

atkinson

Precise.

Personal.

Proactive.

CONTENTS

	Page
OFFICIAL ROSTER.....	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	2-3
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION.....	4
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS.....	5-6
STATEMENTS OF FUNCTIONAL EXPENSES.....	7-8
STATEMENTS OF CASH FLOWS.....	9-10
NOTES TO FINANCIAL STATEMENTS	11-26
SUPPLEMENTARY INFORMATION	
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.....	27-28
SCHEDULE OF FINDINGS AND RESPONSES	29
IDENTIFICATION OF AUDIT PRINCIPAL.....	30

LifeROOTS, Inc.

OFFICIAL ROSTER

June 30, 2020

Board of Directors

Jeanne Vigil	Chairman
Maggie Silva	Vice Chairman
Dawn Esquibel	Treasurer
Linda Geiszler	Secretary
Leslie Stickler	Director
Myron Saldyt	Director
Carol Guerra	Director
Catherine Salazar	Director
Leticia Bernal	Director
Carol Epstein	Director
Simon Kofford	Director

Administrative Personnel

Matthew Molina	Interim CEO/President
----------------	-----------------------

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, 2020 and 2019, 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.

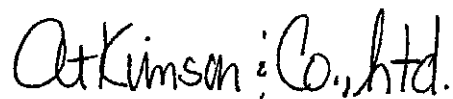
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020 and 2019, 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 30, 2020, 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.

Albuquerque, New Mexico
November 30, 2020

LifeROOTS, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2020	(as restated) 2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 342,939	\$ 64,137
Restricted cash	499,414	20,000
Accounts receivable, less allowance for doubtful accounts of \$10,077 in 2020 and \$6,758 in 2019	118,217	446,826
Contracts receivable	390,506	433,473
Unconditional promises to give - United Way	52,875	42,300
Inventories	10,330	5,850
Prepaid expenses	25,975	56,424
Total current assets	1,440,256	1,069,010
INVESTMENTS	3,928	6,042
PROPERTY AND EQUIPMENT, net	3,364,591	3,357,647
OTHER ASSETS		
Beneficial interest in charitable trusts	662,927	687,914
Agency trust deposits	25,871	29,555
Total other assets	688,798	717,469
Total assets	\$ 5,497,573	\$ 5,150,168

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>(as restated) 2019</u>
CURRENT LIABILITIES		
Lines-of-credit	\$ -	\$ 120,000
Accounts payable	349,194	353,918
Accrued payroll and related taxes	124,852	177,384
Accrued compensated absences	117,457	126,685
Deferred revenue	455	2,615
Current portion of refundable advance	396,369	-
Current portion of capital lease obligation	11,343	10,474
Current portion of long-term debt	<u>63,945</u>	<u>61,141</u>
Total current liabilities	1,063,615	852,217
REFUNDABLE ADVANCE, less current portion	635,741	-
LONG-TERM DEBT, less current portion and unamortized debt issuance costs	1,857,229	1,898,919
CAPITAL LEASE OBLIGATION, less current portion	<u>35,067</u>	<u>46,410</u>
Total liabilities	3,591,652	2,797,546
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Without donor restrictions	1,190,119	1,482,222
With donor restrictions	<u>715,802</u>	<u>870,400</u>
Total net assets	<u>1,905,921</u>	<u>2,352,622</u>
Total liabilities and net assets	<u>\$ 5,497,573</u>	<u>\$ 5,150,168</u>

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
SourceAmerica and other service contracts	\$ 4,301,416	\$ -	\$ 4,301,416
Program services fees	1,538,960	-	1,538,960
New Mexico Department of Health contracts	918,422	-	918,422
Other income	93,482	-	93,482
Interest income	29	-	29
Investment loss, net	(2,114)	-	(2,114)
Total revenue	6,850,195	-	6,850,195
Support:			
United Way allocations	-	52,875	52,875
Grants	7,150	-	7,150
Contributions:			
Monetary	59,854	-	59,854
In-kind	14,840	-	14,840
Change in value of charitable trusts	-	(24,987)	(24,987)
Total support	81,844	27,888	109,732
Total revenue and support before releases	6,932,039	27,888	6,959,927
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	182,486	(182,486)	-
EXPENSES			
Program services:			
Contracts:			
Custodial	3,608,260	-	3,608,260
Landscaping and grounds keeping	153,206	-	153,206
Children and therapy	967,524	-	967,524
Adult enrichment services:			
Day habilitation	768,809	-	768,809
Vocational services	479,126	-	479,126
Career discovery	125,835	-	125,835
Literacy	134,539	-	134,539
Total program services	6,237,299	-	6,237,299
Supporting services:			
Management and general	1,062,903	-	1,062,903
Fundraising	106,426	-	106,426
Total supporting services	1,169,329	-	1,169,329
Total expenses	7,406,628	-	7,406,628
CHANGES IN NET ASSETS	(292,103)	(154,598)	(446,701)
Net assets at beginning of year	1,482,222	870,400	2,352,622
Net assets at end of year	\$ 1,190,119	\$ 715,802	\$ 1,905,921

