HINKLE + LANDERS
Certified Public Accountants + Business Consultants

LIFEROOTS, INC.
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

For the Year Ended June 30, 2023, With Comparative Totals for 2022

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Albuquerque, NM 87102
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LifeROOTS, INC.
OFFICIAL ROSTER
As of June 30, 2023

Board of Directors

Name	Title
Maggie Silva	Chairman
Carol Epstein	Vice Chairman
Cathy Salazar	Secretary
Mike Teske	Treasurer
Carol Guerra	Director
Myron Saldyt	Director

Principal Administration

Name	Title
Dwanna Cooper	CEO/President
Michelle Hayden	Finance Director

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Board of Directors and Management
LifeROOTS, Inc.
Albuquerque, NM

Opinion

We have audited the accompanying financial statements of the LifeROOTS, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, LifeROOTS has adopted the new accounting guidance ASU 2016-02, Leases (Topic 842). LifeROOTS has elected to apply the new lease standard using the "transition method," which allows the presentation of leases through a cumulative effect adjustment based on when the organization initially implements the standard. Therefore, right-of-use assets - operating leases and lease liabilities have been presented in the current year but are not presented in the prior year. This implementation of the new accounting principle had no material impact on beginning net assets. Our opinion is not modified with respect to this matter. Lease disclosures for the year ended June 30, 2022, are made under prior lease guidance in FASB ASC 840.

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.

Auditor's 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 auditor's 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2024, 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 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.

<u>Report on Prior Year Summarized Comparative Information</u>

The prior year summarized comparative information has been derived from LifeROOTS's June 30, 2022, financial statements. Those financial statements were audited by other auditors, whose report dated May 18, 2023 expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent with the audited financial statements from which it has been derived.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
February 27, 2024

LIFEROOTS, INC.

STATEMENT OF FINANCIAL POSITION

As of June 30, 2023, with Comparative Totals for 2022

	Notes	2023	2022
ASSETS			
Current assets			
Cash, restricted cash, and cash equivalents	2	$ 1,012,106	618,911
Accounts receivable, less allowance for doubtful accounts	6	96,380	170,284
Contracts receivable	6	507,054	431,386
Inventories		6,414	8,787
Prepaid expenses	4	24,622	19,286
Total current assets		1,646,576	1,248,654
Long-term assets			
Investments	7	1,840	4,576
Property and equipment, net	10	2,942,879	3,138,100
Right-to-use leased assets, net	10, 16	49,204	-
Beneficial interest in charitable trusts	8	518,637	509,179
Agency trust deposits	5	313,404	6,712
Total long-term assets		3,825,964	3,658,567
Total assets		$ 5,472,540	4,907,221
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable		$ 416,462	313,866
Payroll and payroll related liabilities		92,283	95,518
Accrued compensated absences		93,679	115,751
Refundable advances	12	85,736	-
Line of credit	18	140,000	-
Current portion of operating lease liabilities	16	9,327	-
Current portion of finance lease liabilities	15	-	10,079
Current portion of long-term debt	14	62,902	63,266
Total current liabilities		900,389	598,480
Long-term liabilities			
Notes payable, less current portion	14	1,694,591	1,751,595
Obligations under operating lease, less current portion	16	39,877	-
Obligations under finance lease, less current portion	15	-	15,682
Total long-term liabilities		1,734,468	1,767,277
Total liabilities		2,634,857	2,365,757
NET ASSETS			
Without donor restrictions			
Undesignated		1,133,660	647,810
Investment in property and equipment		1,185,386	1,297,478
With donor restrictions			
Purpose/time restricted net assets	22	518,637	596,176
Total net assets		2,837,683	2,541,464
Total liabilities and net assets		$ 5,472,540	4,907,221

The independent auditor's report and accompanying notes are an integral part of these financial statements.

LIFEROOTS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023, with Comparative Totals for 2022

	2023			2022
SUPPORT AND REVENUE	Without Donor Restrictions	With Donor Restrictions	Total	Total
Program Service Revenue:				
Source America and other service contracts	$ 5,497,697	-	5,497,697	4,571,030
Program service fees	865,959	-	865,959	1,011,690
NM Department of Health contracts	609,891	-	609,891	380,088
Other income	58,317	-	58,317	87,154
Interest income	30,174	-	30,174	204
Gain (loss) on asset disposition	745	-	745	-
Investment income (loss), net	(2,736)	-	(2,736)	(3,162)
Total program service revenue	7,060,047	-	7,060,047	6,047,004
Support:				
Grants	-	-	-	63,851
Contributions:				
Paycheck Protection Program (PPP) funding	-	-	-	845,552
CARES Act credits and reimbursements	923,761	-	923,761	-
Monetary	16,148	-	16,148	20,374
In-kind	2,472	-	2,472	2,641
Change in value of charitable trusts	-	9,458	9,458	(86,997)
Net assets released from restrictions	-	-	-	-
	942,381	9,458	951,839	845,421
Total Revenue and Support	8,002,428	9,458	8,011,886	6,892,425
EXPENSES				
Program services				
Contracts:				
Custodial	4,628,641	-	4,628,641	3,883,625
Landscaping and grounds keeping	18,044	-	18,044	56,739
Children and Therapy	645,842	-	645,842	809,791
Adult Enrichment Services:				
Day habilitation	752,600	-	752,600	777,087
Vocational services	190,721	-	190,721	205,061
Career discovery	274,388	-	274,388	234,238
Literacy	-	-	-	23,966
Total program services	6,510,236	-	6,510,236	5,990,507
Supporting Services:				
Management and general	1,198,169	-	1,198,169	1,319,897
Fundraising	7,262	-	7,262	9,525
Total supporting services	1,205,431	-	1,205,431	1,329,422
Total expenses	7,715,667	-	7,715,667	7,319,929
Change in net assets	286,761	9,458	296,219	(427,504)
Net assets, beginning of year	2,032,285	509,179	2,541,464	2,968,968
Net assets, end of year	$ 2,319,046	518,637	2,837,683	2,541,464

The independent auditor's report and accompanying notes are an integral part of these financial statements.

LIFEROOTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2023, with Comparative Totals for 2022

	2023										2022
	Program Services							Supporting Services			
	Contracts			Adult Enrichment Services							
	Custodial	Landscaping and Grounds Keeping	Children and Therapy	Day Habilitation	Vocational Services	Career Discovery	Total Program Services	Management and General	Fundraisings	Total Expenses	Total Expenses
Salaries and Related Expenses:											
Salaries and wages	$ 449,314	140	299,113	512,118	149,357	209,425	1,619,467	550,961	-	2,170,428	2,206,255
Clients and other	1,672,761	-	-	-	625	-	1,673,386	4,094	-	1,677,480	1,517,716
Fringe benefits	66,530	-	15,589	22,956	18,488	-	123,563	28,015	-	151,578	95,150
Payroll taxes	194,640	17,904	25,537	49,943	12,778	19,808	320,610	46,685	-	367,295	550,393
Total salaries and related	2,383,245	18,044	340,239	585,017	181,248	229,233	3,737,026	629,755	-	4,366,781	4,369,514
Other Expenses:											
Contract labor	1,789,222	-	278,016	1,335	-	148	2,068,721	24,082	-	2,092,803	1,723,790
Supplies	222,784	-	2,190	6,538	70	2,733	234,315	4,014	-	238,329	215,560
Professional fees	6,992	-	-	90	-	90	7,172	171,522	-	178,694	110,378
Commissions	158,999	-	-	-	-	-	158,999	-	-	158,999	133,570
Insurance	-	-	-	-	-	-	-	131,811	-	131,811	119,274
Repairs and maintenance	23,835	-	2,657	17,350	3,622	4,706	52,170	30,096	-	82,266	131,507
Interest	390	-	198	24,883	-	9,860	35,331	41,071	-	76,402	88,273
Utilities	268	-	-	18,677	-	5,958	24,903	24,541	-	49,444	41,200
Transportation services	26,368	-	1,967	2,141	2,949	1,467	34,892	1,407	-	36,299	37,790
Bad debt expense	-	-	3,069	13,016	1,364	16,126	33,575	-	-	33,575	3,785
Telephone	2,443	-	1,688	5,353	1,420	1,263	12,167	16,137	-	28,304	28,297
Dues and subscriptions	841	-	2,630	719	-	111	4,301	12,369	-	16,670	13,613
Office expense	250	-	4,723	3,705	48	357	9,083	4,531	-	13,614	21,329
Advertising and marketing	225	-	45	-	-	-	270	9,098	802	10,170	31,557
Miscellaneous	-	-	-	-	-	-	-	1,339	6,460	7,799	14,299
Employment screening	4,001	-	776	496	-	233	5,506	932	-	6,438	9,742
Equipment purchases	2,106	-	-	86	-	-	2,192	1,549	-	3,741	49,831
Postage	-	-	-	-	-	-	-	2,501	-	2,501	2,001
In-kind expenses	-	-	-	150	-	-	150	2,322	-	2,472	2,641
Bank and investment fees	-	-	-	-	-	-	-	1,228	-	1,228	1,843
Rent	269	-	414	154	-	20	857	193	-	1,050	997
Training	-	-	-	-	-	475	475	-	-	475	-
Curriculum expense	-	-	-	-	-	80	80	-	-	80	94
Total expense before depreciation and amortization	4,622,238	18,044	638,612	679,710	190,721	272,860	6,422,185	1,110,498	7,262	7,539,945	7,150,885
Depreciation and amortization	6,403	-	7,230	72,890	-	1,528	88,051	87,671	-	175,722	169,044
Total expenses by function	$ 4,628,641	18,044	645,842	752,600	190,721	274,388	6,510,236	1,198,169	7,262	7,715,667	7,319,929

LIFEROOTS, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2023, with Comparative Totals for 2022

		2023	2022
Cash Flows From Operating Activities			
Cash receipts from contract service fees received	$	5,571,601	4,539,286
Cash receipts from program service fees received		790,291	992,193
Cash receipts from NM Department of Health contract fees received		609,891	383,734
Cash receipts from contributions received		939,909	86,308
Cash receipts from other cash receipts		88,491	87,797
Cash paid to employees and suppliers		(7,573,326)	(6,862,824)
Interest paid		(76,402)	(77,160)
Cash provided by (used for) operating activities		350,455	(850,666)
Cash Flows From Investing Activities			
Purchases of property and equipment		(6,873)	(71,634)
Proceeds from sale/disposition of equipment		19,597	-
Cash provided by (used for) investing activities		12,724	(71,634)
Cash Flows From Financing Activities			
Line of credit proceeds		140,000	-
Principal payments on long-term debt		(57,368)	(55,770)
Principal payments on lease obligations		(52,616)	(9,306)
Cash provided by (used for) financing activities		30,016	(65,076)
Net increase (decrease) in cash and cash equivalents		393,195	(987,376)
Beginning cash, restricted cash, and cash equivalents		618,911	1,606,287
Ending cash, restricted cash, and cash equivalents	$	1,012,106	618,911

RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

		2023	2022
Change in net assets	$	296,219	(427,504)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation and amortization		175,722	169,044
Change in value of beneficial interest in charitable trusts		(9,458)	86,997
Net unrealized (gain)/loss on investments		2,736	3,162
Provision for bad debts		33,575	3,785
Amortization of debt issuance costs		1,164	1,164
Other non-cash adjustment		(745)	-
(Increases) decreases in operating assets:			
(Increase) decrease in contract receivables		73,904	9,268
(Increase) decrease in accounts receivables		(75,668)	(56,995)
(Increase) decrease in inventories		2,373	268
(Increase) decrease in prepaid expense		(5,336)	(4,436)
(Increase) decrease in trust deposits		(306,692)	57,234
Increase (decrease) in operating liabilities:			
Increase (decrease) in accounts payable		102,596	121,535
Increase (decrease) in payroll and related taxes		(3,235)	(15,470)
Increase (decrease) in compensated absences		(22,072)	34,232
Increase (decrease) in other liabilities		(364)	(1,081)
Increase (decrease) in refundable advance		85,736	(831,869)
Cash provided by (used for) operating activities	$	350,455	(850,666)

Additional information	2023	2022
in-kind services	2,472	2,487
Other in-kind	-	154

The independent auditor's report and accompanying notes are an integral part of these financial statements.

LIFEROOTS, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023, with Comparative Totals for 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

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 with 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 2021, 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
- 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 to individuals to 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:

- Carrer Readiness
- Language Arts
- Math
- Continued Learning

The Adult Enrichment services program was discontinued in April 2023.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statement is as follows:

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

2. Recently Issued and Adopted Accounting Standards

LifeROOTS, Inc. has adopted Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), a new accounting standard which requires a change in accounting principle related to recognition of lease liabilities and assets for non-cancellable agreements greater than one year in duration. The adoption of ASU 2016-02 had no material impact on the Organization's financial statements. Under the previous accounting standard, LifeROOTS, Inc. classified leases as either operating or capital leases based on specified criteria, with only capital leases being recognized on the statement of financial position.

LifeROOTS has elected to apply the new lease standard using the "transition method," which allows the presentation of leases through a cumulative effect adjustment based on when the organization initially implements the standard. Therefore, right-of-use assets-operating leases and lease liabilities have been presented in the current year but are not presented in the prior year. LifeROOTS, Inc. now recognizes capital leases as finance leases and recognizes interest expense on the outstanding lease liability. The implementation of the new accounting principle had no material impact on beginning net assets.

3. Basis of Presentation

LifeROOTS, Inc., prepares financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 and subsections Financial Statements of Not-for-Profit Organizations. Under 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Net Assets without Donor Restrictions—Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

The net assets without donor restrictions represent the investment in unrestricted assets and the investment in property and equipment, less accumulated depreciation and related debt, when applicable.

Net Assets with Donor Restrictions—Net assets with temporary donor restrictions are the result of contributions and other inflows of assets that are subject to stipulations imposed by donors and grantors. These restrictions can be fulfilled and removed by actions of the Organization pursuant to those stipulations or by the passage of time. The expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Other donor restrictions are perpetual in nature. Net assets with restrictions perpetual in nature result from contributions and other inflows of assets, the use of which is limited by donor-imposed stipulations that cannot be removed by actions of LifeROOTS. LifeROOTS did not have any net assets with restrictions that are perpetual in nature at the end of fiscal years ending June 30, 2023 and 2022 respectively. See Note 22 for donor restrictions for the years ended June 30, 2023, and 2022.

4. Cash, Restricted Cash, and Cash Equivalents

LifeROOTS, Inc., considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. LifeROOTS, Inc. maintains deposits in financial institutions that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). Management believes that there is not a significant risk with respect to these deposits. See Note 2 for cash accounts.

5. Accounts Receivables and Allowance for Doubtful Accounts

Contracts, grants, and other receivables are stated at unpaid balances, less an allowance for doubtful accounts. Management estimates the adequacy of the allowance for uncollectible receivables based on historical collections, specific impaired receivables, and other situations that may affect the collection of the receivables. Receivables are charged off in the period in which the Management determines the receivable is uncollectible. See Note 5 for the amounts of allowance for doubtful accounts recorded.

6. Investments

Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded on a specific identification method upon the sale of investment assets. Quoted market prices, when available, are used to value investments. Purchases and sales of securities are recorded on a trade-date basis. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Realized and unrealized gains and losses, as well as investment expenses, are reflected within the investment return, net, in the statement of activities. Investment income and gains (losses) restricted by donors are reported as increases (decreases) in net assets without donor restrictions unless donor-imposed restrictions have not been met in the reporting period in which the income and gains are recognized. Investments are intended for long-term purposes but are available for current use. Investments can be accessed within 12 months and there are no lock-up provisions or external restrictions or pledges against these investments.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

7. Prepaid Expense

Prepaid expenses represent insurance premiums paid at the end of the fiscal year for the coverage that extends through part of the following year, and other miscellaneous expenses.

