



FEEDING OPPORTUNITY & COMMUNITY

Root NS, Inc.

Financial Statement

For the Years Ended

December 31, 2019 and 2018

**Independent Auditor's Report**

**Financial Statements:**

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## Independent Auditor's Report

To the Board of Directors  
Root NS, Inc.  
Salem, MA

I have audited the accompanying financial statements of Root NS, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activity, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Root NS, Inc. as of December 31, 2019 and 2018, 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.

A handwritten signature in black ink that reads 'Melissa Gilroy'.

Melissa Gilroy, Certified Public Accountant  
Westwood, Massachusetts  
June 25, 2020

Root NS, Inc.  
**Statements of Financial Position**

<b>As of December 31,</b>	<b>2019</b>	<b>2018</b>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 391,840	\$ 188,650
Accounts receivable	49,550	-
Contribution receivables	164,793	65,073
Prepaid expenses	13,573	13,644
Inventory	3,392	3,048
Furniture and equipment	169,521	58,449
Leasehold improvements	1,572,949	1,569,979
Accumulated depreciation	(377,632)	(202,317)
<b>Total Assets</b>	<b>\$ 1,987,986</b>	<b>\$ 1,696,526</b>
<b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 58,958	\$ 46,187
Line of credit - related party	150,000	-
<b>Total Liabilities</b>	<b>208,958</b>	<b>46,187</b>
<b>Net Assets</b>		
Without donor restrictions	1,508,763	1,514,555
With donor restrictions	270,265	135,784
<b>Total Net Assets</b>	<b>1,779,028</b>	<b>1,650,339</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,987,986</b>	<b>\$ 1,696,526</b>

Root NS, Inc.  
Statements of Activity

For the years ended December 31,	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>						
Food operations	\$ 230,511	-	<b>230,511</b>	\$ 134,046	-	134,046
Less: Cost of goods sold	(83,103)	-	<b>(83,103)</b>	(66,709)	-	(66,709)
Net food operations	147,408	-	<b>147,408</b>	67,337	-	67,337
Contributions and grants	665,162	250,954	<b>916,116</b>	1,010,781	138,406	1,149,187
Special events, net of direct costs of \$23,149 and \$14,987, respectively	177,553	-	<b>177,553</b>	61,675	-	61,675
Interest income	150	-	<b>150</b>	30	-	30
Net assets released from restriction	72,473	(72,473)	-	72,850	(72,850)	-
<b>Total revenue and support</b>	<b>1,062,746</b>	<b>178,481</b>	<b>1,241,227</b>	<b>1,212,673</b>	<b>65,556</b>	<b>1,278,229</b>
<b>Expenses</b>						
Program services	895,155	-	<b>895,155</b>	743,998	-	743,998
Management and administrative	152,060	-	<b>152,060</b>	190,469	-	190,469
Fundraising	137,323	-	<b>137,323</b>	121,620	-	121,620
<b>Total expenses</b>	<b>1,184,538</b>	<b>-</b>	<b>1,184,538</b>	<b>1,056,087</b>	<b>-</b>	<b>1,056,087</b>
<b>Change in Net Assets - operating</b>	<b>(121,792)</b>	<b>178,481</b>	<b>56,689</b>	<b>156,586</b>	<b>65,556</b>	<b>222,142</b>
<b>Non-Operating Activity</b>						
Contributions restricted for capital purchases	-	72,000	<b>72,000</b>	-	596,000	596,000
Net assets released from restriction	116,000	(116,000)	-	547,000	(547,000)	-
<b>Total non-operating activity</b>	<b>116,000</b>	<b>(44,000)</b>	<b>72,000</b>	<b>547,000</b>	<b>49,000</b>	<b>596,000</b>
<b>Change in Net Assets</b>	<b>(5,792)</b>	<b>134,481</b>	<b>128,689</b>	<b>703,586</b>	<b>114,556</b>	<b>818,142</b>
<b>Net Assets at Beginning of Year</b>	<b>1,514,555</b>	<b>135,784</b>	<b>1,650,339</b>	<b>810,969</b>	<b>21,228</b>	<b>832,197</b>
<b>Net Assets at End of Year</b>	<b>\$ 1,508,763</b>	<b>270,265</b>	<b>1,779,028</b>	<b>\$ 1,514,555</b>	<b>135,784</b>	<b>1,650,339</b>