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, 2019, (as restated)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Revenue:			
Program service revenue:			
SourceAmerica and other service contracts	\$ 4,689,886	\$ -	\$ 4,689,886
Program services fees	1,905,049	-	1,905,049
New Mexico Department of Health contracts	946,369	-	946,369
Other income	109,463	-	109,463
Interest income	181	-	181
Investment loss, net	(1,777)	-	(1,777)
Total revenue	7,649,171	-	7,649,171
Support:			
Grants	31,074	120,186	151,260
United Way allocations	-	42,300	42,300
Contributions:			
Monetary	18,566	20,000	38,566
In-kind	10,581	-	10,581
Change in value of charitable trusts	-	(59,066)	(59,066)
Total support	60,221	123,420	183,641
Total revenue and support before releases	7,709,392	123,420	7,832,812
Net assets released from restrictions:			
Restrictions satisfied by time and expenditures	-	-	-
EXPENSES			
Program services:			
Contracts:			
Custodial	3,773,220	-	3,773,220
Landscaping and grounds keeping	80,022	-	80,022
Children and therapy	1,178,916	-	1,178,916
Adult enrichment services:			
Day habilitation	783,438	-	783,438
Vocational services	577,719	-	577,719
Career discovery	173,285	-	173,285
Literacy	160,104	-	160,104
Total program services	6,726,704	-	6,726,704
Supporting services:			
Management and general	1,063,391	-	1,063,391
Fundraising	67,986	-	67,986
Total supporting services	1,131,377	-	1,131,377
Total expenses	7,858,081	-	7,858,081
CHANGES IN NET ASSETS	(148,689)	123,420	(25,269)
Net assets at beginning of year	1,630,911	746,980	2,377,891
Net assets at end of year	<u>\$ 1,482,222</u>	<u>\$ 870,400</u>	<u>\$ 2,352,622</u>

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

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	Program				
	Contracts			Adult Enrichment	
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation	Vocational Services
Salaries and related expenses					
Salaries and wages	\$ 440,331	\$ 34,380	\$ 476,550	\$ 482,862	\$ 342,093
Clients and other	1,000,749	79,040	-	573	27,194
Fringe benefits	313,599	2,249	27,757	21,408	28,942
Payroll taxes	149,338	14,184	58,828	49,481	44,726
Total salaries and related expenses	1,904,017	129,853	563,135	554,324	442,955
Other expenses					
Contract labor	1,323,598	-	294,298	2,870	-
Bad debt expense	3,398	300	25,019	42,097	8,486
Supplies	166,356	2,366	2,718	5,714	397
Commissions	124,834	-	-	-	-
Interest	4,975	-	10,739	32,168	307
Professional fees	8,299	-	17,646	2,547	5,572
Insurance	1,694	-	18,767	1,971	563
Repairs and maintenance	18,294	5,082	9,059	11,949	791
Transportation services	24,730	5,146	8,221	3,675	9,471
Advertising and marketing	-	25	50	-	25
Utilities	2,050	-	5,369	21,483	161
Miscellaneous	670	475	-	1,174	1,040
Telephone	4,795	565	1,851	5,075	2,921
Dues and subscriptions	794	73	155	4,249	-
Equipment purchases	6,249	1,447	664	1,480	2,414
In-kind expenses	-	-	-	125	-
Office expense	841	61	3,124	1,179	2,927
Employment screening	5,392	1,021	379	2,421	857
Bank and investment fees	-	-	-	-	-
Postage	30	-	290	-	239
Meetings and conferences	571	-	-	-	-
Rent	185	-	94	186	-
Total expenses before depreciation and amortization	3,601,772	146,414	961,578	694,687	479,126
Depreciation and amortization	6,488	6,792	5,946	74,122	-
Total expenses	\$ 3,608,260	\$ 153,206	\$ 967,524	\$ 768,809	\$ 479,126

