approximately 50 and 43 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. All employee opportunities earn Albuquerque minimum wage or are hired in integrated settings.

### Children and Therapy Services

*Children Services* – The majority of services through this division are through the State of New Mexico's Family Infant Toddler (FIT) program. FIT 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

- Feeding services
- Speech, occupational, and physical therapies
- Parenting classes
- Service coordination
- Educational playgroup

*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 and includes the assistance of a feeding specialist.

### 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 including community employment and discovery.

*Vocational Services* – Provide opportunities in the world of work to adults with disabilities. The Organization matches individuals with employers to jobs that fit both parties' needs and abilities. This includes job discovery, job development, training, placement, and maintenance.

*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. <u>Basis of Presentation</u>

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. <u>Use of Estimates</u>

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. <u>Concentrations of Credit Risk</u>

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. <u>Cash and Cash Equivalents</u>

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 $519 and $7,030 was recorded for certain accounts receivable, as of June 30, 2018 and 2017, respectively. An allowance of $5,745 and $17,989 was recorded for certain contracts receivable as of June 30, 2018 and 2017, 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 net realizable value. 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, fixtures and equipment | 3-15 years |
| Vehicles | 5-15 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 $34,102 and $33,211 for the years ended June 30, 2018 and 2017, respectively.

11. Income Taxes

LifeROOTS, Inc. is a not-for-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, 2018 and 2017, 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 2015.

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

During October 2018, the Organization entered into a one-year maintenance and janitorial contract with a local governmental agency with services expecting to begin in December 2018 for approximately $880,000.

Subsequent events have been evaluated through October 23, 2018, 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, 2018. Management believes no other material subsequent events have arisen that would require adjustment or disclosure, except as discussed in Note M.

15. Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 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 | 2018 | 2017 |
|---|---|---|
| Medicaid/DOH | $ 184,213 | $ 224,821 |
| Vocational Services | 110,340 | 92,958 |
| NM Department of Transportation and other | 17,823 | 99,460 |
| Less: Allowance for doubtful accounts | (519) | (7,030) |
| | $ 311,857 | $ 410,209 |

| Contracts Receivable | 2018 | 2017 |
|---|---|---|
| Kirtland Air Force Base | $ 215,992 | $ 234,945 |
| Horizons of New Mexico | 47,511 | 34,477 |
| General Services | 38,433 | 37,137 |
| Adelante Development Corporation | 21,005 | 18,966 |
| National Assessment Group | 5,773 | 5,498 |
| Other | 3,793 | 19,005 |
| Less: Allowance for doubtful accounts | (5,745) | (17,989) |
| | $ 326,762 | $ 332,039 |

## NOTE D – PROPERTY AND EQUIPMENT

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

| | 2018 | 2017 |
|---|---|---|
| Buildings and improvements | $ 3,353,398 | $ 3,353,398 |
| Furniture, fixtures, and equipment | 389,059 | 443,971 |
| Vehicles | 685,713 | 422,670 |
| Leased equipment | 44,670 | 44,670 |
| | 4,472,840 | 4,264,709 |
| Less accumulated depreciation and amortization | (1,576,804) | (1,521,895) |
| | 2,896,036 | 2,742,814 |
| Land | 505,000 | 505,000 |
| | $ 3,401,036 | $ 3,247,814 |

Depreciation expense was $131,365 and $135,621 at June 30, 2018 and 2017, 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, 2018 and 2017.

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

*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, 2018 and 2017:

***Assets at Fair Value as of June 30, 2018***

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Charitable trusts | $ 721,780 | $ 25,200 | $ - | $ 746,980 |
| Equity securities | 7,826 | - | - | 7,826 |
| Total | $ 729,606 | $ 25,200 | $ - | $ 754,806 |

***Assets at Fair Value as of June 30, 2017***

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Charitable trusts | $ 725,513 | $ 24,000 | $ - | $ 749,513 |
| Total | $ 725,513 | $ 24,000 | $ - | $ 749,513 |

Certain assets held in the charitable trusts were reclassified as Level 2 investments for both 2018 and 2017.

## 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 $7,981 and $17,269 in total at June 30, 2018 and 2017, 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 that expire at various dates through October 2018. Rental expense for those leases was $898 and $22,324 for the years ended June 30, 2018 and 2017, respectively.