8. 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 with the first-in, first-out method.

9. Property, Equipment, and Depreciation

Property and equipment are stated at cost if purchased and at fair value at the date of contribution for donated assets. All acquisitions of property and equipment in excess of $500 and all expenditures for maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Repairs and maintenance are expensed as incurred. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets as follows:

Classification	Estimated useful lives
Buildings and improvements	15-39 years
Furniture, fixtures and equipment	3-15 years
Vehicles	5 -15 years

10. Right-of-Use Leased Assets

LifeROOTS has recorded right-of-use leased assets as a result of implementing FASB ASU 842. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred. Lease liabilities are initially and subsequently recognized based on the present value of their future lease payments.

ROU assets for operating leases are subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Amortization for right-of-use leased assets is computed using the straight-line method over the shorter of the lease term or the asset's estimated useful life.

LifeROOTS has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

LifeROOTS has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The risk-free rate option has been applied to the equipment class of assets. See Note 16 for additional information.

11. Impairment of Long-lived Assets

LifeROOTS, Inc. accounts for long-lived assets in accordance with the provisions of FASB ASC 360-10 and subsections, *Accounting for the Impairment of Long-Lived Assets*. ASC 360- 10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. Management does not believe impairment indicators are present at June 30, 2023 and 2022.

12. Functional Expense Allocation

The costs of providing the Organization's programs and activities have been summarized on a functional basis in the statement of functional expenses. The following table identifies how the Organization's expenses have been allocated.

Expense Allocation	Basis*
Salaries and benefits	B
Internet, liability insurance, utilities, janitorial supplies, depreciation, interest expense	A
Office supplies, equipment, furniture, telephone, board travel and depreciation	B
Program travel, training and other program expenses	C
Other	D

*Legend for Basis of Allocation of Expenses
A. Square footage
B. Number of people in each profit center
C. Direct to program
D. Appropriate allocation

The functional expense allocation ratios for the years ended June 30 are as follows:

Expense allocation	2023	2022
Program	84.38%	81.84%
Management and general	15.53%	18.03%
Fundraising	0.09%	0.13%
	100%	100%

13. Advertising

LifeROOTS, Inc. expenses advertising costs as incurred. Such expenses are shown in the statement 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, 2023 and 2022.

14. Revenue Recognition

Contracts

Contract revenue is recorded at the time the services are provided and the performance obligation is satisfied. The performance obligation is the delivery of the services supplied to the customer. The transaction price is established by the Organization and the contractor per agreement. No allocation of the transaction price of the services is necessary. The federal contracts and the contracts with the State of New Mexico are on a reimbursement basis. Specifically, when the Organization has incurred the expenses in compliance with the general and specific requirements of the funding source, both the receivable from the government agency and offsetting contract revenue are recorded.

Conditional Grant Contributions

LifeROOTS, Inc. receives governmental grants to provide services to the public. The terms of these grants specify that the Organization must incur certain qualifying expenses or costs in compliance with the rules and regulations established by the grantor. These grant funds are paid predominately on a cost-reimbursement basis, but there can be upfront payments received at the beginning of the grant cycle. The advance payments are considered unearned revenue until services are provided and are identified as grant advances in the financial statements. Any advances of upfront payments must be returned, if unused. These grants are recorded without donor restrictions.

Contributions

Contributions received are recorded as support with donor restrictions or support without donor restrictions depending on the existence or nature of any donor restrictions. Gifts of cash and other assets are reported as support with donor restrictions if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Services and Materials

Donated services are recognized as contributions in accordance with FASB 958-605 if the services enhance or create nonfinancial assets, require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. Donated services are recorded as contributions at their estimated fair market value at the date of donation and/or actual rates of pay.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. LifeROOTS, Inc reclassifies net assets with donor restrictions to net assets without donor restrictions when the restrictions have been satisfied.

Occasionally, volunteers donate time to organization's program and administration. As these services do not qualify for recognition as donated services in accordance with FASB 958-605, they are not recorded as revenue and expense.

15. Refundable Advances

Refundable advances represent receipts under grants for which the related services have not yet been performed. These amounts will be recognized as unrestricted revenue at the time the services have been performed and related costs incurred. Deferred amounts in relation to grants for which qualifying expenses have not yet been incurred were $85,736 and $- as of June 30, 2023 and 2022, respectively.

16. Income Taxes

LifeROOTS, Inc. is a tax-exempt Organization under Section 501(c)(3) of the Internal Revenue Code, is not considered to be a private foundation, and is exempt from federal income taxes. However, the Internal Revenue Code may subject an organization to tax on unrelated business income. It is management's opinion that the Organization had no unrelated business taxable income activity during the years ended June 30, 2023, and 2022.

17. Fair Value of Financial Instruments

The carrying amounts of cash, restricted cash, and cash equivalents, receivables, payables, accrued expenses and other liabilities approximate fair value due to the short maturity periods of these instruments.

18. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent 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. Estimates that are particularly susceptible to significant changes in the near term are related to:

- Allocation of expenses by function to program, administration and fundraising.
- Depreciation and amortization based on estimated useful lives of property and equipment, including leased assets.
- Calculation of present value of lease liability and right of use assets.
- Allowance for doubtful accounts based on historical experience of collections.
- Valuation of the beneficial interest in the charitable trusts.
- In-kind donations based on fair value techniques.