Services

Supporting Services

Services

Career Discovery	Literacy	Subtotal Program Services	Management and General	Fundraising	Total Expenses
\$ 89,816	\$ 100,931	\$ 1,966,963	\$ 631,053	\$ 26,914	\$ 2,624,930
1,794	-	1,109,350	442	-	1,109,792
1,735	1,481	397,171	43,425	1,990	442,586
9,201	12,925	338,683	42,054	1,919	382,656
102,546	115,337	3,812,167	716,974	30,823	4,559,964
-	-	1,620,766	1,091	210	1,622,067
6,445	4,058	89,803	-	-	89,803
5,608	616	183,775	4,961	-	188,736
-	-	124,834	-	-	124,834
8,244	2,370	58,803	33,572	-	92,375
382	3,784	38,230	55,842	31	94,103
422	4,089	27,506	61,662	-	89,168
618	1,281	47,074	19,322	-	66,396
298	419	51,960	1,302	225	53,487
-	-	100	2,988	50,280	53,368
121	1,170	30,354	17,639	-	47,993
71	52	3,482	25,111	15,255	43,848
73	174	15,454	12,886	89	28,429
-	100	5,371	20,155	50	25,576
95	121	12,470	7,041	53	19,564
-	-	125	6,230	8,485	14,840
258	313	8,703	3,911	852	13,466
384	476	10,930	725	73	11,728
-	-	-	3,693	-	3,693
-	-	559	1,296	-	1,855
-	-	571	851	-	1,422
-	-	465	571	-	1,036
125,565	134,360	6,143,502	997,823	106,426	7,247,751
270	179	93,797	65,080	-	158,877
<u>\$ 125,835</u>	<u>\$ 134,539</u>	<u>\$ 6,237,299</u>	<u>\$ 1,062,903</u>	<u>\$ 106,426</u>	<u>\$ 7,406,628</u>

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

LifeROOTS, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES – CONTINUED

For the Year Ended June 30, 2019

	Program				
	Contracts			Adult Enrichment	
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation	Vocational Services
Salaries and related expenses					
Salaries and wages	\$ 514,461	\$ 39,380	\$ 551,018	\$ 524,762	\$ 405,699
Clients and other	1,032,941	19,070	-	1,340	60,640
Fringe benefits	319,004	487	28,887	13,595	22,366
Payroll taxes	180,669	7,478	60,156	56,546	47,128
Total salaries and related expenses	2,047,075	66,415	640,061	596,243	535,833
Other expenses					
Contract labor	1,301,301	-	436,787	3,697	-
Supplies	202,350	1,038	4,436	7,962	648
Commissions	121,975	-	-	-	-
Insurance	2,035	-	18,568	1,560	968
Interest	3,820	-	10,141	28,661	481
Transportation services	27,387	3,958	15,487	6,425	19,058
Repairs and maintenance	22,474	3,458	8,089	21,646	784
Professional fees	7,270	-	13,342	2,916	789
Advertising and marketing	26	-	1,056	14	182
Utilities	2,260	-	5,683	22,745	275
Miscellaneous	2,463	124	149	1,152	1,223
Equipment purchases	12,306	289	1,440	4,106	2,966
Telephone	4,019	306	1,984	8,037	3,522
Dues and subscriptions	991	73	175	1,547	-
Bad debt expense	193	-	10,000	399	5,937
Office expense	2,421	372	2,292	1,870	1,683
In-kind expenses	-	20	2,215	-	193
Employment screening	6,827	130	858	2,470	2,831
Postage	90	-	318	157	273
Bank and investment fees	-	-	-	-	-
Meetings and conferences	1,206	-	300	-	73
Rent	74	-	68	148	-
Total expenses before depreciation and amortization	3,768,563	76,183	1,173,449	711,755	577,719
Depreciation and amortization	4,657	3,839	5,467	71,683	-
Total expenses	\$ 3,773,220	\$ 80,022	\$ 1,178,916	\$ 783,438	\$ 577,719