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

| | |
|---|---|
| 2019 | $ 75 |
| | $ 75 |

## 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 | (29,780) |
| | $ 14,890 |

Minimum future lease payments under the capital lease as of June 30, 2018, were as follows:

| | |
|---|---|
| 2019 | $ 9,930 |
| 2020 | 6,620 |
| Net minimum lease payments | 16,550 |
| Amount representing interest | (598) |
| Present value of net minimum lease payments | $ 15,952 |

## 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% (5.25% at June 30, 2018 and 4.5% at June 30, 2017). As of June 30, 2018 and 2017, the outstanding balance on the line-of-credit was $65,000 and $100,000, 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:

| | 2018 | 2017 |
|---|---|---|
| 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. | $ 1,569,554 | $ 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. | 420,738 | 428,919 |
| | 1,990,292 | 2,039,746 |
| Less current portion | (55,031) | (52,964) |
| Total | $ 1,935,261 | $ 1,986,782 |

## NOTE J – LONG-TERM DEBT – CONTINUED

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

| | |
|---|---|
| 2019 | $ 55,031 |
| 2020 | 56,975 |
| 2021 | 59,399 |
| 2022 | 61,716 |
| 2023 | 64,123 |
| Thereafter | 1,693,048 |
| | $ 1,990,292 |

## NOTE K – PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the New Mexico Department of Human Services (18% and 16% for the years ended June 30, 2018 and 2017, respectively) and the New Mexico Department of Health (21% and 23% for the years ended June 30, 2018 and 2017, respectively). Another important source of revenue is the federal contract for custodial work with Kirtland Air Force Base. This contract provided 37% and 39% of the total revenue for 2018 and 2017, respectively. 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, 2018 and 2017, totaled $1,089,346 and $1,060,526, 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. LifeROOTS, Inc. amended the plan effective July 1, 2018, to permit employer matching contributions for employees who have completed 6 months of service and are at least age 18. The matching contribution will be 50% of 4% of compensation that equals a maximum of 2% of compensation per pay period. No contributions were made to the plan by the Organization for the years ended June 30, 2018 and 2017.

## 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 $4.41 and $4.27 per hour for the years ended June 30, 2018 and 2017, respectively. Amounts contributed by LifeROOTS, Inc. into the plan totaled $280,365 and $272,062 for the years ended June 30, 2018 and 2017, respectively.

## NOTE N – TEMPORARILY RESTRICTED NET ASSETS

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

| | 2018 | 2017 |
|---|---|---|
| Restricted for time: | | |
| Charitable trusts | $ 746,980 | $ 749,513 |
| Transportation program | 292,852 | 166,029 |
| United Way | - | 63,745 |
| Restricted for purpose: | | |
| Transportation program | 68,640 | 71,539 |
| | $ 1,108,472 | $ 1,050,826 |

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:

| | 2018 | 2017 |
|---|---|---|
| Time restriction accomplished: | | |
| United Way | $ 63,745 | $ 64,000 |
| Transportation program | 13,372 | 6,731 |
| Purpose restriction accomplished: | | |
| Transportation program | 2,899 | 1,770 |
| | $ 80,016 | $ 72,501 |

## 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 or receive services 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, 2018 and 2017, was $1,246,888 and $1,262,660, of which the Organization's 40% share of the assets is $498,755 and $504,375, respectively. The Organization presently has no management authority regarding how the trust is invested.

The Organization has a 20% beneficiary share of a certain trust. Upon the death of the last income beneficiary, 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, 2018 and 2017 was $1,241,125 and $1,225,688, respectively, of which the Organization's 20% share of the assets is $248,225 and $245,138, respectively. 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 issued Accounting Standards Update (ASU) 2014-09, *(Topic 606): Revenue from Contracts with Customers* along with several amendments to this ASU, 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, generally accepted accounting principles now will require lessees under operating leases to recognize a liability in the statements 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 statements 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 statements 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 statements 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 statements 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 statements 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.

## NOTE R – NEW ACCOUNTING STANDARDS – CONTINUED

4. In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (FASB Codification Topic 958) to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update clarify the criteria for evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional.

The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, with respect to contributions received and fiscal years beginning after December 15, 2019, with respect to contributions made. Early adoption is permitted.

As of the date of these financial statements, management has evaluated these new ASUs and is working to implement the applicable guidance and requirements in the period the ASUs become effective.

## 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, 2018 and 2017, 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 October 23, 2018.

## 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 23, 2018

LifeROOTS, Inc.

## SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2018

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, 2018

| | |
|---|---|
| Audit Principal: | Barbara A. Lewis, CPA, CCIFP |
| Name and address of independent accounting firm: | Atkinson & Co., Ltd.<br>6501 Americas Parkway NE<br>Suite 700<br>Albuquerque, New Mexico 87110 |
| Audit period: | Year ended June 30, 2018 |
| Telephone Number: | (505) 843-6492 |
| Federal Employee ID Number: | 85-0211867 |

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