

LIFEROOTS, INC.
**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**
YEARS ENDED JUNE 30, 2022 AND 2021



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LIFEROOTS, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
LifeROOTS, Inc.
Albuquerque, New Mexico

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of LifeROOTS, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LifeROOTS, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LifeROOTS, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

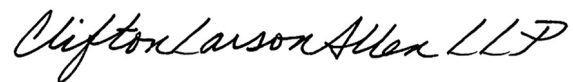
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LifeROOTS, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
LifeROOTS, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2023, 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 solely 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 effectiveness of LifeROOTS, Inc.'s 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Albuquerque, New Mexico
May 18, 2023

LIFEROOTS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 618,911	\$ 1,606,287
Accounts Receivable, Less Allowance for Doubtful Accounts of \$10,077 in both 2022 and 2021	170,285	117,074
Contracts Receivable	431,386	440,654
Inventories	8,787	9,055
Prepaid Expenses	19,286	14,850
Total Current Assets	1,248,655	2,187,920
 INVESTMENTS	 4,576	 7,739
 PROPERTY AND EQUIPMENT, Net	 3,138,100	 3,235,510
 OTHER ASSETS		
Beneficial Interest in Charitable Trusts	509,179	596,176
Agency Trust Deposits	6,712	63,946
Total Other Assets	515,891	660,122
Total Assets	\$ 4,907,222	\$ 6,091,291

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2022 AND 2021

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 313,866	\$ 192,331
Accrued Payroll and Related Taxes	95,518	110,988
Accrued Compensated Absences	115,751	81,519
Other Liabilities	-	1,081
Refundable Advance	-	831,869
Current Portion of Capital Lease Obligation	10,079	12,285
Current Portion of Long-Term Debt, Less Unamortized Debt Issuance Costs	63,266	59,034
Total Current Liabilities	598,480	1,289,107
LONG-TERM DEBT , Less Current Portion and Unamortized Debt Issuance Costs	1,751,595	1,810,433
CAPITAL LEASE OBLIGATION , Less Current Portion	15,682	22,782
Total Liabilities	2,365,757	3,122,322
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Without Donor Restrictions	2,032,286	2,372,793
With Donor Restrictions	509,179	596,176
Total Net Assets	2,541,465	2,968,969
Total Liabilities and Net Assets	\$ 4,907,222	\$ 6,091,291

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Revenue:			
Program Service Revenue:			
SourceAmerica and Other Service Contracts	\$ 4,571,031	\$ -	\$ 4,571,031
Program Services Fees	1,011,602	-	1,011,602
New Mexico Department of Health Contracts	380,089	-	380,089
Other Income	87,592	-	87,592
Interest Income	204	-	204
Investment Loss, Net	(3,162)	-	(3,162)
Total Revenue	6,047,356	-	6,047,356
Support:			
Grants	63,851	-	63,851
Contributions:			
Paycheck Protection Program (PPP) Funding	845,200	-	845,200
Monetary	20,374	-	20,374
In-Kind	2,641	-	2,641
Change in Value of Charitable Trusts	-	(86,997)	(86,997)
Total Support	932,066	(86,997)	845,069
Total Revenue and Support	6,979,422	(86,997)	6,892,425
EXPENSES			
Program Services:			
Contracts:			
Custodial	3,883,625	-	3,883,625
Landscaping and Grounds Keeping	56,739	-	56,739
Children and Therapy	809,791	-	809,791
Adult Enrichment Services:			
Day Habilitation	777,087	-	777,087
Vocational Services	205,061	-	205,061
Career Discovery	234,238	-	234,238
Literacy	23,966	-	23,966
Total Program Services	5,990,507	-	5,990,507
Supporting Services:			
Management and General	1,319,897	-	1,319,897
Fundraising	9,525	-	9,525
Total Supporting Services	1,329,422	-	1,329,422
Total Expenses	7,319,929	-	7,319,929
CHANGES IN NET ASSETS	(340,507)	(86,997)	(427,504)
Net Assets - Beginning of Year	2,372,793	596,176	2,968,969
NET ASSETS - END OF YEAR	\$ 2,032,286	\$ 509,179	\$ 2,541,465