Services		Supporting Services			
Services		Subtotal	Management	Fundraising	Total Expenses
Career	Literacy	Program	and General		
Discovery		Services			
\$ 131,527	\$ 122,459	\$ 2,289,306	\$ 636,906	\$ -	\$ 2,926,212
5,678	-	1,119,669	-	-	1,119,669
2,253	5,071	391,663	48,072	-	439,735
13,844	12,345	378,166	52,438	-	430,604
153,302	139,875	4,178,804	737,416	-	4,916,220
-	-	1,741,785	1,075	196	1,743,056
6,595	296	223,325	3,576	-	226,901
-	-	121,975	-	-	121,975
440	5,873	29,444	65,021	-	94,465
8,355	3,119	54,577	34,972	-	89,549
1,392	665	74,372	2,306	4	76,682
92	1,865	58,408	16,352	-	74,760
249	4,027	28,593	44,081	-	72,674
7	7	1,292	4,325	55,353	60,970
113	1,782	32,858	19,979	-	52,837
59	73	5,243	22,381	3,748	31,372
380	117	21,604	7,960	-	29,564
214	29	18,111	7,248	-	25,359
-	-	2,786	20,384	-	23,170
941	213	17,683	-	-	17,683
491	528	9,657	7,776	91	17,524
400	1,000	3,828	5,058	8,521	17,407
(15)	393	13,494	977	73	14,544
-	-	838	1,310	-	2,148
-	-	-	1,991	-	1,991
-	-	1,579	150	-	1,729
-	-	290	581	-	871
173,015	159,862	6,640,546	1,004,919	67,986	7,713,451
270	242	86,158	58,472	-	144,630
\$ 173,285	\$ 160,104	\$ 6,726,704	\$ 1,063,391	\$ 67,986	\$ 7,858,081

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

	2020	(as restated) 2019
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contract service fees received	\$ 4,318,836	\$ 4,588,727
Program services fees received	1,646,514	1,869,261
New Mexico Department of Health contract fees received	952,347	942,802
Contributions received	229,490	62,814
Other cash receipts	1,105,530	52,234
Payments for salaries, benefits and payroll taxes	(4,596,737)	(4,825,698)
Payments to vendors	(2,465,840)	(2,606,000)
Interest paid	(92,375)	(89,549)
	<u>1,097,765</u>	<u>(5,409)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(165,821)	(37,685)
Proceeds from sale of property and equipment	-	12,120
	<u>(165,821)</u>	<u>(25,565)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) borrowings on line-of-credit	(120,000)	55,000
Principal payments on long-term debt	(43,254)	(53,982)
Principal payments on capital lease obligation	(10,474)	(9,556)
	<u>(173,728)</u>	<u>(8,538)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	758,216	(39,512)
Cash and cash equivalents, beginning of year	<u>84,137</u>	<u>123,649</u>
Cash and cash equivalents, end of year	<u><u>\$ 842,353</u></u>	<u><u>\$ 84,137</u></u>

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

	<u>2020</u>	<u>(as restated) 2019</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (446,701)	\$ (25,269)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	158,877	144,630
Change in value of beneficial interest in charitable trusts	24,987	59,066
Net unrealized loss on investments	2,114	1,777
(Gain) on sale of assets	-	(1,431)
Provision for bad debts	89,803	17,683
Amortization of debt issuance costs	4,368	-
(Increases) decreases in operating assets:		
Contracts receivable	39,269	(106,992)
Accounts receivable	242,504	(152,371)
Unconditional promises to give	(10,575)	(42,300)
Inventories	(4,480)	1,536
Prepaid expenses	30,449	(7,777)
Agency trust deposits	3,684	(6,470)
Increases (decreases) in operating liabilities:		
Accounts payable	(4,724)	79,303
Accrued payroll and related taxes	(52,532)	26,610
Accrued compensated absences	(9,228)	4,846
Deferred revenue	(2,160)	1,750
Refundable advance	1,032,110	-
	<u>\$ 1,097,765</u>	<u>\$ (5,409)</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2020</u>	<u>2019</u>
Donation of materials, supplies, and services	<u>\$ 14,840</u>	<u>\$ 10,581</u>
Asset acquired with long-term debt	<u>\$ -</u>	<u>\$ 23,750</u>
Asset acquired under a capital lease obligation	<u>\$ -</u>	<u>\$ 60,194</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

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:

Net Assets Without Donor Restrictions – represent net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – represent net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met either by actions of LifeROOTS, Inc. and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. LifeROOTS, Inc. does not have any donor-imposed restrictions that are perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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. Restricted cash consists of the refundable advance at June 30, 2020 and for the purchase of vehicles at June 30, 2019.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 without donor restriction 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 when the assets are placed in service.