19. Compensated Absences Payable

LifeROOTS accrues annual leave as the benefit is earned by employees. Eligible employees accrue annual leave based upon their FTE status and according to tenure of employment. Full-time (exempt) employees earn paid annual leave based on the length of services with LifeROOTS as follows:

Years of service	Hours earned per pay period
0 to 3	3.08
3 to 5	4.62
5 to 10	6.16
10+	9.24

Flex-time (non-exempt) and exempt employees working less than 37 hours but more than 25 hours per week accrue annual leave on a prorated basis based on the most recent two pay-period average of hours per a five-day work week then rounded up to the nearest 15-minute interval and length of service and rates indicated above.

Employees may only use up 240 annual leave hours per calendar year. Accrued annual leave for each full and flex-time employee can be carried over to the following calendar year, up to a maximum of 160 hours.

20. Prior Year Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not in each net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LifeROOTS, Inc.'s financial statements for the year ended June 30, 2022, from which the summarized information was derived.

21. Reclassifications

Certain reclassifications may have been made to the 2022 summarized financial statement information to conform to the current year presentation.

NOTE 2. CASH, RESTRICTED CASH, AND CASH EQUIVALENTS

At June 30, cash, restricted cash, and cash equivalents were the following:

	2023	2022
US Bank:		
Operating	$ 223,550	72,310
Money market	776,439	505,254
Donation	100	100
Bank of the West	11,717	40,447
Petty cash	300	800
Total	$ 1,012,106	618,911

Restricted cash of $85,736 and $0 is to be used for specific purposes as of June 30, 2023, and June 30, 2022, respectively.

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

LifeROOTS, Inc. regularly monitors liquidity to meet cash flow requirements and operating needs. The availability of financial assets is primarily affected by management designations, the nature of the underlying assets, external limitations imposed by donors or contracts with others. The Organization is substantially supported by contracts, grants, and contributions, of which some are donor and time restricted. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. These financial assets may not be available for general expenditure within one year. As part of Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization can invest cash in excess of daily requirements in short-term investments. Occasionally, if the opportunity arises, the board may designate a portion of any operation surplus to its liquidity reserve.

Liquidity is as follows:

Financial assets at year end	2023	2022
Cash and cash equivalents	$ 1,012,106	618,911
Accounts receivables, net	96,380	170,284
Contract receivables	507,054	431,386
Financials assets available to meet cash needs for general expenditures within one year	$ 1,615,540	1,220,581

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 amount of $300,000 available in two lines of credit. The line of credit was used during the year ended June 30, 2023, and the available amount at the end of June 2023 is $160,000.

NOTE 4. PREPAID EXPENSES

Prepaid expenses at June 30 are as follows:

	2023	2022
Prepaid insurance	$ 17,634	5,986
Other (software etc.)	6,988	13,300
	$ 24,622	19,286

NOTE 5. AGENCY TRUST DEPOSITS

The deposits at the end of June consist of unemployment deposits in the trust or at the State of New Mexico Department of Workforce Solutions (refunded by federal government to the state, refundable to LifeROOTS). At the end of June 30, the deposits are as following:

Deposits	2023	2022
Unemployment trust fund	$ 376	1,362
State of NM Department of Workforce Solutions	313,028	5,350
	$ 313,404	6,712

NOTE 6. GRANTS AND CONTRACTS RECEIVABLES

LifeROOTS, INC. uses the allowance method to value estimated uncollectible grants and other receivables. The estimate is based on historical evidence and other known facts and circumstances. Balances over 90 days old are considered delinquent and are analyzed for collectability.

Receivables as of June 30 are as follows:

Accounts receivable		2023	2022
Medicaid/DOH	$	85,578	112,878
Vocational Services		20,879	67,483
		106,457	180,361
Less: Allowance for doubtful accounts		(10,077)	(10,077)
Total	$	96,380	170,284

Contracts receivable		2023	2022
Kirtland Air Force Base	$	308,940	303,741
General Services		64,697	51,540
Horizons of New Mexico		66,855	50,273
Adelante Development Corporation		65,601	22,093
National Assessment Group		-	3,329
Other		961	410
		507,054	431,386
Less: Allowance for doubtful accounts		-	-
Total	$	507,054	431,386

As of June 30, 2023 and 2022, management recorded an allowance for doubtful accounts of $10,077.

NOTE 7. INVESTMENTS

LifeROOTS, Inc. has the following investment balances at June 30:

		2023	2022
Equity securities	$	1,840	4,576

LifeROOTS, Inc.'s investment activity for the years ended June 30 is as follows:

Stock	2023	2022
Beginning balance	$ 4,576	7,739
Unrealized gains/losses	(2,736)	(3,163)
Ending balance	$ 1,840	4,576

NOTE 8. BENEFICIAL INTEREST IN CHARITABLE TRUSTS

LifeROOTS, INC. has a 40% beneficiary share of a certain irrevocable trust. The trust is a Charitable Remainder Unitrust (CRUT). 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. During the lifetime, the income beneficiary receives an amount equal to five percent (5%) of the net fair market value of the assets of the trust valued as of the first day of each taxable year of the trust. See the table below for LifeROOTS' estimated net fair value of its share the trust assets. The Organization presently has no management authority regarding how the trust is invested.

LifeROOTS, INC. has a 16.67% beneficiary share of an additional 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, 2023 and 2022 was $1,302,994 and $1,285,579, of which the Organization's 16.67% beneficial interest is $217,170 and $214,263, respectively. The Organization presently has no management authority regarding how the trust is invested.