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Revenue:			
Program Service Revenue:			
SourceAmerica and Other Service Contracts	\$ 4,701,554	\$ -	\$ 4,701,554
Program Services Fees	709,901	-	709,901
New Mexico Department of Health Contracts	109,390	-	109,390
Other Income	29,206	-	29,206
Interest Income	967	-	967
Investment Gain, Net	3,811	-	3,811
Total Revenue	5,554,829	-	5,554,829
Support:			
Grants	9,501	-	9,501
Contributions:			
Paycheck Protection Program (PPP) Funding	1,242,229	-	1,242,229
Monetary	23,522	-	23,522
In-Kind	7,946	-	7,946
Change in Value of Charitable Trusts	-	82,045	82,045
Total Support	1,283,198	82,045	1,365,243
Total Revenue and Support	6,838,027	82,045	6,920,072
Net Assets Released From Restrictions	52,875	(52,875)	-
EXPENSES			
Program Services:			
Contracts:			
Custodial	3,540,009	-	3,540,009
Landscaping and Grounds Keeping	116,550	-	116,550
Children and Therapy	566,854	-	566,854
Adult Enrichment Services:			
Day Habilitation	229,132	-	229,132
Vocational Services	251,394	-	251,394
Career Discovery	13,322	-	13,322
Literacy	15,594	-	15,594
Total Program Services	4,732,855	-	4,732,855
Supporting Services:			
Management and General	920,997	-	920,997
Fundraising	54,376	-	54,376
Total Supporting Services	975,373	-	975,373
Total Expenses	5,708,228	-	5,708,228
CHANGES IN NET ASSETS	1,182,674	29,170	1,211,844
Net Assets - Beginning of Year	1,190,119	567,006	1,757,125
NET ASSETS - END OF YEAR	\$ 2,372,793	\$ 596,176	\$ 2,968,969

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services							Supporting Services			Total Expenses
	Contracts		Children and Therapy	Adult Enrichment Services				Total Program Services	Management and General	Fundraising	
	Custodial	Landscaping and Grounds Keeping		Day Habilitation	Vocational Services	Career Discovery	Literacy				
Salaries and Related Expenses:											
Salaries and Wages	\$ 362,834	\$ 1,664	\$ 374,228	\$ 499,037	\$ 162,605	\$ 182,139	\$ 5,348	\$ 1,587,855	\$ 620,391	\$ -	\$ 2,208,246
Clients and Other	1,484,430	25,702	-	985	-	-	-	1,511,117	4,611	-	1,515,728
Fringe Benefits	35,107	4,376	9,146	6,096	17,301	5,529	-	77,555	17,592	-	95,147
Payroll Taxes	167,581	16,109	32,277	41,184	13,625	15,036	349	286,161	264,233	-	550,394
Total Salaries and Related Expenses	2,049,952	47,851	415,651	547,302	193,531	202,704	5,697	3,462,688	906,827	-	4,369,515
Other Expenses:											
Contract Labor	1,409,608	868	295,460	748	-	-	-	1,706,684	17,106	-	1,723,790
Supplies	188,068	136	1,066	12,560	260	3,483	25	205,598	10,055	-	215,653
Commissions	133,570	-	-	-	-	-	-	133,570	-	-	133,570
Insurance	2,249	-	24,918	2,617	748	561	5,429	36,522	82,752	-	119,274
Interest	3,967	-	10,893	27,685	318	7,920	2,341	53,124	35,148	-	88,272
Professional Fees	8,225	-	21,677	2,623	650	488	4,723	38,386	71,991	-	110,377
Repairs and Maintenance	31,301	328	11,035	55,705	260	2,183	1,890	102,702	28,804	-	131,506
Advertising and Marketing	-	-	-	-	-	-	-	-	27,464	4,027	31,491
Utilities	1,285	-	5,003	16,380	150	676	1,090	24,584	16,616	-	41,200
Transportation Services	26,272	943	1,123	1,658	5,227	936	15	36,174	1,615	-	37,789
Bad Debt Expense	600	-	19	1,273	94	1,799	-	3,785	-	-	3,785
Telephone	3,947	-	2,153	6,003	782	2,847	1,037	16,769	11,528	-	28,297
Equipment Purchases	10,161	-	1,561	19,198	2,407	6,665	1,396	41,388	8,442	-	49,830
Dues and Subscriptions	1,390	-	1,748	747	-	-	-	3,885	9,728	-	13,613
Employment Screening	3,742	62	425	2,977	-	695	73	7,974	1,565	66	9,605
In-Kind Expenses	-	-	-	-	-	-	-	-	2,641	-	2,641
Miscellaneous	381	89	441	1,232	88	936	-	3,167	5,937	5,404	14,508
Office Expense	1,164	-	8,798	3,226	546	1,430	214	15,378	5,922	28	21,328
Bank and Investment Fees	-	-	-	-	-	-	-	-	1,843	-	1,843
Postage	-	67	269	73	-	-	-	409	1,592	-	2,001
Rent	243	-	123	244	-	-	-	610	387	-	997
Total Expenses Before Depreciation and Amortization	3,876,125	50,344	802,363	702,251	205,061	233,323	23,930	5,893,397	1,247,963	9,525	7,150,885
Depreciation and Amortization	7,500	6,395	7,428	74,836	-	915	36	97,110	71,934	-	169,044
Total Expenses by Function	\$ 3,883,625	\$ 56,739	\$ 809,791	\$ 777,087	\$ 205,061	\$ 234,238	\$ 23,966	\$ 5,990,507	\$ 1,319,897	\$ 9,525	\$ 7,319,929