Conditional promises to give, those with a measurable performance or other barrier and a right of return, 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 \$10,077 and \$6,758 was recorded for certain accounts receivable as of June 30, 2020 and 2019, respectively. No allowance was recorded for certain contracts receivable as of June 30, 2020 and 2019. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

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:

<u>Classification</u>	<u>Depreciable Lives</u>
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 restricted support. Absent explicit donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions 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 \$14,840 and \$10,581 for the years ended June 30, 2020 and 2019, 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

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, 2020 and 2019, 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 2017.

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 using a square-footage basis, number of employees, or both.

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. There was no advertising expenses recorded as prepaid expenses at June 30, 2020 and 2019.

14. Change in Accounting Principle

During 2020, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*. The update provides clarity for evaluating whether transaction should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The ASU has been applied retrospectively to all periods presented. There was no effect on net assets amounts or classifications as a result of this change.

15. Subsequent Events

Subsequent events have been evaluated through November 30, 2020, 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, 2020. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE C – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the balance sheet, comprise the following:

	2020	(as restated) 2019
Cash and cash equivalents	\$ 342,939	\$ 64,137
Accounts receivable	118,217	446,826
Contracts receivable	390,506	433,473
Promises to give	52,875	42,300
Investments	3,928	6,042
Less: Transportation grant receivable	-	(120,186)
	<u>\$ 908,465</u>	<u>\$ 872,592</u>

As part of the Organization's liquidity plan, cash in excess of daily requirements is maintained in a money market account making it available for any unexpected liquidity needs. The Organization also has a total of \$300,000 available to draw against on the lines-of-credit.

NOTE D – 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:

<u>Accounts Receivable</u>	2020	(as restated) 2019
Medicaid/DOH	\$ 106,445	\$ 271,936
Vocational Services	21,849	61,567
NM Department of Transportation and other	-	120,081
Less: Allowance for doubtful accounts	(10,077)	(6,758)
	<u>\$ 118,217</u>	<u>\$ 446,826</u>
 <u>Contracts Receivable</u>	 2020	 2019
Kirtland Air Force Base	\$ 231,178	\$ 229,334
Horizons of New Mexico	74,832	109,995
General Services	54,028	39,401
Adelante Development Corporation	21,496	40,739
Other	8,219	10,867
National Assessment Group	753	3,137
	<u>\$ 390,506</u>	<u>\$ 433,473</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE E – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 3,353,398	\$ 3,353,398
Furniture, fixtures, and equipment	416,207	411,917
Vehicles	873,684	712,153
Leased equipment	<u>60,194</u>	<u>60,194</u>
	4,703,483	4,537,662
Less accumulated depreciation and amortization	<u>(1,843,892)</u>	<u>(1,685,015)</u>
	2,859,591	2,852,647
Land	<u>505,000</u>	<u>505,000</u>
	<u>\$ 3,364,591</u>	<u>\$ 3,357,647</u>

Depreciation expense was \$158,877 and \$144,630 for the years ended June 30, 2020 and 2019, respectively.

NOTE F – 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE F – FAIR VALUE MEASUREMENTS – CONTINUED

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

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, 2020 and 2019:

Assets at Fair Value as of June 30, 2020

	Level 1	Level 2	Level 3	Total
Charitable trusts	\$ 641,927	\$ 21,000	\$ -	\$ 662,927
Equity securities	3,928	-	-	3,928
Total	<u>\$ 645,855</u>	<u>\$ 21,000</u>	<u>\$ -</u>	<u>\$ 666,855</u>

Assets at Fair Value as of June 30, 2019

	Level 1	Level 2	Level 3	Total
Charitable trusts	\$ 666,914	\$ 21,000	\$ -	\$ 687,914
Equity securities	6,042	-	-	6,042
Total	<u>\$ 672,956</u>	<u>\$ 21,000</u>	<u>\$ -</u>	<u>\$ 693,956</u>