The net fair value of charitable trusts at the end of June 30 is below:

	CRUT		Other Irrevocable Trust		Total	
	2023	2022	2023	2022	2023	2022
Value of trust assets	$ 1,078,045	1,058,930	1,302,994	1,285,579	2,381,039	2,344,509
% of beneficial interest	40%	40%	16.67%	16.67%	N/A	N/A
Total	431,218	423,572	217,170	214,263	648,388	637,835
Net of present value of future cash flows (trust payments to living beneficiary over estimated life span)	(324,377)	(321,641)	-	-	(324,377)	(321,641)
% of beneficial interest	40%	40%	16.67%	16.67%	N/A	N/A
Total	(129,751)	(128,656)	-	-	(129,751)	(128,656)
Estimated net fair value of LifeROOTS' beneficial interests	$ 301,467	294,916	217,170	214,263	518,637	509,179

NOTE 9. FAIR VALUE MEASUREMENT

FASB ASC 820-10 and subsections establishes a framework for measuring fair value. That 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements). (The inputs and methodology used for valuing the organization's financial assets and liabilities are not indicators of the risks associated with those instruments.) The three levels of the fair value hierarchy under FASB ASC 820-10 are as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities. Significant other observable inputs other than Level 1 prices are used, such as:

- 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; or
  - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The fair value of investments securities is the market value based on the quoted market prices, when available, or market prices provided by recognized broker or dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs to the limited market activity of the instrument. The Organization's significant financial instruments are cash and investments. For these financial instruments, carrying values approximate fair value.

The inputs and methodology used for valuing the Organization's financial assets and liabilities are not indicators of the risks associated with those instruments. The following methods, when necessary, are used to estimate the fair values of the assets and liabilities.

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, 2023 and 2022.

> 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 preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Below is a summary of the financial instruments' fair value:

	2023		2022	
	Level 1	Level 3	Level 1	Level 3
Equity securities	$ 1,840	-	4,576	-
Charitable trusts	-	518,637	-	509,179
Total	$ 1,840	518,637	4,576	509,179

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

Charitable trusts	2023	2022
Beginning balance	$ 509,179	596,176
Unrealized gains/losses	9,458	(86,997)
Ending balance	$ 518,637	509,179

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluated the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended June 30, 2023 and 2022, there were no significant transfers in or out of Levels 1, 2 or 3.

NOTE 10. PROPERTY, EQUIPMENT, DEPRECIATION AND AMORTIZATION

LifeROOTS, INC. has the following property, equipment, depreciation and amortization:

	2022	Additions	Deletions	Adjustments	2023
Land	$ 505,000	-	-	-	505,000
Buildings and improvements	3,375,407	4,187	-	-	3,379,594
Furniture and fixtures	487,790	2,686	(51,004)		439,472
Vehicles	878,370	-	(12,865)	(490)	865,015
Finance Lease (ASC 842)/ Capital lease (ASC 840)	60,194	-	(60,194)	-	-
Less: Accumulated depreciation and amortization	(2,168,661)	(174,952)	97,411	-	(2,246,202)
Total, net	$ 3,138,100	(168,079)	(26,652)	(490)	2,942,879

NOTE 11. CONTRACTS WITH CUSTOMERS

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

		2023	2022
Janitorial services	$	5,440,215	4,489,535
Early Intervention Services		630,089	833,543
Development Disabilities Services		845,761	558,235
Grounds Keeping Services		-	26,003
Vocational Services		57,482	55,492
Total revenue recognized over time	$	6,973,547	5,962,808

There were no significant amounts of contract assets and liabilities at June 30, 2023 or 2022.

NOTE 12. REFUNDABLE ADVANCES/DEFERRED REVENUES

Deferred revenues at June 30 consisted of the following:

		2023	2022
Grants and contracts received in advance	$	85,000	-
Other		736	-
Total	$	85,736	-

NOTE 13. AVAILABLE CREDIT

The Organization has obtained several credit cards with a maximum aggregate limit of $146,000. The outstanding balances on credit cards was $0 and $368 in total at June 30, 2023 and 2022, 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.

NOTE 14. LONG-TERM DEBT

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

	2023	2022
Loan #1	$ 1,373,216	1,421,300
Loan #2	384,277	393,561
Total	1,757,493	1,814,861
Less: Current portion	(62,902)	(63,266)
	$ 1,694,591	1,751,595

Loan#1 consists of 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 $2,658 and $3,475 at June 30, 2023 and 2022, 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.

Loan#2 consists of 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 $1,128 and $1,475 at June 30, 2023 and 2022, 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.

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

Year Ended June 30,	Amount
2024	$ 62,902
2025	65,583
2026	68,186
2027	1,560,822
2028	-
Thereafter	-
	$ 1,757,493

NOTE 15. FINANCE LEASE COMMITMENTS

Finance Lease Obligation

LifeROOTS, Inc. leases certain office equipment. The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less and low-value leases are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term.

The asset and liability under the finance lease are recorded at the present value of the minimum lease payments. The asset is amortized over the life of the lease.

Finance lease		2023	2022
Office equipment	$	60,194	60,194
Accumulated amortization		(51,162)	(40,127)
Less deletions		(9,032)	-
Total	$	-	20,067
Current liabilities	$	-	10,079
Long-term liabilities		-	15,682
	$	-	25,761

NOTE 16. LONG-TERM OPERATING LEASE COMMITMENTS

The weighted-average discount rate is based on the discount rate implicit in the leases. LifeROOTS has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The risk-free rate option has been applied to the equipment class of assets.

