

# THOMAS C JONES, CPA

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## INDEPENDENT AUDITOR'S REPORT

June 8, 2016

To the Board of Trustees  
Deep Roots, Inc.  
PO Box 113, Earleville, MD 21919

We have audited the accompanying financial statements of Deep Roots, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation to the financial statements.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Deep Roots, Inc. as of December 31, 2015, 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.

*Thomas C. Jones, CPA*

**Thomas C. Jones, CPA**

**Deep Roots, Inc.**  
**Statement of Assets, Liabilities, Net Assets**  
**December 31, 2015**

<i>Unrestricted Assets</i>		
<i>Cash &amp; Cash Equivalents</i>	\$	82,545
<i>Grant Receivable</i>	\$	1,250
<i>Other Current Assets</i>		2,831
 <i>Property &amp; Equipment:</i>		
<i>Fixed Assets net of Depreciation</i>	\$	455,950
<i>Accumulated Depreciation</i>		(16,635)
		439,315
<i>Total Net Property &amp; Equipment</i>		439,315
 <b>Total Assets</b>		<b>\$ 525,941</b>
 <i>Current Liabilities</i>		
<i>Payroll Liabilities</i>		9,009
<i>Accrued Expenses</i>		20,684
<i>Current Portion of Long Term Debt</i>		98,038
		127,731
<i>Total Current Liabilities</i>		127,731
 <i>Long Term Liabilities</i>		
<i>Promissory Notes</i>		102,117
		102,117
<i>Total Current Liabilities</i>		229,848
 <i>Net Assets</i>		
<i>Temporarily Restricted Net Assets</i>		-
<i>Unrestricted Net Assets</i>		296,093
		296,093
<i>Total Net Assets</i>		296,093
 <b>Total Liabilities &amp; Net Assets</b>		<b>\$ 525,941</b>

**Deep Roots, Inc.**  
**Statement of Activities, Expenses, and Other Changes in Net Assets**  
**For the Year Ended December 31, 2015**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<b>Revenue:</b>			
<i>In-Kind</i>	\$ 390,227	-	\$ 390,227
<i>Individuals</i>	119,443	-	119,443
<i>Grants</i>	27,084	97,316	124,400
<i>Crystal Trust</i>	-	\$ -	-
<i>Speer Trust</i>	10,000	-	10,000
<i>Corporations</i>	7,496	-	7,496
<i>Mission Development Unit</i>	-	-	-
<i>Memorials</i>	2,075	-	2,075
<i>Resident Contributions</i>	21,915	-	21,915
<i>Recycling</i>	-	-	-
<i>Reimbursement</i>	35	-	35
<i>Work Groups</i>	19,178	-	19,178
<i>Church</i>	11,923	-	11,923
<b>Total Support &amp; Revenue</b>	<b>\$ 609,376</b>	<b>\$ 97,316</b>	<b>\$ 706,692</b>
<b>Expenses:</b>			
<b>Program Services</b>	551,509	-	551,509
<b>Management &amp; General</b>	44,602	-	44,602
<b>Fundraising</b>	12,730	-	12,730
<b>Total Expenses</b>	<b>\$ 608,841</b>	<b>\$ -</b>	<b>\$ 608,841</b>
<b>Change in Net Assets</b>	535	97,316	97,851
<b>Net Assets Released from Restrictions</b>	106,316	(106,316)	-
<b>Net Assets, Beginning of Year</b>	189,242	9,000	198,242
<b>Net Assets, End of Year</b>	<b>\$ 296,093</b>	<b>\$ -</b>	<b>\$ 296,093</b>

**Deep Roots, Inc.**  
**Statement of Functional Expenses**  
**December 31, 2015**

	Program Services	Management & General	Fundraising	<b>Total</b>
<i>Salaries</i>	\$ 35,365	34,773	-	\$ 70,138
<i>Fica and Medicare</i>	3,308	2,058	-	5,366
<i>Unemployment Insurance</i>	548			548
<i>Sub Contractors</i>	-	2,783	-	2,783
<i>Bank Fees</i>	463	-	-	463
<i>Grant Writing</i>	-	750	\$ 7,540	8,290
<i>Depreciation Expenses</i>	10,483	-	-	10,483
<i>Dues and Subscriptions</i>	1,482	-	-	1,482
<i>Food</i>	18,582	-	-	18,582
<i>Fuel</i>	105	-	-	105
<i>Occupancy</i>	44,789			44,789
<i>Maintenance</i>	9,146	-	-	9,146
<i>In Kind</i>	352,307	-	-	352,307
<i>Insurance</i>	8,664	-	-	8,664
<i>Interest</i>	1,850	\$ -	-	1,850
<i>Office Expenses</i>	4,187	2,200	5,190	11,577
<i>Child Care</i>	817	-	-	817
<i>Training &amp; Development</i>	983	-	-	983
<i>Professional Fees</i>	4,500	-	-	4,500
<i>Meetings &amp; Conferences</i>	-	2,038	-	2,038
<i>Transportation</i>	11,935	-	-	11,935
<i>Program Expenses</i>	33,210	-	-	33,210
<i>Small Equipment</i>	2,025	-	-	2,025
<i>Volunteer Expenses</i>	6,760	-	-	6,760
<b>Total</b>	<b>\$ 551,509</b>	<b>\$ 44,602</b>	<b>\$ 12,730</b>	<b>\$ 608,841</b>