NOTE G – AVAILABLE CREDIT

The Organization has obtained several credit cards with a maximum aggregate limit of \$146,000. The outstanding balances on credit cards was \$10,269 and \$9,896 in total at June 30, 2020 and 2019, respectively, and are included in accounts payable in the accompanying financial statements. The credit cards bear interest at rates ranging from 10.49% to 13.99% on any outstanding balances and no collateral is required.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE H – OPERATING LEASE OBLIGATIONS

LifeROOTS, Inc. has several non-cancelable operating leases, primarily for equipment, that expire at various dates through June 2022. Rental expense for those leases was \$360 and \$871 for the years ended June 30, 2020 and 2019, respectively.

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

2021	\$	360
2022		<u>330</u>
	\$	<u>690</u>

NOTE I – CAPITAL LEASE OBLIGATION

LifeROOTS, Inc. leases office equipment under a capital lease expiring in 2024. During 2019, the Organization upgraded the equipment under the lease, thereby canceling the existing lease and entering into a new lease. 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 the capital lease:

Office equipment	\$	60,194
Accumulated depreciation		<u>(16,050)</u>
	\$	<u>44,144</u>

Minimum future lease payments under the capital lease as of June 30, 2020, were as follows:

2021	\$	14,646
2022		14,646
2023		14,646
2024		<u>9,765</u>
Net minimum lease payments		53,703
Amount representing interest		<u>(7,293)</u>
Present value of net minimum lease payments	\$	<u>46,410</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE J – REFUNDABLE ADVANCE

On May 7, 2020, LifeROOTS, Inc. received a low interest loan in the amount of \$1,032,110 under the Paycheck Protection Program (PPP) administered by the Small Business Administration as a result of the novel strain of coronavirus (COVID-19) outbreak. The PPP loan is unsecured and bears interest at 1%. Funds advanced under the program are subject to forgiveness to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the twenty-four week period beginning on the loan origination date). In addition, employers must maintain specified employment and wage levels, and submit adequate documentation of such expenditures to qualify for loan forgiveness.

If the criteria are not met, the remaining unforgiven balance is due in eighteen monthly installments as determined by the bank beginning December 7, 2020, and maturing May 8, 2022.

Maturities on the refundable advance are as follows for the year ending June 30, 2020:

2021	\$	396,369
2022		<u>635,741</u>
	\$	<u>1,032,110</u>

As of the date of these financial statements, the Organization has not applied for forgiveness.

NOTE K – LINES-OF-CREDIT

During fiscal year 2019, the Organization obtained a line-of-credit from a lending institution for an amount up to \$100,000. The line-of-credit is secured by the Organization's real estate, inventory, chattel paper, accounts, equipment and other properties and is subordinate to the mortgage notes payable. Draws on the line-of-credit bear interest at 8% at June 30, 2020 and 2019. As of June 30, 2020 and 2019, the outstanding balance on the line-of-credit was \$0 and \$20,000, respectively. The line-of-credit has a maturity date of December 15, 2020.

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% (3.75% at June 30, 2020 and 5.75% at June 30, 2019). As of June 30, 2020 and 2019, the outstanding balance on the line-of-credit was \$0 and \$100,000, respectively. The line-of-credit has no stated maturity date; however, it is due on demand.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE L – LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</u>
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 debt issuance costs of \$8,174 and \$5,109 at June 30, 2020 and 2019, respectively. 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.	\$ 1,497,130	\$ 1,526,673
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 debt issuance costs of \$3,471 and \$2,169 at June 30, 2020 and 2019, respectively. The 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.	407,092	412,238
Note payable to a bank, due in monthly installments of \$490, including principal and interest at 8.750%, maturing November 2023. The note is secured by a vehicle.	<u>16,952</u>	<u>21,149</u>
	1,921,174	1,960,060
Less current portion	<u>(63,945)</u>	<u>(61,141)</u>
Total	<u>\$ 1,857,229</u>	<u>\$ 1,898,919</u>

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

2021	\$ 63,945
2022	66,676
2023	69,535
2024	68,484
2025	69,216
Thereafter	<u>1,583,318</u>
	<u>\$ 1,921,174</u>

At June 30, 2020, the Organization was in compliance with all covenants required by its lenders.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE M – PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the New Mexico Department of Human Services (20% and 18% for the years ended June 30, 2020 and 2019, respectively) and the New Mexico Department of Health (15% and 17% for the years ended June 30, 2020 and 2019, respectively). Another important source of revenue is the federal contract for custodial work with Kirtland Air Force Base. This contract provided 40% and 34% of the total revenue for 2020 and 2019, respectively. A change in these funding sources would require a change in operations.