Root NS, Inc.  
**Statements of Functional Expenses**  
For the years ended December 31, 2019 and 2018

	2019			2018	2018			
	Program	Management and Administrative	Fundraising		Program	Management and Administrative	Fundraising	
Salaries	\$ 390,256	60,474	105,790	\$ 556,520	302,405	84,675	87,730	\$ 474,810
Payroll taxes	32,627	4,049	7,082	43,758	23,180	4,107	4,331	31,618
Benefits	7,194	1,120	1,958	10,272	5,422	1,489	1,570	8,481
Total payroll and related expenses	430,077	65,643	114,830	610,550	331,007	90,271	93,631	514,909
Depreciation	173,816	1,499	-	175,315	163,206	1,499	-	164,705
Occupancy	113,719	6,847	1,945	122,511	125,163	6,292	2,139	133,594
Cost of goods sold	83,103	-	-	83,103	66,709	-	-	66,709
Professional fees	18,937	58,079	1,297	78,313	5,171	77,385	10,952	93,508
Food enterprise supplies and expenses	70,028	-	-	70,028	54,494	-	-	54,494
Office supplies and expense	21,820	12,058	17,449	51,327	8,531	8,968	10,512	28,011
Students, stipends, meals and travel	43,381	1,798	-	45,179	29,284	322	-	29,606
Program supplies	16,757	-	-	16,757	11,994	-	-	11,994
Insurance	6,620	1,030	1,802	9,452	15,148	4,160	4,386	23,694
Interest expense	-	5,106	-	5,106	-	1,572	-	1,572
<b>Total Functional Expenses</b>	<b>\$ 978,258</b>	<b>152,060</b>	<b>137,323</b>	<b>1,267,641</b>	<b>810,707</b>	<b>190,469</b>	<b>121,620</b>	<b>1,122,796</b>
Cost of goods sold	(83,103)	-	-	\$ (83,103)	\$ (66,709)	-	-	\$ (66,709)
Total Expenses net of cost of goods sold	<b>\$ 895,155</b>	<b>152,060</b>	<b>137,323</b>	<b>\$ 1,184,538</b>	<b>\$ 743,998</b>	<b>190,469</b>	<b>121,620</b>	<b>\$ 1,056,087</b>

Root NS, Inc.  
**Statements of Cash Flows**

For the years ended December 31,	2019	2018
<b>Cash Flows from Operating Activities</b>		
<b>Change in Net Assets</b>	\$ 128,689	\$ 818,142
<b>Adjustments to reconcile change in net assets to cash provided by operations</b>		
Depreciation	175,315	164,705
Accounts receivable	(49,550)	-
Contribution receivable	(99,720)	(55,073)
Prepaid expenses	71	(3,933)
Other current assets	(344)	257
Accounts payable and accrued expenses	12,771	(732,262)
<b>Net Cash Provided by Operating Activities</b>	<u>167,232</u>	<u>191,836</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(114,042)	(24,736)
<b>Net Cash Used in Investing Activities</b>	<u>(114,042)</u>	<u>(24,736)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit	150,000	-
Line of credit repayment	-	(275,000)
Note payable repayment	-	(25,000)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>150,000</u>	<u>(300,000)</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>203,190</b>	<b>(132,900)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<u>188,650</u>	<u>321,550</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 391,840</u>	<u>\$ 188,650</u>
<b>Supplement Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ 5,106</u>	<u>\$ 1,572</u>

# Root NS, Inc.

## Notes to Financial Statements

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### 1. Nature of the Business

Root NS, Inc. (the Organization) was incorporated in 2015 as a Massachusetts non-profit and is tax exempt for federal purposes under the Internal Revenue Code under section 501c3. Root's mission is to help young adults create a pathway to independence through food service training and employment. By developing essential life and work readiness skills, youth leave Root prepared for success in the workplace. The Organization provides educational services to at-risk youth through a comprehensive food services training program. The program is founded on a learn by doing premise. The experiential learning model aims to provide a pathway out of the entrenched cycle of poverty through:

- Culinary instruction to increase employability and stable employment.
- Health and Nutrition Education.
- Increasing educational attainment.
- Increasing financial literacy.
- Developing a more stable lifestyle by addressing social barriers such as housing, mental health issues, childcare and healthy relationships.
- Offering Post-Graduation and Transition Services.
- Individual case management.