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program Services							Supporting Services			
	Contracts		Children and Therapy	Adult Enrichment Services				Total Program Services	Management and General	Fundraising	Total Expenses
	Custodial	Landscaping and Grounds Keeping		Day Habilitation	Vocational Services	Career Discovery	Literacy				
Salaries and Related Expenses:											
Salaries and Wages	\$ 351,555	\$ 2,068	\$ 283,843	\$ 69,532	\$ 188,256	\$ -	\$ -	\$ 895,254	\$ 496,906	\$ 7,470	\$ 1,399,630
Clients and Other	1,153,262	69,494	-	-	-	-	-	1,222,756	-	-	1,222,756
Fringe Benefits	167,738	4,246	7,677	9,009	28,645	748	288	218,351	39,048	-	257,399
Payroll Taxes	127,049	16,304	23,193	7,152	18,811	-	-	192,509	52,220	615	245,344
Total Salaries and Related Expenses	1,799,604	92,112	314,713	85,693	235,712	748	288	2,528,870	588,174	8,085	3,125,129
Other Expenses:											
Contract Labor	1,331,523	4,789	175,143	60	-	-	-	1,511,515	14,572	-	1,526,087
Supplies	155,120	1,415	737	450	40	33	91	157,886	644	-	158,530
Commissions	130,410	-	-	-	-	-	-	130,410	-	-	130,410
Professional Fees	5,993	-	16,498	1,750	685	353	3,419	28,698	52,115	-	80,813
Interest	4,596	-	11,360	31,490	328	8,779	2,534	59,087	36,283	-	95,370
Bad Debt Expense	26,922	-	19	-	2,877	-	-	29,818	-	-	29,818
Insurance	2,150	-	23,824	2,503	715	536	5,191	34,919	79,122	-	114,041
Repairs and Maintenance	29,128	7,008	7,370	9,650	337	232	1,373	55,098	20,937	-	76,035
Transportation Services	24,215	1,147	86	119	4,256	-	-	29,823	731	-	30,554
Advertising and Marketing	191	-	1,623	-	-	-	-	1,814	1,272	45,178	48,264
Utilities	1,504	-	4,397	14,718	132	99	958	21,808	14,600	-	36,408
Miscellaneous	926	405	85	225	-	-	-	1,641	2,485	224	4,350
Telephone	4,667	225	1,642	3,876	2,475	948	1,435	15,268	10,182	-	25,450
Dues and Subscriptions	2,276	-	360	354	-	-	-	2,990	14,264	-	17,254
Equipment Purchases	9,181	1,448	1,277	4,349	3,342	1,324	138	21,059	1,888	-	22,947
In-Kind Expenses	-	-	-	-	-	-	-	-	7,446	500	7,946
Office Expense	430	19	200	75	-	-	-	724	3,196	43	3,963
Employment Screening	4,563	649	1,025	-	485	-	-	6,722	1,483	346	8,551
Bank and Investment Fees	-	-	-	-	-	-	-	-	2,696	-	2,696
Postage	125	113	455	-	10	-	-	703	1,118	-	1,821
Rent	185	-	94	186	-	-	-	465	381	-	846
Total Expenses Before Depreciation and Amortization	3,533,709	109,330	560,908	155,498	251,394	13,052	15,427	4,639,318	853,589	54,376	5,547,283
Depreciation and Amortization	6,300	7,220	5,946	73,634	-	270	167	93,537	67,408	-	160,945
Total Expenses by Function	\$ 3,540,009	\$ 116,550	\$ 566,854	\$ 229,132	\$ 251,394	\$ 13,322	\$ 15,594	\$ 4,732,855	\$ 920,997	\$ 54,376	\$ 5,708,228