NOTE N – CLIENT SALARIES EXPENSE

Salaries to persons with disabilities, not including payroll taxes and employee benefits, for the years ended June 30, 2020 and 2019, totaled \$1,109,792 and \$1,119,669, respectively.

NOTE O – 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 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 contributions are 50% of 4% of compensation that equals a maximum of 2% of compensation per pay period. Amounts contributed by LifeROOTS, Inc. into the plan totaled \$10,911 and \$15,176 for the years ended June 30, 2020 and 2019.

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 \$4.54 and \$4.48 per hour for the years ended June 30, 2020 and 2019, respectively. Amounts contributed by LifeROOTS, Inc. into the plan totaled \$291,246 and \$282,320 for the years ended June 30, 2020 and 2019, respectively.

NOTE P – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

	2020	(as restated) 2019
Restricted for time:		
Charitable trusts	\$ 662,927	\$ 687,914
United Way	52,875	42,300
Transportation program	-	120,186
Restricted for purpose:		
Transportation program	-	20,000
	<u>\$ 715,802</u>	<u>\$ 870,400</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE P – NET ASSETS WITH DONOR RESTRICTIONS – CONTINUED

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

	<u>2020</u>	<u>2019</u>
Time restriction accomplished:		
Transportation program	\$ 120,186	\$ -
United Way	42,300	-
Purpose restriction accomplished:		
Transportation program	<u>20,000</u>	<u>-</u>
	<u>\$ 182,486</u>	<u>\$ -</u>

NOTE Q – 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 R – 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 S – 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, 2020 and 2019, was \$1,114,184 and \$1,194,125, of which the Organization's 40% share of the assets is \$445,674 and \$477,650, respectively. The Organization presently has no management authority regarding how the trust is invested.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE S – CHARITABLE TRUSTS – CONTINUED

The Organization has a 16.67% 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, 2020 and 2019 was \$1,303,518 and \$1,261,584, respectively, of which the Organization's 16.67% share of the assets is \$217,253 and \$210,264, respectively. The Organization presently has no management authority regarding how the remaining trust is invested.

NOTE T – RESTATEMENT

During 2020, the Organization determined that the New Mexico Department of Transportation award included conditions that the Organization did not meet and do not intend to meet. Because the award included these conditions, the amount recognized as revenue in 2019 was incorrect. Accounts receivable, grant revenues and net assets with donor restrictions were reduced by \$137,827 from the balances previously reported.

NOTE U – 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.

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, 2019. The FASB offered an additional one year deferral of adoption of this new standard as a result of the coronavirus pandemic for any organization that had not issued their financial statement prior to the pandemic outbreak.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE U – NEW ACCOUNTING STANDARDS – CONTINUED

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, 2021.

3. In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958) to increase the transparency of contributed nonfinancial assets. The amendments in this update enhance presentation and disclosure for contributed nonfinancial assets. The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after June 15, 2021. 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

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, 2020 and 2019, 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 30, 2020.

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 30, 2020

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2020

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
 - Significant deficiencies identified Yes None Reported

II. Financial Statement Audit Findings

None

III. Financial Statement Audit Findings – Prior year

None

IDENTIFICATION OF AUDIT PRINCIPAL

For the Year Ended June 30, 2020

Audit Principal:	<u>Barbara A. Lewis, CPA, CCIFP</u>
Name and address of independent accounting firm:	<u>Atkinson & Co., Ltd.</u> <u>6501 Americas Parkway NE</u> <u>Suite 700</u> <u>Albuquerque, New Mexico 87110</u>
Audit period:	<u>Year ended June 30, 2020</u>
Telephone Number:	<u>(505) 843-6492</u>
Federal Employee ID Number:	<u>85-0211867</u>

ATKINSON & CO. LTD

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

6501 AMERICAS PARKWAY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817
ATKINSONCPA.COM