### 2. Summary of Significant Accounting Policies

#### **Use of Estimates**

The preparation of financial statements is in conformity with generally accepted accounting principles in the United States of America ("GAAP") which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis with net assets, revenues, expenses, gains, and losses classified in two categories based on the existence or absence of externally imposed restrictions. Operating revenues consist of those monies received and contributions attributable to the Organization's ongoing efforts. to the Organization's ongoing efforts and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from other contributions and activities considered to be of a more unusual or nonrecurring nature. The net assets of the Organization are classified and defined as follows:

#### ***Net Assets Without Donor Restrictions***

Net assets that are not subject to donor-imposed stipulations are considered unrestricted.

#### ***Net Assets With Donor Restrictions***

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.



**Root NS, Inc.**  
**Notes to the Financial Statements**

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**2. Summary of Significant Accounting Policies (continued)**

**Cash and Cash Equivalents**

Cash and cash equivalents, reported at fair value; include cash and all highly liquid investments with a maturity of three months or less when purchased.

**Accounts Receivable**

The Organization carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions.

**Contribution Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Contribution receivables from one resource provider accounted for 45% and 100% of the outstanding contribution receivable balance as of December 31, 2019 and 2018, respectively.

**Property and Equipment**

Property and equipment is stated at cost at the time of acquisition or fair market value at the time of donation. Expenditures for maintenance and repairs are charged to expense as incurred; betterments are capitalized. When assets are sold or retired, the related costs and accumulated depreciation are removed from the respective accounts and any resulting gain and loss is credited or charged to operations. Depreciation is recorded on a straight-line basis based on the related assets estimated useful lives.

**Inventory**

The Organization's inventory valuation method is the lower of cost or net realizable value and is determined using the first-in first-out method. Inventory consists of food, beverage and retail items sold at the Organization's café.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activity. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Revenue Recognition**

The Organization earns revenue from its food operations which is recognized upon service delivery. Substantially all of the Organization's revenue is derived from its operations in Salem, Massachusetts.

## Root NS, Inc.

### Notes to the Financial Statements

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#### 2. Summary of Significant Accounting Policies (continued)

##### **Contribution Revenue**

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a 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 as net assets released from restrictions.

Contributions from three donors / grantors represents 23% and 65% of total contribution and grant revenue at December 31, 2019 and 2018, respectively. Included in this amount are donations from a board member representing 6% and 31% of total contribution and grant income at December 31, 2019 and 2018, respectively.

##### **Donated Facilities, Services and Assets**

Donated facilities, services and assets are recorded at the estimated fair value provided to the Organization. Contributed services are recognized for services that require specialized skills and are provided by persons possessing those skills in the period in which they are received in accordance with GAAP. During the year ended December 31, 2018, donated assets amounting to \$39,750 was received and are recorded in the accompanying statement of activity as contribution income.

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

##### **Income Taxes**

The Organization is a tax-exempt entity under Code Section 501(c)(3) of the Internal Revenue Code (the "Code"), and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code and is not considered to be a private foundation. The Organization is also exempt from state income tax. Accordingly, no provision for income taxes is included in the financial statements.

The Organization complies with the provisions of GAAP related to the accounting for the uncertainty in income taxes. As required, the Organization has evaluated its tax positions, applying a "more likely than not" threshold and believes that there would be no material changes to the results of its operation or financial position as a result of an audit by the applicable taxing authorities, federal or state. The Organization has filed all of its known and required tax returns in a timely manner, including as permitted, allowed extensions.

**Root NS, Inc.**  
**Notes to the Financial Statements**

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**3. Special Events**

The Organization had special event revenue and related expenses consisting of the following:

	<u>2019</u>	<u>2018</u>
Special event income	\$ 200,702	\$ 76,662
Special event expense	<u>(23,149)</u>	<u>(14,987)</u>
	<u>\$ 177,553</u>	<u>\$ 61,675</u>

**4. Liquidity and Availability**

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

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$391,840	\$ 188,650
Accounts Receivable	49,550	-
Contribution Receivable, current portion	<u>78,334</u>	<u>33,333</u>
Financial assets	\$519,724	\$ 221,983
Less donor purpose restrictions	<u>(140,472)</u>	<u>(70,711)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$379,252</u>	<u>\$ 151,272</u>

As part of its liquidity management plan, the Organization manages its operations within a balanced budget. The organization relies on annual fund donations, unrestricted grants, fundraising event revenue, and earned service revenue to cover the costs of operations.