**Deep Roots, Inc.**  
**Statement of Cash Flows**  
**December 31, 2015**

**Statement of Cash Flows**

Cash Flows from Operating Activities	
Cash Received from Public Support	\$ 315,215
Cash Paid to Suppliers and Employees	(219,904)
Interest Paid	(1,850)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>93,461</u>
Cash Flows from Investing Activities	
Improvements	(119,650)
Net Cash Used by Investing Activities	<u>(119,650)</u>
Cash Flows from Financing Activities	
Advance from an Individual	155
Payments on Promissory Notes	-
Net cash Used by Financing Activities	<u>155</u>
Net Increase or (Decrease) in Cash	(26,034)
CASH AS OF 1/01/15	108,579
CASH AS OF 12/31/15	<u>\$ 82,545</u>

**Statement of Cash Flows**

Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities	
Increase in Net Assets	\$ 97,851
Adjustments to reconcile changes in Net Assets to Net Cash provided by Operating Activities	
Depreciation and Amortization	10,483
Increase or (Decrease) in	
Increase in Accrued Expenses	20,684
Increase in Grant Receivable	(1,250)
Increase in Payroll Liabilities	6,124
Furniture In Kind	(37,920)
Gift Card Donation	(2,511)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 93,461</u>

**Deep Roots, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2015**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Activities***

*Deep Roots, Inc. (the Organization) is a non-profit , tax exempt 501 C(3), organization. In January, 2012, a small group of adults, whose childhoods have been disastrously affected by homelessness, met to organize a new partnership with children and young people and their families who are currently or recently homeless. The project's purpose is to mentor relationships and community with these children to nurture the spiritual, emotional, and material means to a fulfilling life. Teaching and reminding each other that through right relationships, and the strength of our community, we can not only achieve personal success, but help to build neighborhood in a world growing poorer indeed for the lack of it.*

***Mission Statement***

*Deep Roots works with children, who are disconnected through homelessness or other similar marginalization: connecting hearts. Our program challenges children to envision a brighter future, to sustain healthy relationship and to navigate a course towards personal and social responsibility through better life experiences, with mentors, providing healthy life-models for all future relationships.*

***Basis of Accounting***

*The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Deep Roots, Inc. and changes therein are as follows:*

*Unrestricted net assets- Net assets that are not subject to donor-imposed stipulations.*

*Temporarily restricted net assets- Net assets subject to donor imposed stipulations that may or will be met, either by actions of Deep Roots, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement activities as net assets released from restrictions.*

**Deep Roots, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2015**

**Unrestricted Net Assets**

*Net Assets that are not subject to donor imposed stipulations. Temporarily restricted net assets-net assets subject to donor-imposed stipulations that may or will be met, either by actions of Deep Roots, Inc. or passage of time. When a restriction expires temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2015, there were no temporarily restricted net assets.*

**Basis of Presentation**

*Financial statement presentation follows the recommendations of the Not-for Profit FASB Accounting Standards Codification. According to the FASB Accounting Codification Standards, the Organization is required to report information regarding its financial position, activities, and functional expenses according to three classes of net assets.*

**Use of Estimates**

*The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.*

**Property and Equipment**

*Acquisitions of property and equipment more than \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows: Furniture and Equipment, and Vehicles 3-5 years, and Buildings and Improvements 40 years.*

**Revenue Recognition**

*Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses, and other changes in net assets as net assets released from restrictions.*

**Income Taxes**

*Deep Roots, Inc. is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and under Section 288 (d)(5) of the Maryland Income Tax Law. The tax returns are available and open for inspection.*

**Deep Roots, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2015**

**NOTE B – DEBT**

*The Organization has two promissory notes in the total of \$200,000. The first promissory note is for \$50,000 with an interest rate of 3.7% per annum; in the amount of \$1,850 beginning on the 17th day of December 2014, and continuing thereafter: any balance of principal or interest due or unpaid on the 17th day of December, 2018, shall be due and payable on said date. The second promissory note for \$150,000 is without interest and is due and payable on the 17th day of December 2018.*

	<u>Note #1</u>	<u>Note #2</u>	<u>Total</u>
2016	\$ 24,568	\$ 73,470	\$ 49,711
2017	12,481	36,737	49,216
2018	12,951	39,795	52,746
	<u>50,000</u>	<u>150,000</u>	<u>200,000</u>
Short Term	(24,568)	(73,470)	(98,038)
Advance			155
	<u>\$ 25,432</u>	<u>\$ 76,530</u>	<u>\$ 102,117</u>

**NOTE C- FUNCTIONAL ALLOCATION OF EXPENSES**

*The costs of providing the various programs and activities have been summarized on a functional basis in the statement of revenues, expenses, and other changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.*

**NOTE D- SUBSEQUENT EVENTS**

*Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through the date of the review report, which is the date the financial statements were available to be issued.*