

# Roots Ethiopia, Inc.

Financial Report

December 31, 2020

# ROOTS ETHIOPIA, INC.

## CONTENTS

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	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Roots Ethiopia, Inc.  
Madison, Wisconsin

We have audited the accompanying financial statements of Roots Ethiopia, Inc., which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses 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 the 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 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 foundation'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 foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

The financial statements referred to above present fairly, in all material respects, the financial position of Roots Ethiopia, Inc. as of December 31, 2020, 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.

*SVA Certified Public Accountants, S.C.*

Madison, Wisconsin

November 16, 2021

**ROOTS ETHIOPIA, INC.**  
STATEMENT OF FINANCIAL POSITION  
December 31, 2020

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**ASSETS**

Cash and cash equivalents	\$ 332,889
Contribution receivable	43,208
Prepaid expenses	<u>1,200</u>

**TOTAL ASSETS**

\$ 377,297

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 7,324
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**NET ASSETS**

Without donor restrictions	285,884
With donor restrictions	<u>84,089</u>

Total net assets	<u>369,973</u>
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**TOTAL LIABILITIES AND NET ASSETS**

\$ 377,297

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

**ROOTS ETHIOPIA, INC.**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2020

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Changes in net assets:			
Public support and revenues:			
Contributions	\$ 405,297	\$ 124,791	\$ 530,088
Special events	4,601	0	4,601
Interest income	118	0	118
Net gain from sales of product	4,097	0	4,097
Net assets released from program restrictions	124,030	(124,030)	0
Total public support and revenues	538,143	761	538,904
Expenses:			
Program service:			
Job creation and education	317,683	0	317,683
Supporting services:			
Management and general	18,611	0	18,611
Fundraising	39,413	0	39,413
Total supporting services	58,024	0	58,024
Total expenses	375,707	0	375,707
Change in net assets	162,436	761	163,197
Net assets, beginning	123,448	83,328	206,776
Net assets, ending	\$ 285,884	\$ 84,089	\$ 369,973

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

**ROOTS ETHIOPIA, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended December 31, 2020

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	Supporting services			Total
	Program service	Management and general	Fundraising	
Materials and supplies	\$ 701	\$ 67	\$ 0	\$ 768
Merchant charges	0	714	3,871	4,585
Professional fees - other	39,677	4,910	17,105	61,692
Professional fees - accounting	4,519	10,755	0	15,274
Professional fees - legal	1,457	89	9,310	10,856
Grants	271,288	0	0	271,288
Bad debt expense	0	150	0	150
Information technology	0	0	492	492
Office expenses	41	662	5,025	5,728
Advertising	0	0	10	10
Insurance	0	1,254	0	1,254
Miscellaneous	0	10	3,600	3,610
	\$ 317,683	\$ 18,611	\$ 39,413	\$ 375,707

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

**ROOTS ETHIOPIA, INC.**  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2020

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 163,197
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase (decrease) in cash due to changes in:	
Contribution receivable	(1,994)
Prepaid expenses	(357)
Accounts payable	7,137
	<hr/>
Net cash provided by operating activities	167,983

**CASH FLOWS FROM INVESTING ACTIVITIES**

0

**CASH FLOWS FROM FINANCING ACTIVITIES**

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0

Change in cash and cash equivalents	167,983
Cash and cash equivalents:	
Beginning	<hr/> 164,906
Ending	<hr/> <u>\$ 332,889</u>

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

**ROOTS ETHIOPIA, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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**NOTE A -- Nature of business and significant accounting policies**

**Nature of business**

Roots Ethiopia, Inc. (the organization) was formed in 2012 as a non-stock, non-profit corporation. The organization was organized exclusively for charitable purposes, specifically the purpose of helping to break the cycle of poverty by empowering families, especially families headed by females, in the rural regions of Ethiopia. The focus of the organization involves the following: 1) assisting families in the rural areas to send their children to school, thereby positioning them for a better future, 2) supporting community education initiatives, especially those related to completing primary school, 3) assisting impoverished women to become self-supporting by providing the start-up funds for income generating activities and 4) supporting emergency nutritional support to vulnerable families during times of food security crisis. The combination of these purposes will help improve the lives of individuals, their family and communities as a whole.

A summary of significant accounting policies follows:

**Basis of accounting**

The financial statements of the organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Basis of presentation**

Under accounting principles generally accepted in the United States of America (U.S. GAAP), 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 with donor restrictions have been limited by donor-imposed time or purpose restrictions or are required to be maintained in perpetuity.

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the 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.

**Exempt status**

The organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) as a public charity and not a private foundation. The organization is also exempt from Wisconsin income tax.

**Cash and cash equivalents**

For purposes of reporting cash flows, the organization considers all organization investments purchased with a maturity of three months or less to be cash equivalents.

The organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

**ROOTS ETHIOPIA, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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**NOTE A -- Nature of business and significant accounting policies (Continued)**

**Contribution receivable**

Contribution receivable represents donor contributions received via a fundraising software company and are owed to the organization within 15 days after month-end. The organization considers all contributions receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been developed. If amounts become uncollectible, they will be charged to operations when that determination is made. A contribution receivable is considered past due if amounts have not been received by the organization after 15 days.

**Contribution revenue recognition**

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 restrictions. The organization recognizes contributions when cash, securities, or other assets or an unconditional promise to give is received. Conditional promises to give are those that contain a measurable performance or other barrier and a right of return and are not recognized until the conditions on which they depend have been met.

Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished, such as the payment of expenses related to the restriction), 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.

**New accounting standards adopted**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which replaces numerous requirements in U.S. GAAP related to revenue recognition, including industry-specific requirements, and provides entities with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The organization was required to adopt this new accounting standard during its fiscal year ended December 31, 2020. The organization's only revenue subject to this new accounting standard is included in special events and sales of product revenue. The adoption of this new standard has no effect on how these revenues are recognized in the financial statements for the year ended December 31, 2020.

In June 2018, FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Made*, which requires an entity to determine whether a transfer of assets to a recipient is a contribution or an exchange transaction and then determine whether a transfer that is a contribution is conditional. A contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

**ROOTS ETHIOPIA, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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**NOTE A -- Nature of business and significant accounting policies (Continued)**

The entity was required to adopt this new accounting standard during its fiscal year ended December 31, 2020. The adoption of this new standard did not have a material impact on the entity's financial statements.

**Subsequent events**

These financial statements have not been updated for subsequent events occurring after November 16, 2021, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

**NOTE B -- Net assets with donor restrictions**

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use. Net assets with donor restrictions are available for the following purposes as of December 31:

Self-help entrepreneurial groups	\$ 18,819
School sponsorships	<u>65,270</u>
	<u>\$ 84,089</u>

**NOTE C -- Availability of financial assets and liquidity**

The organization receives significant contributions with donor restrictions to be used in accordance with the associated purpose or time restrictions. When a donor's restrictions require 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. Thus, financial assets may not be available for general expenditure within one year. As part of the organization's liquidity management and reserve funds policy, it strives to maintain an operating reserve equal to three months of general expenditures.

The following reflects the organization's financial assets as of December 31, 2020 reduced by amounts not available for general use because of donor-imposed restrictions, within one year of the statement of financial position date.

Financial assets as of December 31, 2020	\$ 376,097
Less those unavailable for general expenditures within one year due to:	
Restricted by donor with time or purpose restrictions	<u>(84,089)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 292,008</u>