Reported under FASB ASC 842—Year Ended June 30, 2023:

Lease Liabilities

LifeROOTS is entered into an operating equipment lease.

Lease Liabilities Operating Leases		Lease Liability Balance 2023	Current Portion	Number of Lease Contracts	Lease Terms*	Interest Rates
Equipment	$	49,204	9,327	1	5	3.52%
Total lease liabilities	$	49,204	9,327			

*The lease terms represent the range of remaining terms in each lease.

For the year ending June 30, 2023, the lease liability associated with this lease is as below:

		2022	Increases	Decreases	2023
Lease liabilities					
Equipment	$	-	49,974	(770)	49,204
Total lease liabilities - operating leases	$	-	49,974	(770)	49,204

Future minimum lease payments under the noncancellable operating lease are as follows for the year ended June 30, 2023:

Year Ending June 30		Principal Payments	Lease Expense Payments	Total
2024	$	9,327	1,557	10,884
2025		9,665	1,219	10,884
2026		10,011	873	10,884
2027		10,369	515	10,884
2028		9,832	147	9,979
Thereafter		-	-	-
	$	49,204	4,311	53,515

Cash Flow Items

	2023	2022
Operating lease cost	$ 49,974	N/A

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ (770)	N/A

	2023	2022
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	$ (770)	N/A

	2023	2022
Weighted average remaining lease term in years:		
Operating leases	5	N/A

	2023	2022
Weighted average discount rate:		
Operating leases	3.52%	N/A

During the year, LifeROOTS did not recognize any variable payment amounts.

The major classes of right-of-use assets and accumulated amortization related to operating leases are as follows as of June 30:

	2022	Increases	Decreases	2023
Right-of-use leased assets				
Equipment	$ -	49,974	-	49,974
Total right of use assets	-	49,974	-	49,974
Less accumulated amortization for:				
Equipment	-	(770)	-	(770)
Total accumulated amortization	-	(770)	-	(770)
Right-of-use assets, net	$ -	49,204	-	49,204

Amortization expense is included as equipment expense in the financial statements.

Reported under FASB ASC 840—Year Ended June 30, 2022:

Operating and Capital Leases

LifeROOTS accounts for the leases of some equipment as operating leases. Total rental expense amounted to approximately $610 in 2022 for equipment rental. Other equipment is leased under a capital lease-see Note 15.

NOTE 17. OTHER LEASE OBLIGATIONS

Other Lease Obligations

LifeROOTS, Inc. also has an immaterial, non-cancelable operating lease for postage equipment, that expires in June 2025. Retal expense for the lease were $312 and $360 for the years ended June 30, 2023, and 2022, respectively.

NOTE 18. LINES OF CREDIT

During the year ended June 30, 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 assets and is subordinate to the mortgage notes payable. The interest on the line of credit is equivalent to the prime rate plus 1.5%, resulting in effective rates of 7% and 7% for the years ended June 30, 2023, and 2022, respectively. The line of credit has a maturity date of December 15, 2023. The outstanding balance was $100,000 and $0 as of June 30, 2023 and 2022, respectively.

During the year ended June 30, 2016, the Organization obtained a line of credit from a lending institution for an amount up to $200,000. The line of credit is secured by the Organization's inventory, chattel paper, accounts, equipment and other assets. The interest on the line of credit is equivalent to the prime rate plus .5%, resulting in effective rates of 8.55% and 5.25% for the years ended June 30, 2023, and 2022, respectively. The line of credit has a maturity date of December 15, 2023. The outstanding balance was $40,000 and $0 as of June 30, 2023 and 2022, respectively.

NOTE 19. PAYCHECK PROTECTIONS PROGRAM (PPP)

On May 4, 2021, the Organization received a low interest loan in the amount of $1,032,040 under the PPP administered by the SBA as part of the CARES Act. This was the Organizations' second loan under this program. 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, 2023, and 2022, $0 and $831,869 of the funds received under the PPP loan were spent on qualified expenditures and are recognized as contribution revenue in the accompanying financial statements along with the related interest of $0 and $9,705 in 2023 and 2022. Management believes that all specific required employment and wage levels have also been met. 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 funds 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 20. EMPLOYEE BENEFIT PLANS

LifeROOTS, Inc. has a defined contribution pension plan under Internal Revenue Code 403(b) covering all employees except for employees under the 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 employee contributions up to 4% of compensation, equaling a maximum of 2% of compensation per pay period.

LifeROOTS, Inc.'s contributions to the retirement plan were as follows:

	2023	2022
Retirement plan contributions	$ 6,651	2,265

NOTE 21. COMMITMENTS AND CONTINGENCIES

Grant and Indirect Cost Rate Finalization

The grants managed 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.

Litigation

From time to time, the organization may be 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.

NOTE 22. NET ASSETS WITH DONOR RESTRICTIONS

LifeROOTS, Inc.'s net assets with donor restrictions at June 30 were as follows:

Subject to passage of time	2022	Additions	Released	2023	Purpose/Time
Charitable trusts	$ 509,179	9,458	-	518,637	time restricted
Total restricted net assets	$ 509,179	9,458	-	518,637	

NOTE 23. RELATED PARTY TRANSACTIONS

The Board of Directors and certain employees contribute various amounts to 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 was $198,000 in the fiscal year ended June 30, 2023 and $186,000 in the year ended June 30, 2022, which is paid to the respective insurance carriers.