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Contract Service Fees Received	\$ 4,539,286	\$ 4,630,259
Program Services Fees Received	992,193	730,893
New Mexico Department of Health Contract Fees Received	383,734	81,496
Contributions Received	86,308	1,117,938
Other Cash Receipts	87,797	30,173
Payments for Salaries, Benefits and Payroll Taxes	(4,350,753)	(3,174,931)
Payments to Vendors	(2,512,071)	(2,471,558)
Interest Paid	(77,160)	(84,258)
Net Cash Provided (Used) by Operating Activities	(850,666)	860,012
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(71,634)	(31,864)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments On Long-Term Debt	(55,770)	(52,871)
Principal Payments On Capital Lease Obligation	(9,306)	(11,343)
Net Cash Used by Financing Activities	(65,076)	(64,214)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(987,376)	763,934
Cash and Cash Equivalents - Beginning of Year	1,606,287	842,353
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 618,911	\$ 1,606,287

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ (427,504)	\$ 1,211,844
Adjustments to Reconcile Changes in Net Assets To Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	169,044	160,945
Change in Value of Beneficial Interest in Charitable Trusts	86,997	(82,045)
Net Unrealized (Gain) Loss On Investments	3,162	(3,811)
Provision for Bad Debts	3,785	29,818
Amortization of Debt Issuance Costs	1,164	1,164
(Increases) Decreases in Operating Assets:		
Contracts Receivable	9,268	(53,044)
Accounts Receivable	(56,995)	(25,779)
Unconditional Promises to Give	-	52,875
Inventories	268	1,275
Prepaid Expenses	(4,436)	11,125
Agency Trust Deposits	57,234	(38,075)
Increases (Decreases) in Operating Liabilities:		
Accounts Payable	121,535	(156,863)
Accrued Payroll and Related Taxes	(15,470)	(13,864)
Accrued Compensated Absences	34,232	(35,938)
Other Liabilities	(1,081)	626
Refundable Advance	(831,869)	(200,241)
Net Cash Provided (Used) by Operating Activities	\$ (850,666)	\$ 860,012
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Donation of Materials, Supplies, and Services	\$ 2,641	\$ 7,946
Payroll Protection Program Interest Forgiven	\$ 9,705	\$ 9,948

See accompanying Notes to Financial Statements.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

LifeROOTS, Inc. (the Organization) is a New Mexico nonprofit 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.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Operations (Continued)

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
- 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.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Operations (Continued)

Adult Enrichment Services (Continued)

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

Subsequent to June 30, 2022, the board of directors of LifeROOTS, Inc. voted to discontinue all adult enrichment services.

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

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.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

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.

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.

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.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give, Contributions, and Public Support (Continued)

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.

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 was recorded for certain accounts receivable at June 30, 2022 and 2021. No allowance was recorded for certain contracts receivable at June 30, 2022 and 2021. Contract revenue is billed and recognized as revenue as services are rendered under the respective contract.

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.

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 3 to 39 years.

The major classifications of property and equipment and the related depreciable lives are as follows:

Buildings and Improvements	15 to 39 Years
Furniture, Fixtures, and Equipment	3 to 15 Years
Vehicles	5 to 15 Years

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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.

Revenue and Revenue Recognition

Program service fee revenues from janitorial, grounds keeping, early invention services, development disabilities services and other vocational services are recognized at the estimated realizable amounts when the performance obligation of providing the services are met and transferred at over time. Third-party payors, New Mexico Department of Health and New Mexico Department of Human Services revenues are also recognized when the performance obligation of providing the services are met and transferred over time.

Donated Services and Materials

Donated services are recognized as contributions in accordance with generally accepted accounting standards if the services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and would otherwise be purchased by LifeROOTS, Inc. LifeROOTS, Inc. receives donated assets and services from businesses in their community. In addition, other services are provided by volunteers who perform a variety of tasks that benefit all of LifeROOTS programs. These volunteer services are not recognized as contributions in the accompanying financial statements if they do not meet the recognition criteria under generally accepted accounting standards. In 2022, the Organization adopted Accounting Standards Update (ASU) 2020-07 – *Not-for-Profit Entities* (Topic 958) which increases the transparency of donated goods and services (contributed nonfinancial assets). See note 18.