**5. Related Party Transactions**

***Line of Credit***

In fiscal 2019, the Organization obtained a line of credit in the amount of \$150,000 to be used for working capital purposes payable on demand due to a Board member. Interest on the line is accrued based at the Alliance Bernstein prime rate which was 4.50% as of the year-ended December 31, 2019. As of the year ended December 31, 2019 \$150,000 was outstanding.

***Note Payable***

The Organization had a note payable due to a Board member in the amount of \$25,000 as of the year-ended December 31, 2017. The note matured in May 2018 and was repaid in full upon maturity. Interest accrued at 3% per annum.

Total interest expense for the years ended December 31, 2019 and 2018 amounted to \$5,106 and \$1,572.

**Root NS, Inc.**  
**Notes to the Financial Statements**

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**6.. Lease**

The Organization maintains a lease for office space that began in October 2017 and expires in September 2022 with an option to renew for an additional five years. Monthly lease payments amount to \$6,621 per month. The lease provided for two months of free rent. Total rent expense for the year ended December 31, 2019 and 2018 amounted to \$76,800 and \$76,610. Payments on the lease are due as follows:

2020	\$	79,452
2021		79,452
2022		59,589
2023		-
2024		-

**7. Contribution Receivables**

As of December 31, 2019 and 2018, contribution receivables are scheduled to be collected as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 78,334	\$ 33,333
One to five years	90,000	33,334
Less discount	<u>(3,541)</u>	<u>(1,594)</u>
	<u>\$ 164,793</u>	<u>\$ 65,073</u>

**8. Net Assets with Donor Restrictions**

Net assets with donor restrictions consists of the following at December 31, 2019 and 2018:

Description	As of 12/31/2018	Additions	Released	As of 12/31/2019
Pledge receivable - time restriction	\$ 65,073	123,053	(23,333)	\$ 164,793
Social worker - purpose restriction	10,000	10,000	(10,000)	10,000
Youth training program - purpose restriction	7,500	72,000	(17,157)	62,343
Salem meet and greet - purpose restriction	-	20,900	(10,310)	10,590
Scholarships - purpose restriction	-	25,000	(7,461)	17,539
Classroom technology - purpose restriction	4,211	-	(4,211)	-
Capital improvements - purpose restriction	49,000	72,000	(116,000)	5,000
	<u>\$ 135,784</u>	<u>322,953</u>	<u>(188,472)</u>	<u>\$ 270,265</u>

**9. Recent Pronouncements**

In May 2014, the FASB issued Accounting Standards Update ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. This ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. This ASU also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include ensuring the time value of money is considered in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for reporting periods beginning after December 15, 2018, and early adoption is permitted. The Organization adopted this ASU on January 1, 2019 on a modified retrospective basis. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

**10. Subsequent Events**

On March 13, 2020, a national emergency was declared in the United States as a result of the coronavirus epidemic. This public health crisis has had a significant and wide-ranging effect on the United States economy. Foundation management is actively assessing the impact of this evolving situation on its operations and financial position.

In April the Organization applied for and received a Payroll Protection Plan loan amounting to \$98,000 under the CARES act. The loan is available primarily to pay payroll costs and utilities. The loan may be forgiven if it is used to pay payroll and utilities costs over the twenty-four-week period following the loan receipt. Management determined that it is likely the loan will be used accordingly and therefore forgiven; however, the resulting forgiveness is uncertain as of the date of the auditor's report.

Additionally, subsequent to year-end, the Organization applied for and received a loan from the Small Business Administration under the Economic Injury Disaster Loan (EIDL) program in the amount of \$150,000. The loan requires principal and interest payments of \$641 monthly beginning in June 2021 and matures in June 2050. The note has a fixed interest rate of 2.75%.

Management has evaluated subsequent events through June 25, 2020, which is the date financial statements were available to be issued.