NOTE 24. IN-KIND CONTRIBUTIONS

LifeROOTS recognizes contribution revenue for certain materials and services received at the fair value of those donations at June 30, as follows:

Nonfinancial Asset	2023	2022	Usage in Programs/Activities	Donor Restriction	Fair Value Techniques
Bank fees waived	$ 2,322	2,107	Administration	None	1
Professional services	150	380	Administration	None	1
Event tickets	-	154	Fundraising	None	1
Total	$ 2,472	2,641			

* Legend for Fair Value Techniques

1.- Estimated wholesale prices of identical or similar products/services if purchased in the region

NOTE 25. CONCENTRATIONS OF CREDIT, MARKET AND BUSINESS RISK

Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Geographical Concentration

The Organization provides direct services to citizens of the City of Albuquerque, NM and surrounding counties. A significant portion of its revenues are from Source America and State service contracts.

Concentration from Significant Customers

LifeROOTS, Inc. receives the majority of its funding from a federal contract for custodial work with Kirtland Air Force base which provided 47.21% of the total revenue for 2023 and 42.13% for 2022. A change in this funding source would require a change in operations. LifeROOTS, Inc. is actively seeking grants/donations from sources other than contracts.

Concentrations consisted of the following for the years ended June 30:

Significant Concentrations	2023	%	2022	%
Source America and other service contracts	$ 6,363,656	79.43%	5,582,720	81.00%
NM Department of Health contracts	609,891	7.61%	380,088	5.51%
Total federal contracts	6,973,547	87.04%	5,962,808	86.51%
Total revenue	$ 8,011,886		6,892,425	

Concentration of Custodial Credit Risk—Uninsured Cash Balances

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization does not have a custodial credit risk policy requiring collateral on all deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 30, 2023and June 30, 2022, the Organization had approximately $754,557 and $358,380 in excess of the FDIC insured limit, respectively.

Investment Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty (e.g., broker-dealer) to a transaction, the Organization will not be able to recover the value of its investment or collateral securities that are in the possession of another party. LifeROOTS, Inc. does not currently have a formal investment policy and therefore there are no legal or policy requirements that limit the exposure to custodial credit risk for deposits or investments.

Cash and securities held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of a broker-dealer failure, up to $500,000 on each account with a limit of $250,000 of claims on uninvested cash balances, however, SIPC does not protect the value of the balances.

NOTE 26. EVALUATION OF SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. LifeROOTS, Inc. recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements.

LifeROOTS, Inc.'s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued. LifeROOTS, Inc. has evaluated subsequent events through February 27, 2024, which is the date the financial statements were available to be issued.

Subsequent to year end, the Rio Rancho building was listed for sale. The sale of the building closed in February 2024 for the amount of approximately $825,000.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors and Management of
LifeROOTS, Inc.
Albuquerque, NM

We have audited, in accordance with the 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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, 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 February 27, 2024.

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 LifeROOTS, Inc.'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 entity'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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2023-001, that we considered to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether LifeROOTS's financial statements are free from 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 financial statements. 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

LifeRoots's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. LifeRoots's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
February 27, 2024

LifeROOTS, Inc.
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2023

Findings	Current and Prior Year Findings	Type of Finding
PRIOR YEAR		
2022-001 Internal Control over Financial Reporting, Adjusting Journal Entries and Financial Close	Prior Year, Resolved	A
CURRENT YEAR		
2023-001 Review and Approval of Journal entries	New	B

* Legend for Type of Findings
A. Material Weakness in Internal Control Over Financial Reporting
B. Significant Deficiency in Internal Control Over Financial Reporting
C. Finding that Does Not Rise to the Level of a Significant Deficiency (Other Matters) Involving Internal Control Over Financial Reporting
D. Instance of Material Non-compliance

CURRENT YEAR FINDINGS
2023-001—REVIEW AND APPROVAL OF JOURNAL ENTRIES

Type of Finding: (B) Significant Deficiency in Internal Control Over Financial Reporting

Statement of Condition

During our test on internal controls, we sampled 5 journal entries for review. For 3 out of 5, there is no evidence that the journal entries were reviewed by someone other than the preparer.

Criteria

In order to deter fraud and reduce the risk of errors, good internal controls require that journal entries include documentation of who prepared the adjustment, the purpose of the adjustment, and that it be reviewed and signed off by a responsible official not involved in the journal entry preparation or posting, as they can significantly affect the financial statements.

Effect

Journal entries could be entered into the system that are incorrect or purposely entered to hide misappropriations (override of controls).

Cause

Board members charged with the responsibility of reviewing and approving journal entries during the fiscal year are no longer serving on the board.

Recommendations

We recommend that journal entries be reviewed and signed off by the CEO or Treasurer on a monthly or quarterly basis. In addition, it is important that the reviewer review the relationship between the accounts that are being adjusted and verify the accounts are expected to go together. For example, revenue and receivables go together, but revenue and equipment rarely go together unless you received an in-kind contribution of equipment.

We recommend the Organization's policies and procedures be updated to ensure all manual journal entries recorded in the general ledger are properly prepared, reviewed, approved, and recorded in accordance with U.S. generally accepted accounting principles.

HINKLE + LANDERS

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