Supplies, materials, equipment, and services were donated to LifeROOTS, Inc. and are recorded at their estimated values of \$2,641 and \$7,946 for the years ended June 30, 2022 and 2021, respectively.

Income Taxes

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

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021, 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 2019.

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.

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 were no advertising expenses recorded as prepaid expenses at June 30, 2022 and 2021.

Subsequent Events

Subsequent events have been evaluated through May 18, 2023, 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, 2022.

Subsequent to year-end the Organization has borrowed \$140,000 against their lines of credit (see Note 10) and closed their Adult Enrichment Services program (see Note 1).

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statements of financial position, comprise the following and June 30:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 618,911	\$ 1,606,287
Accounts Receivable, Net	170,285	117,074
Contracts Receivable	431,386	440,654
Investments	4,576	7,739
Total	<u>\$ 1,225,158</u>	<u>\$ 2,171,754</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 outstanding lines of credit.

NOTE 3 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>2022</u>	<u>2021</u>
<u>Accounts Receivable</u>		
Medicaid/DOH	\$ 112,878	\$ 111,078
Vocational Services	67,484	16,073
Less: Allowance for Doubtful Accounts	(10,077)	(10,077)
Total	<u>\$ 170,285</u>	<u>\$ 117,074</u>
 <u>Contracts Receivable</u>		
Kirtland Air Force Base	\$ 303,741	\$ 235,312
General Services	51,540	50,739
Horizons of New Mexico	50,273	118,092
Adelante Development Corporation	22,093	21,600
National Assessment Group	3,329	6,527
Other	410	8,384
Total	<u>\$ 431,386</u>	<u>\$ 440,654</u>

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	<u>2022</u>	<u>2021</u>
Buildings and Improvements	\$ 3,375,407	\$ 3,362,578
Furniture, Fixtures, and Equipment	487,790	434,205
Vehicles	878,370	878,370
Leased Equipment	60,194	60,194
Subtotal	<u>4,801,761</u>	<u>4,735,347</u>
Less: Accumulated Depreciation and Amortization	<u>(2,168,661)</u>	<u>(2,004,837)</u>
Subtotal	2,633,100	2,730,510
Land	505,000	505,000
Total Property and Equipment	<u>\$ 3,138,100</u>	<u>\$ 3,235,510</u>

Depreciation expense was \$169,044 and \$160,945 for the years ended June 30, 2022 and 2021, respectively.

NOTE 5 FAIR VALUE MEASUREMENTS

U.S. GAAP 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.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 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, 2022 and 2021.

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. LifeROOTS, Inc. is considered to have a unit of interest in the trust and therefore this investment is treated as a Level 3 investment. Unobservable inputs would include the amount and timing of future distributions from the trust.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022 and 2021:

	Level 1	Level 2	Level 3	Total
<u>June 30, 2022</u>				
Charitable Trusts	\$ -	\$ -	\$ 509,179	\$ 509,179
Equity Securities	4,576	-	-	4,576
Total	<u>\$ 4,576</u>	<u>\$ -</u>	<u>\$ 509,179</u>	<u>\$ 513,755</u>
<u>June 30, 2021</u>				
Charitable Trusts	\$ -	\$ -	\$ 596,176	\$ 596,176
Equity Securities	7,739	-	-	7,739
Total	<u>\$ 7,739</u>	<u>\$ -</u>	<u>\$ 596,176</u>	<u>\$ 603,915</u>

The following table provides a reconciliation of the Level 3 measurements:

	2022	2021
Beginning Balance	\$ 596,176	\$ 514,131
Unrealized Gains (Losses)	(86,997)	82,045
Ending Balance	<u>\$ 509,179</u>	<u>\$ 596,176</u>

NOTE 6 AVAILABLE CREDIT

The Organization has obtained several credit cards with a maximum aggregate limit of \$146,000. The outstanding balances on credit cards was \$368 and \$13 in total at June 30, 2022 and 2021, respectively, and are included in accounts payable in the accompanying financial statements. The credit cards bear interest at rates ranging from 11.99% to 18.49% on any outstanding balances and no collateral is required.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 7 OPERATING LEASE OBLIGATION

LifeROOTS, Inc. has a noncancelable operating lease, for postage equipment, that expires in June 2022. Rental expense for this lease was \$360 for both years ended June 30, 2022 and 2021. The lease was renewed and extended to June 15, 2025. The annual rental expense for the renewed lease is \$398.

Future minimum lease payments under the noncancelable operating lease are as follows for the years ending June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 398
2024	398
2025	398
Total	<u>\$ 1,194</u>

NOTE 8 CAPITAL LEASE OBLIGATION

LifeROOTS, Inc. leases office equipment under a capital lease expiring in 2024. 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>(40,127)</u>
Total	<u>\$ 20,067</u>

Minimum future lease payments under the capital lease as of June 30, 2022 were as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 11,775
2024	<u>15,840</u>
Net Minimum Lease Payments	27,615
Amount Representing Interest	<u>(1,854)</u>
Present Value of Net Minimum Lease Payments	25,761
Current Portion of Capital Lease Obligation	<u>10,079</u>
Capital Lease Obligation, Less Current Portion	<u>\$ 15,682</u>

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 PAYCHECK PROTECTION PROGRAM

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 (SBA) as a result of the novel strain of coronavirus (COVID-19) outbreak. The PPP loan was unsecured and bore interest at 1%. Funds advanced under the program were subject to forgiveness to the extent that employers incurred and spent the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the 24-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.

On May 4, 2021, the Organization received a second low interest loan in the amount of \$1,032,040 under the PPP administered by the SBA as part of the CARES Act. 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.

The Organization accounts for the PPP loans as conditional contributions. Therefore, the loans are recorded as a refundable advance. As of June 30, 2022, and 2021, \$831,869 and \$1,232,281 of the funds received under the PPP loan was spent on qualified expenditures plus interest of \$9,705 and \$9,948 in 2022 and 2021, respectively, and are recognized as contribution revenue in the accompanying financial statements. Management believes that all specific required employment and wage levels have also been met. The Organization applied for and received forgiveness on the first PPP loan during fiscal year 2021. The Organization applied for and received forgiveness on the second PPP loan during fiscal year 2023. The forgiveness payment was \$1,045,371 which includes the forgivable loan amount of \$1,032,040 plus interest accrued through the date of payment.

The SBA may still review funding eligibility and usages of fund for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material impact on the Organization's financial position.

NOTE 10 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 7% at June 30, 2022 and 8% at 2021. The outstanding balance on the line of credit was \$-0- as of June 30, 2022 and 2021. The line of credit has a maturity date of December 15, 2023. Subsequent to year-end, the Organization used this line of credit and borrowed \$100,000.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 10 LINES OF CREDIT (CONTINUED)

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, 2022 and 3.75% at June 30, 2021). The outstanding balance on the line of credit was \$-0- as of June 30, 2022 and 2021. The line of credit has no stated maturity date; however, it is due on demand. Subsequent to year-end, the Organization used this line of credit and borrowed \$40,000.

NOTE 11 LONG-TERM DEBT

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

<u>Description</u>	<u>2022</u>	<u>2021</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 \$3,475 and \$4,292 at June 30, 2022 and 2021, 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.	\$ 1,421,300	\$ 1,467,061
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 \$1,475 and \$1,822 at June 30, 2022 and 2021, 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.	<u>393,561</u>	<u>402,406</u>
Total	1,814,861	1,869,467
Less: Current Portion	<u>(63,266)</u>	<u>(59,034)</u>
Total Long-Term Debt	<u><u>\$ 1,751,595</u></u>	<u><u>\$ 1,810,433</u></u>

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 11 LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending June 30.</u>	<u>Amount</u>
2023	\$ 63,266
2024	65,603
2025	68,384
2026	71,096
2027	1,546,512
Total	<u>\$ 1,814,861</u>

At June 30, 2022, the Organization was in compliance with all covenants required by its lenders.

NOTE 12 PRIMARY FUNDING SOURCES

A significant portion of the Organization's funding is received from the federal contract for custodial work with Kirtland Air Force Base which provided 42% of the total revenue for both 2022 and 2021. A change in this funding source would require a change in operations.

NOTE 13 CLIENT SALARIES EXPENSE

Salaries to persons with disabilities, not including payroll taxes and employee benefits, for the years ended June 30, 2022 and 2021, totaled \$1,515,728 and \$1,222,756, respectively.

NOTE 14 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 six 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 \$2,265 and \$6,782 for the years ended June 30, 2022 and 2021, respectively.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 14 EMPLOYEE BENEFIT PLANS (CONTINUED)

LifeROOTS, Inc. also sponsored 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 enters LifeROOTS, Inc. into with certain government agencies or similar entities. LifeROOTS, Inc. was obligated to provide certain fringe benefits under these contracts. The fringe benefit amount was \$4.54 per hour for the year ended June 30, 2021. Amounts contributed by LifeROOTS, Inc. into the plan totaled \$-0- and \$135,847 for the years ended June 30, 2022 and 2021, respectively. During 2021, the Organization elected to start paying the fringe benefit in cash and terminated the health and welfare plan.

NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Subject to the Passage of Time:		
Charitable Trusts	\$ 509,179	\$ 596,176
Total Net Assets with Donor Restrictions	<u>\$ 509,179</u>	<u>\$ 596,176</u>

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 for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Expiration of Time Restrictions:		
United Way	\$ -	\$ 52,875
Total Net Assets Released from Donor Restrictions	<u>\$ -</u>	<u>\$ 52,875</u>

NOTE 16 COMMITMENTS AND CONTINGENCIES

From time to time, the Organization is party to various legal actions arising in the normal course of business. Management believes there is no pending or threatened litigation against the Organization that would have a material impact on the accompanying financial statements.

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.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 17 RELATED PARTY TRANSACTIONS

The board of directors and certain employees contribute various amounts or provide services in general support of LifeROOTS, Inc. A certain 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 \$186,000, which is paid to the respective insurance carriers.

NOTE 18 DONATED GOODS AND SERVICES

LifeROOTS, Inc. received the following contributions of donated goods and services for the years ending June 30:

	2022	2021
Bank Fees Waived	\$ 2,107	\$ 2,380
Professional Services	380	-
Event Tickets	154	-
Security and Computer Equipment	-	4,766
Advertising	-	500
Merchandise and Gift Cards	-	225
Bank Fee Rebate	-	75
Total Nonfinancial Assets	\$ 2,641	\$ 7,946

The valuation methods used by LifeROOTS, Inc. for each nonfinancial asset received is the actual value as provided by the donor, actual cost, or estimates based on current rates that are publicly available.

All donated goods and services were utilized in general and administrative supporting services.

NOTE 19 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 remaining assets of the trust are distributed in full to the principal beneficiaries. The value of the trust at June 30, 2022 and 2021, was \$1,058,930 and \$1,273,994, of which the Organization's 40% beneficial interest is \$423,572 and \$346,300, respectively. The Organization presently has no management authority regarding how the trust is invested.

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, 2022 and 2021 was \$1,285,579 and \$1,499,257, respectively, of which the Organization's 16.67% beneficial interest is \$214,263 and \$249,876, respectively. The Organization presently has no management authority regarding how the remaining trust is invested.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 20 CONTRACTS WITH CUSTOMERS

The following table represents program service fee revenues for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Janitorial Services	\$ 4,489,536	\$ 4,486,365
Early Intervention Services	833,543	631,633
Development Disabilities Services	558,148	187,658
Grounds Keeping Services	26,003	159,945
Vocational Services	55,492	55,244
Total	<u>\$ 5,962,722</u>	<u>\$ 5,520,845</u>
Services Transferred Over Time	<u>\$ 5,962,722</u>	<u>\$ 5,520,845</u>

Accounts and contract receivables at July 1, 2020 was \$561,598.

There are no significant amounts of contract assets or liabilities at June 30, 2022 or 2021.

NOTE 21 NEW ACCOUNTING STANDARD

In February 2016, the FASB issued ASU 2016-02 *Leases* (ASC Topic 842) which significantly changes the accounting for leases in the financial statements of lessees and supersedes ASC Topic 840. With this update, U.S. GAAP 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, 2021.

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

NOTE 22 CONTINUING OPERATIONS

The accompanying financial statements have been prepared with a view to continuing operations, which assumes that the Organization will be able to continue operations for a period beyond one year from the date of these financial statements.

LIFEROOTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 22 CONTINUING OPERATIONS (CONTINUED)

The Organization incurred a \$427,504 excess of expenses over revenues for the year ended June 3, 2022, revenues have declined over the previous year and the cash position of the Organization has substantially declined over the past year. The Organization also has \$1.7 million of debt to service that comes due in 2026. In addition, the chief executive officer of the Organization was terminated subsequent to year-end. These factors create substantial doubt regarding the Organization's ability to going as a going concern.

Management has a reasonable expectation that the Organization can develop adequate resources to continue in operational existence for the foreseeable future based on the following plans:

- The Organization has replaced and hired a new chief executive officer.
- The Organization closed its two Adult Care Service Centers in an effort to cut costs.
- The Organization has begun working on expanding services into the home visiting arena. They are working through the application this month and are expected to be awarded the contract by the end of June. This will allow the Organization to extend the ages from birth to five years of age allowing them to assist more children and ultimately increase our monthly billing of services through cross referrals.
- The Organization has listed it's Rio Rancho location for sale which will reduce its debt service obligations.
- The Organization is looking to rent the second Adult Care Service Center space to an outside third party.
- The Organization is expecting an approximately \$600,000 Employee Retention Credit that was filed for in December 2022.
- Two new contracts have been signed with the City of Albuquerque for contract related services.
- A new service line in the contract area for floor and carpet care is being developed and the job services contract that the Organization provided prior to the pandemic is being revitalized.

Overall, management's plans alleviate the substantial doubt regarding the Organization's ability to continue as a going concern.



**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.
Albuquerque, New Mexico

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of LifeROOTS, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2023.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 that we considered to be a material weakness.

Report on Compliance and Other Matters

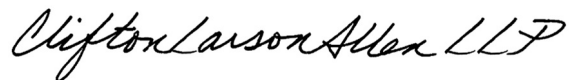
As part of obtaining reasonable assurance about whether LifeROOTS, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

LifeROOTS, Inc.'s Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on LifeROOTS' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. LifeROOTS' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
May 18, 2023

LIFEROOTS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022

Section I – Summary of Auditors’ Results

Type of auditors’ report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____ x _____ yes	_____ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	_____ x _____ none reported
Noncompliance material to financial statements noted?	_____ yes	_____ x _____ no

Section II – Current Year Financial Statement Findings

2022-001 Internal Control over Financial Reporting, Adjusting Journal Entries and Financial Close:

Type of Finding:

Material Weakness in Internal Control over Financial Reporting, Adjusting Journal Entries and Financial Close

Condition: The Organization did not reconcile and adjust certain financial account balances and certain adjusting journal entries prepared by the finance manager were not reviewed and approved by another appropriate individual.

Criteria: According to accounting principles generally accepted in the United States of America, all reporting of financial information must be materially accurate.

Effect: Journal entries recorded to the Organization’s financial records that have not been reviewed and approved by another responsible individual could result in inaccurate reporting of financial information. Material audit adjustments were made to properly report financial information including adjustments to split interest agreements, property, plant and equipment, and refundable advances relating to the Payroll Protection Program.

Cause: The Organization experienced employee turnover and continues to experience effects of the COVID-19 pandemic. This has resulted in adjusting journal entries not being reviewed and approved by the Treasurer of the Board as had previously been performed and final adjustments were not made to all financial account balances as part of the year-end financial close as a result of employee turnover and time restrictions imposed on the finance manager.

Recommendation: We recommend the Organization implement policies, procedures, and checklists to ensure adjusting journal entries made to the financial accounting records be reviewed and approved, reconciliations on all account balances be performed, and where applicable, fair value calculations be performed prior to final year-end close to ensure that financial information reported is materially accurate.

LIFEROOTS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022

Section II – Current Year Financial Statement Findings

Management Response: A new Treasurer was elected by the board of directors in June 2022. As her first official duty, she came to the office and reviewed all available 2021-2022 journal entries and signed off on them. Due to a resignation and reshuffling of the Board a new Treasurer was elected in August 2022. There were a few adjustments prepared by the Finance Director for June 30, 2022, that have yet to be reviewed by the new Treasurer. None of the 2022-2023 journal entries have been approved by the Treasurer since we have continued the practice of meeting online instead of in person. The Finance Director will request the newest Treasurer to come to the office at his earliest convenience to review the remaining journal entries from 2021-2022 and all the entries from 2022-2023 that require his approval. The Finance Director will also request a regular meeting time with the Treasurer for the reviewing entries.

The Finance Director plans to add a quarterly reconciliation of all key financial account balances to her tasks to make sure that all material adjustments to account balances are prepared prior to the closing of the annual records.

Section III – Prior Year Financial Statement Findings

Prior Year Findings	Status
2021-001 Internal Control over Financial Reporting, Adjusting Journal Entries and Financial Close Significant Deficiency	Repeated as 2022-001



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